

## **A new blueprint for growth or real policy momentum on the current path?**

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Kim Campbell (CEO, EMA Northern, NBR July 20) argues that economic growth could be substantially increased if only we could “shake off our colonial past”, intervene to help develop jobs in manufacturing and possibly tax the exports of commodities such as logs to encourage further processing in New Zealand.

The debate about the merits of encouraging sophisticated manufacturing products and services versus commodities, is sterile and unproductive. What matters is that we make good incomes from the goods and services we produce, not what they are. There are countries that do well out of commodities and those that make a good living from manufacturing. The state’s role is to provide the right environment for growth for all businesses, and particularly those where we have a comparative advantage, such as food and land based industries.

It makes sense, sometimes for tariff reasons, for some manufacturing to take place much closer to the consumers. Fonterra, fully owned by New Zealanders, does exactly this itself. Who can say it has got the onshore/offshore mix wrong?

In my view the main constraints on increasing economic growth to say 3-5% p.a., from the current 2-3% level, are more cultural, than a result of poor public policy.

A gain of maybe 1% in GDP growth p.a. is attainable with a better policy mix, and should be attempted. But the reality is public sentiment generally is not very pro growth – kiwis are brilliant at opposing things. Just look at the way the critics leap on even supposedly good renewable energy developments such as wind farms and new hydro schemes, or tourism developments that would make national parks more accessible to the public.

The unfortunate reality is we have very few people like the driven entrepreneurs such as Graeme Hart, the Talleys, Peter Jackson and Wendy Pye. Interestingly, with the possible exception of Wendy, they all like to keep a low profile, which says a lot about national attitudes to overachievers.

Another reality is many in business are happy cruising steadily along rather than striving to be bigger than everyone else, because they like a good work life balance. Their employees also typically also want the same balance. All understandable, but not a formula for a fast track economy.

Few, if any, beneficiary advocates are prepared to acknowledge the welfare state has incentivized people to make life decisions that result in them being supported by the taxpayer. According to Work and Income NZ, in June 2012 there were 320,041 aged 18-64 people on benefits who have around 220,000 children to look after. In March 2012 those working full and part time totaled 2,230,000.

Some beneficiaries will be truly victims of circumstance, but I suspect a large proportion got there as a result of conscious decisions they made as individuals. This group is a major drag on economic performance and Social Welfare Minister Paula Bennett deserves credit for trying to reduce the size of the group, in the face noisy critics who see beneficiaries simply as victims. (In June 2012 there were 608,482 recipients of NZ Superannuation and Veteran’s pensions, some of who are also in the workforce)

Anyone who doubts the incentive effect of the benefit system should think about why the horticulture industry has to bring in Pacific Islanders on temporary visas to pick apples, when there are thousands of unemployed people in the apple growing regions.

Related to the welfare effect, is the approximately 20% of school leavers who have no qualifications, and those whose modest qualifications seriously limit future prospects. This is a major drag on productivity growth for decades to come. The failure of these children to succeed at school is more comment on parenting, or the lack of it, than the school teachers, but the latter have a big role to play in changing the outcomes.

Apart from what it is already announced here are some politically feasible steps the Government should take:

- RMA – major reform to make it business friendly: This Act epitomizes national schizophrenic attitudes – yes we want living standards as in Australia, but no we don't want to affect the environment. Not everything in the Act is complicated. Its overarching section 6, "matters of national importance", is silent on the economy and infrastructure. Truly amazing and probably explains why "no brainer" developments, such as deeper channels for ports that can handle larger vessels to help the export sector, have been delayed for years, by a consenting process that has cost millions, and encouraged rent seeking.
- Employment law: Amend to better allow managers to manage effectively without destroying the rights of employees.
- Education: Drive the system harder still, particularly at the foundation levels from pre-school through secondary. More value can and must be extracted because this is vital to a sustained better economic performance and a more inclusive society. Sadly the compulsory part of the education world has proven to be more resistant to change, than any other part of the economy, which makes this area the toughest of all.

Finally, and most important of all, the government must generate policy momentum. The art of political change is to create good policies, market them skillfully and implement with speed. A moving target is always more difficult to hit. The alternative is to proceed cautiously and die a death of a thousand cuts, as assorted interest groups think they can grind them down, making full use of the media's preoccupation with politics instead of policy.

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