

Setting the Scene: New Zealand's Cultural Challenge

Kia Ora, Good Evening.

I find it a rather delicious irony that a bunch of New Zealanders here in Sydney are meeting to discuss the brain drain.

When I was thinking about this subject, I broadly identified two problems: our policy settings and the cultural context in which those settings operate—which, as I've discovered living in Sydney, are subtle but different in important ways to those in Australia.

I'll start by saying that while I'm immensely proud of my home country (Canterbury, in particular) and love a lot of what it represents, tonight I won't be expounding some kind of New Zealand love-in as there is sometimes a tendency for New Zealanders to do.

Here is a brief outline of the situation. New Zealand has gone from having competing living standards with Australia in the 1970s to being approximately a third behind today. One in nine New Zealand born people live in Australia. Eighty percent of skilled New Zealand migrants live here. Our diaspora is bested only by Ireland's.

This is great news for Australia: New Zealand cares, rears, educates and exports an increasing number of Kiwis to Australia—at no cost to the Australian taxpayer. Research suggests that New Zealanders are amongst Australia's most productive workers in their given professions.

The Knowledge Wave 2001

In 2001, the government held the *Catching the Knowledge Wave* Conference in Auckland to map a way forward in a 'knowledge economy' for New Zealand, primarily amid concerns that we were slipping down the OECD rankings on living standards. At that conference, Prime Minister Helen Clark pledged that her government would lift New Zealand out of the OECD slump. However, since then, New Zealand has actually moved backwards on that very measure.

Indeed the very idea of a 'knowledge economy' amuses me, as I have never heard of an 'ignorance economy,' much less anyone advocating one. Market economies necessarily run on knowledge. It very similar to how people argue that we don't need more regulation, we need better regulation—as if somebody out there was arguing for worse!

There were two knowledge wave conferences, in 2001 and in 2003, and I mention them because I believe that they signalled New Zealand's departure from successful macroeconomic policies and continued microeconomic reform. Both conferences were steadfast in their insistence that New Zealand has 'other values' apart from economic growth and that the drive for growth cannot come at the expense of everything else.

It seems as if a straw man had been set up: the idea that growth is a zero sum game. The natural extension of this is that if the proceeds of growth are concentrated more obviously in the hands of some, they have somehow cheated their way to a position of advantage or that that advantage has come at the expense of others.

The knowledge wave conferences were notable for their attempt at diagnosing the problems but perhaps not offering helpful solutions. At the 2003 conference, Ms Clark laid out all the processes her government had gotten involved in funding and to what tune they were being funded, as if the process and the funding somehow equalled success. The rhetoric in this speech was markedly changed from the 2001 conference.

Instead of alluding to the undesirability of leaving large sections of the population behind during reform (a valid concern), this speech was used as an explicit attack on what was now being termed as 'the failed policies of the past.' I am talking of course about the growth enabling framework put in place in the 1980s and early 1990s, otherwise known as Rogernomics and Ruthanasia. These were certainly painful reforms for New Zealand, but were made necessary by Sir Robert Muldoon's hyper-regulation of the economy. By election day 1984, New Zealand was in such bad shape that no foreign lenders would lend the government money and we were days away from an IMF bailout.

For a time, New Zealand's radical approach was the envy of the world with journalists visiting New Zealand and delegations coming down to see how we got things done. Don Brash was invited to give a prestigious lecture at the Institute of Economic affairs in London. Dr Oliver Hartwich, a German born colleague of mine, recalls seeing a documentary in his German economics class on New Zealand rubbish collection deregulation and how great it was!

Basically, painful as they may have been at the time, New Zealand's reforms were a case study in how to turn around a basket-case economy and get it growing again by lowering tax, removing protection, and attempting to make it face outwards.

However, at the knowledge wave conference Ms Clark concluded that New Zealand did not need a path where growth was the number one policy goal from which all other policies could follow. In many ways, the path laid out was one towards a slow drift into genteel poverty, anything else was 'un New Zealand.' Further, repeated surveys show that New Zealanders are receptive to this message, that we value lifestyle factors and the environment ahead of health, education, and economic growth.

New Zealand Exceptionalism

This is part of a trend towards New Zealand exceptionalism. Let me explain.

The bombing of the Rainbow Warrior by French secret agents (still New Zealand's only terrorist attack) and the ban on US nuclear-propelled battleships was a time for real nation-building in New Zealand. It spelled the end of ANZUS and pretty much severed our diplomatic relationship with the United States, one that has recovered only in recent times.

It has however spawned a real political culture of what I call **New Zealand exceptionalism**, the practice of New Zealand doing what the rest of the world is not doing, or leading on what the rest of the world 'should' be doing. This exceptionalism is supposed to be a good idea and somehow 'shows' leadership because 'we did it with the anti-nuclear stance in the 1980s.' We can lead on moral and symbolic issues, the story goes. This idea however is rooted much deeper in our history and psyche. It begins with the Treaty of Waitangi—we were the first to sign a treaty with our Indigenous population, the first to give universal suffrage 1893, the first comprehensive welfare state, the first country with an anti-nuclear policy, the first to introduce radical reforms such as an independent Reserve Bank, and, more recently, the aim to become the first carbon neutral economy, a plan that has since been scrapped.

This entrenched idea that we are somehow exceptional and can lead the world on governmental initiatives increasingly serves as justification for the government to follow any crazy old idea. You will notice that a lot of these firsts resulted in an increase in the role of government.

It really seems to be a case of small island syndrome. Can we *really* lead on symbolic issues? *Why* do we want to lead? And what's wrong with just being the best at being New Zealand. We already kick well above our weight in many areas of life and produce outstanding, high achieving individuals without having to lead off on any old issue.

In the past 10 years, the idea of New Zealand exceptionalism has shown itself most clearly in our quest to value 'non economic' areas of life. If only we try harder, and apply more No. 8 wire, be more self effacing, care more, and work harder, we will get there as a nation!

I'm afraid that's not how it works. New Zealand works more hours than anyone else in the OECD, we are modest to the point of barely being able to acknowledge our own achievements (the ultimate end of which is the tall poppy syndrome), and the No. 8 wire myth—once a euphemism for a can-do attitude and making best of a situation—has become an excuse for ad hoc and two-bit behaviour in business and politics.

New Zealand is a great country, and it is unique, but it is not exceptional or an exception to the rule. We cannot beat the laws of economics, the rolling maul of globalisation, and the changes new information rich technologies continue to bring any more than we can control the weather.

The growth conundrum

At the centre of this New Zealand centric approach has been a widespread underselling of economic growth as a concept and as a driver of prosperity.

Our growth has been sluggish at best, averaging 1.6 percent for the past decade. New Zealand's multifactor productivity has also been pitifully low for the past decade. There have been many reasons advanced for this: overinvestment in housing, capital underinvestment, distance from markets, a high exchange rate, high tax, an increasingly onerous regulatory environment, or the New Zealand habit of developing businesses into

tens of millions of dollars before selling to overseas investors and retiring for the BMW, boat and bach.

Some of these factors doubtless play a part, but the story is more complex and more incomplete than that.

I would argue that our problem is cultural or, indeed, socio-political. The fact is that New Zealanders expect First World living conditions with an increasingly second-rate economy. We seem to think that for some reason, we have a 'right' to very high living standards but without any of the pain or hard choices which may be needed along the way to achieve it.

Maybe New Zealand suffers from the supposed generation Y complex—we want it all, we want it now, and we want it at no cost.

This attitude belies a fundamental incomprehension about what makes nations prosperous. It is almost as if large parts of the populace (and certainly some politicians) really believe that it is just a matter of government turning the switch and regulating better living standards for everyone. Unfortunately, this is not the case or New Zealand would be dominating the world! Governments cannot create prosperity; while they do have key roles to play in infrastructure policing and providing public goods, they can only redistribute wealth with limited success. What governments *can do* is to set a limited, rule-based framework for economic actors in the private sector to get on with creating wealth.

There is a fundamental misunderstanding that economic growth is not a zero-sum game but that it can only be achieved in the medium term by government limiting its operations and not crowding out the private sector. There is an almost aristocratic assumption that simply because our heritage is British and we were a prosperous colony with great living standards post-War, we deserve good living standards today.

This is wrong. Without significant policy and cultural change, we may indeed become what many in Australia feared in the late 1970s—the white trash of the South Pacific.

Locking in the gains of reform

So why did this not happen to Australia? What are the differences between Australia and New Zealand? Why has Australia enjoyed more impressive growth and productivity in comparison to us? Why is their policy framework more stable?

Mining

First, I would like to bust the myth about mining. Australia's prosperity is not due to mining or an abundance of natural resources. Mining accounts for only 5 percent for Australian exports, while New Zealand's primary sector (also resource based) accounts for 17 percent.

This has become a hobby horse for many in New Zealand, including the current government, who have committed to exploring the national conservation estate for mineral wealth—lignite and nickel, in particular. While I have no particular objection to mining and think it needs to be considered on a case-by-case basis, it is of concern that the Minister of Energy

Gerry Brownlee said the current government sees 'resources as central to bridging the income gap with Australia by 2025.'

A recent remark former Australian Treasurer Peter Costello perhaps gives us an insight on why Mr Brownlee is so interested in resources. Mr Costello commented on retirement that he thought the resources boom was probably the worst thing that happened to the Howard government. It had so much money it could throw hard won fiscal discipline out the window and buy off every electoral group from whom they might get votes.

So it is no wonder Mr Brownlee and the Key government are so interested in minerals—it lands windfall taxes for the government who can spend or drop taxes without cutting spending: but fundamentally, it leads to political prosperity rather than necessarily economic growth.

In any case, resources are not as valuable as brains, entrepreneurship and enterprise when it comes to growth—this is what creates the wealth of nations.

The underlying attitude to growth

The more fundamental problem is an underlying attitude to economic growth and progress. In Australia, the political economy of growth, deregulation and liberalisation is accepted across the political spectrum as a broad policy thrust. Kevin Rudd, a Labor leader, went into the last election bragging about his credentials as an economic conservative committed to growth. Although Mr Rudd's rhetoric has changed somewhat since then, it is probably more a result of recasting himself as focus group philosopher king than commitment to a different policy direction.

However, Mr Rudd should be warned. There is a joke going around NZ policy circles that our best strategy to catch up with Australia is to make sure Mr Rudd stays Prime Minister!

That aside, Australia has had 25 years since the election of the Hawke/Keating government to bed down a culture of positive reform for growth. Both Labor and the Coalition produced governments that wove a narrative in their own political traditions, were long serving, and both sides could be proud of.

In a policy sense, this has meant a steady commitment to a sound and stable macroeconomic framework, microeconomic reform, lower taxation, deregulation, and steady privatisation of under-performing state-owned assets. Although this has certainly not been perfect and wrong turns have been taken, particularly near the end of the Howard government, the general direction has been sound.

In contrast, New Zealand had five years of a reformist Labour government that produced Rogernomics, a lot of hurt, and came apart at the seams with a great deal of bitterness, both within politics and the community at large. This was followed by three years of a National government that was considered to have broken promises and carried forward some of the more painful reforms, such as labour market deregulation and restructuring the welfare system.

The actions of both governments resulted in a new electoral system, MMP, and a fundamental move away from liberalising policies since 1996 with a couple of notable

exceptions. Whereas in Australia, the ALP and Liberals both lay claim to the reform tradition and claim credit for policies to encourage growth and progress, the New Zealand Labour Party and National seem to view a lot of the reform agenda as an unfortunate chapter in the history of the Labour Party, National Party, and of New Zealand itself.

In short, many New Zealanders have come to view liberalisation as undesirable and unnecessary.

Why Australia?

Why, in particular, is comparison to Australia important?

Because it's easy to move here—you just get on a plane. It's similar to New Zealand. A flight between Christchurch and Sydney costs little more than one between Christchurch and Auckland. No visas are required. The weather (although a constant) becomes more attractive if it comes with a 30 percent bigger pay packet.

The fact is it wouldn't matter if the myths about New Zealand's size, lack of distance, or mineral resources were true—we would still need to find ways to overcome those impediments. As it is, saying that there is nothing we can do is misleading and defeatist.

The government's goal of lifting living standards to those of Australia by 2025 is a worthwhile one; however, it does come with some important caveats. New Zealand and Australia, for all their similarities are two distinct countries, and viewing each other as flawed versions of ourselves is inadvisable.

The most important of caveats surrounds ill-considered talk about streamlining everything possible with Australia and combining currencies, business regulations, tax systems, and the like.

Although I can appreciate a want to reduce inefficiencies, being behind Australia means *better policies* suited to New Zealand—not just the same policies because they happen to be easier for some businesses that predominantly trade in Australia. To seek to streamline everything is for New Zealand to become one step closer to becoming the branch economy many dread. The fact is that we share most elements of a common market to Australia, so we have to be competitive and have to play to our strengths in order to attract foreign direct investment and make ourselves an attractive place to do business as well as live. In order to do this, openness and flexibility are going to be crucial.

As for the same currency and central bank, there are regular rumblings from Western Australia that monetary policy is set 'for the eastern states.' More localised monetary jurisdictions can only generate healthy competition and be more responsive to local needs. It is necessary in New Zealand's case. How happy would our exporters really be if we shared Australia's current exchange rate?

On tax, our government is waiting to see what the Henry tax review turns up. Why? Just because the Australian Treasury Secretary endorses a certain set of tax laws doesn't mean they are appropriate for New Zealand, except to show where taxpayers get the better deal.

So while we should compare our outcomes with Australia, it is not necessarily where to look for the best policies.

Conclusion

Although net migration away from New Zealand is low at the moment, we are all kidding ourselves if we think this is a reverse of a trend and not a result of the global financial crisis. Markets will recover and the world economy will snap out of moribund growth. There are signs that the Australian bounce back may be amongst the most robust, if not the most robust, in the world.

And although the New Zealand diaspora is a great asset to New Zealand, addressing the drain to Australia is important—no country can stay dynamic and healthy while losing 1 percent of its most productive citizens every year.

Tonight I have only laid out a broad framework of what needs improving in order to start to get the rights policies. To have them gain widespread acceptance, New Zealand must compete and get it right. It must do so soon or we may just slip into genteel poverty. Paul Keating noted about New Zealand: poverty in a picturesque setting is still poverty. It is that serious. But it is going to take some serious changes in cultural attitudes and the leadership to see the changes through.

Thank you.

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