

PLANNING PERSPECTIVES 1978-1983



NEW ZEALAND PLANNING COUNCIL

Kaunihera Whakakaupapa mo Aotearoa

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PLANNING PERSPECTIVES 1978-1983

NEW ZEALAND PLANNING COUNCIL

(Established under the New Zealand Planning Act 1977)

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March 1978

Reprinted August 1978

CONTENTS

	Page		Page
Chapter 1		Chapter 4—continued	
DIRECTIONS FOR NEW ZEALAND—THE PLANNING APPROACH	3	The switching of resources	63
		– overload and the public sector	64
		. . . education	65
		. . . health	66
		. . . welfare	67
		– housing	67
		– regional options	67
Chapter 2		Enlisting support	71
NEW ZEALAND 1978—WHERE ARE WE?	11	– resource management	71
– external influences	11	– tax and income maintenance	72
– internal impact	15	. . . widening the tax base	72
The world outside	16	. . . the greater use of indirect taxation	72
– trade	16	. . . the addition of new taxes	73
– a changing pattern	16	– looking ahead	74
– New Zealand—where?	17		
Who are we?	19		
– a question of identity	19		
– a new society . . . ?	20		
– coping with change	24		
Chapter 3		Chapter 5	
NEW ZEALAND 1983–85: TRENDS AND PROSPECTS	27	OPENING UP THE PLANNING PROCESS	79
Medium-term prospects for the economy	27	Information and research	79
– assumptions	28	Involvement of people in planning	80
– terms of trade	30		
– growth of exports	30		
– invisibles	31		
– imports	32		
– inflation	32		
– investment	32		
– economic trends—conclusion	32		
Demographic and social trends	33		
Urban development	36		
Energy	37		
Natural resources	38		
Trends in public sector expenditure	41		
– taxation	42		
– education	43		
– health	45		
– social security	46		
– other expenditure	47		
Summing up	48		
Chapter 4		Chapter 6	
FRONTING UP—THE CHOICES BEFORE US	51	CHARTING THE COURSE AHEAD—A STRATEGY FOR DEVELOPMENT	85
Achieving our full potential	53	Reshaping the economy	86
– unemployment	54	Aspects of trade strategy	87
– industrial relations	55	Achieving our full potential	89
– a diverse society	56	Full employment with less inflation	89
– the role of the market	58	Towards greater efficiency and flexibility	90
– options for agriculture	60	Incentives for skill and responsibility	90
– towards a broader trade and marketing strategy	61	Investment and development	91
		– Maori land	92
		– meat industry	92
		– technology	92
		Better use of capital and other resources	93
		– promotion of a more competitive market	93
		– towards a more effective public sector	94
		Securing support for necessary change	95
		ACKNOWLEDGMENTS	97
		APPENDICES	
		Appendix A—Functions and Powers of the New Zealand Planning Council	98
		Appendix B—The medium-term projections	99
		Appendix C—Population projections	102

DIRECTIONS FOR NEW ZEALAND—THE PLANNING APPROACH

**Tihe mauri ora
Ki te whai Ao
Ki te Ao marama**

Kei roto i te hinengaro o te nuinga o tatou o tenei whenua e noho ana te whakaaro; A—e haere ana ra tatou ki hea? Ka pehea e taea ai te whakatikatika nga raruraru kei mua i a tatou i nga ra e tu mai nei. E tikaana me aata titiro ki enei patai erua, no te mea hoki ki te kore, kei hea ra he painga mo a tatou tamaraki—mokopuna hoki i roto i nga ra o to ratou nei Ao.

E mohio ana tatou he Ao hurihuri tenei Ao, engari kaore i te tino marama me pehea ra e taea ai te pupuri i nga taonga nei, kia kore ai e ngarongaro atu i a tatou. E hara te mahi whakakotahi iwi i te mahi ngawari, e kao, he mahi uaua rawa atu. Ko nga rongo a te Kaunihera ko te tumanaako me te hiahia o te iwi kia kimihiia he turangawaewae mo ratou, kia ki ai he tangata, kia kiia he iwi kotahi tatou katoa, hei whakahihi mo te Ao katoa.

Kaore te Kaunihera i te Kimi oranga mo tetahi roopu-iwi anake, e kao, ko te tumanaako ia, he kimi painga e pa ana ki nga roopu-iwi katoa o Aotearoa, Maori, Whanaunga Moutere, Pakeha, Inia, Hainamana, tatou katoa atu.

I runga i te kaupapa o tenei pukapuka, kotahi ano te tino patai a te Kaunihera, "He aha te mea pai mo te katoa" He oi, ma koutou ano ra, ma te iwi whanui tenei take e tirotiro mai.

This text conveys the formal greetings of the Council and summarises the spirit of the document as expressed in the opening paragraphs of this chapter, and the final paragraph of Chapter 6.

This document is addressed to all the people of New Zealand. There is not one of us who does not feel at least some concern about the situation which our country is facing. Many are puzzled about what we can do to improve things. As individuals, as members of families and wider community groups, as workers and as citizens, we are aware each day of lost opportunities. What is not clear is how these opportunities are to be grasped so that the country as a whole can respond to the challenges of 1980 and beyond.

The task ahead is not easy. Nevertheless, a central element apparent in the New Zealand Planning Council's many consultations with various individuals and groups has been a resolute desire to see New Zealand more certain about where it is heading and able to live realistically within its means. Many would like to see such a positive and confident spirit combined with a more open zest for living; they see the New Zealand of the future standing more proudly in the world as a result.

Groups who look to the Council for a set formula to advance their own particular concerns will be disappointed. The main priority in the medium term is to encourage everyone to look ahead from the standpoint of the country as a whole. That is the basis on which this document has been compiled.

The Council itself came into being in early 1977. It emerged from the recommendations of the Task Force on Economic and Social Planning, which published its report, *New Zealand at the Turning Point*, in December 1976. The Council has found the Task Force report a useful basis for its work and does not intend to go over all the ground covered in that report. Council members support many of the views expressed by the Task Force, in particular the suggestions about the planning process.

Specifically, the Council considers that

- New Zealand is now moving into a significantly different phase of its development; this means that prescriptions which were valid enough in the past cannot be assumed to work in the future;
- it is the role of a New Zealand planning body to shed light on key trends, strategic issues, and areas of choice, and help establish a planning framework which will enable well-informed choices to be made; this does not conflict with the role of governments which is to make decisions and to govern; and
- decision-makers should encourage, and participate in, a process of consultation with all people who want to build a better New Zealand.

In a world subject to rapid and unpredictable change, it is inappropriate to lay down a rigid blueprint or set of numerical targets, which would be likely to hinder rather than help New Zealand's capacity to adjust appropriately to the changes. It is necessary

in planning to make as realistic an appraisal as possible of future developments and of what opportunities and constraints seem likely to face the community in its attempts to achieve its goals and aspirations. Special attention must be paid to the resources which seem likely to be available, for these set limits to what can be achieved. It is an important function of planning to suggest how the best use ought to be made of available resources and to define the boundaries within which inevitable conflicts about shares of "the cake" should be conducted if stability and growth are to be achieved. Planning should encourage leaders, not only in Government, but in all walks of life, to be farsighted. It should assist them, through a consultative process, to set out guidelines on policies which will help others to plan their activities.

Planning in a changing world cannot be something that is done at 5-yearly intervals. It is a continuous process, in which progress towards aims is frequently reviewed and necessary adjustments made to programmes and/or objectives. An important aspect of planning in the nation, as in business, is to establish mechanisms of adjustment to change which are flexible and likely to act speedily and effectively to seize opportunities and counter the problems which change brings. The Council believes that mechanisms which delegate responsibility and decentralise decisions within national guidelines and overall financial controls are more likely to be appropriate in an era of change than detailed planning by centralised direction.

For the Council, the publication of this document is only a first step. It has deliberately been set out in a way which invites New Zealanders

- to respond to the issues,
- to share their responses with each other and with the Planning Council, and
- to influence more directly those institutions (in both the public and private sectors) whose role it is to serve the people.

The document also presents several hard facts of life—in the knowledge that no policy can be fully effective unless first the real dimensions of the crisis confronting New Zealand are generally agreed. At the same time the injection of a necessary note of realism does create hazards. Those who think about the future can easily become preoccupied with economic stress, social tension, and environmental disturbance (all of which are real enough prospects) to such a degree that any message of human hope is obscured by doom and gloom.

If New Zealand were simply at a low point in a cycle, and if it could expect to return to a previous high point, our problems would not be of the same order. We could just wait for something to turn up. . . . It is, however, abundantly clear that for the next 5 years and beyond we shall be compelled as a nation to adjust to a new set of circumstances—these are described in chapters 2 and 3. Some progress has already been made, but the adjustment is not nearly sufficient for us to be confident of our ability to cope with future uncertainties.

Perhaps the biggest adjustment which we have to make is to concede that old attitudes and expectations

"Securing participation in planning . . . is a most important element in generating the sense of common purpose or shared goals which is needed. . . . Trying to generate a sense of common purpose is not the same as trying to get everyone to conform to detailed goals set from the centre. Indeed, the more diverse and complex the society or organisation, the more important it is that the planners recognise the different interests that have to be accommodated if they are to be harnessed into constructive endeavours rather than dissipated in antisocial behaviour."

Sir Frank Holmes, Address to Wellington Branch, New Zealand Institute of Public Administration, 29 September 1977.

must alter if we are to achieve social and economic goals which most of us deem important. In particular, we shall have to look much more critically than before at inefficient and wasteful uses of our limited resources. The remedies for present social and economic ills lie largely in our own hands. Individual New Zealanders will always be free to live as well as they can afford to, and they will make different choices. But as a nation we have to live within our income over the longer run.

The Council is primarily concerned with a planning horizon from 1978 to 1983. In many instances, however, there is a need to look ahead towards the next century. This is primarily the focus of the Commission for the Future, but like that body the Planning Council must look beyond the day-to-day crises which dominate the immediate horizon. Some of the things which are done in the next 5 years will have long-run effects. At the same time there are some issues which need action now. But we do not want to be continually scrapping plans for lack of foresight. Plans can, and will, be improved upon, but if New Zealand reverts to the drawing board every time our fortunes change, the strategy for achieving balance will never fall into place.

A useful example of this is our attitude toward trade. It is undeniable that in the present situation priority must be given to the export drive. The bill for imports and the money we owe abroad make this essential. But a further issue is the level at which we expect to go on importing and the level at which we think borrowing is sustainable. In the context of fuel and transport, for example, planning for the medium term must gauge the extent to which certain decisions will increase the bill for future generations. Our long-term degree of dependence on international trade in items such as these is thus a major topic for debate.

The Planning Council would hope to encourage New Zealanders in all walks of life to see themselves as active participants in the economy, and not merely as the victims of its deficiencies. The Council is aware, however, that it will take more than good planning to adapt to new situations. Recent discussions on land use in New Zealand have pointed up the need for flexible thinking about ways of resolving conflicts between competing land uses and evolving a national policy for land-use decisions. Sectoral planners, scientists, politicians, and technicians have to learn the techniques of finding common ground, despite their varied expertise. The Planning Council and its Secretariat have themselves had to go through that particular experience in order to complete this document.

There will be issues and situations that defy consensus. For these, we need to explore the mechanisms which we should be using to resolve conflict. Even where a consensus can be reached, it is clear that New Zealand faces a number of difficulties in putting planning concepts into practice. A more serious problem arises where the linkages are not yet sufficiently accepted (or perhaps not even identified). For example, it has been apparent since at least 1950 that educational under-achievement would lock the majority of urban Maoris into unskilled work, that ethnic differences would thus become associated with socio-economic or class distinctions, and that New

"...there are a number of valid but conflicting objectives for the future of South Westland. Any proposed land use pattern can only be a compromise to some degree, and the extent to which that compromise emphasises any one or more particular objectives must ultimately be a governmental decision."

South Westland Land Use Study 1977, p. 11. New Zealand Forest Service/Department of Lands and Survey.

"...unequal income distribution, residential segregation and differences in personal mobility tend to be identified with racial groups. This reinforces 'stereotyping' of Islanders and Maoris to the detriment of race relations."

Auckland Regional Authority. *Current Issues, Proposed Policies*, November 1977, p. 94.

Zealand's ideal of equal opportunity for all would be frustrated. Some steps were taken, mainly by educationalists, community leaders, and welfare workers, to offset this trend. Nevertheless, New Zealand is now going through a period of recession in which the least skilled and those who have most recently joined the workforce are under the greatest threat.

If we wish to preserve equality of opportunity, then clearly our planning techniques must anticipate the situation that is developing. Training of the unskilled members of the work force, and retraining of the redundant and the many women who wish to return to work, clearly rate a high priority. Against a background of limited resources, these activities have to be planned in the recognition that they will probably be among the most important elements in determining the future health of race relations and of community life in general. To ignore the problem is to leave the way open for fresh demands for assisted immigration as a means of bringing skills to New Zealand when the economy improves. Such an influx would not help to solve the economic, social, and cultural problems with which all races in New Zealand have to grapple.

A country, like large firms, can cope better with a period of "turbulence" if it resists the tendency to plan in compartments and looks instead at

- the interrelationships between *all* aspects of the nation's life,
- the strategic elements which lie behind these linkages, and
- at the capacity of its economy and society to respond positively to unforeseen changes.

In an effort to stimulate thinking toward this wider approach, the Council has begun to produce a series of discussion papers on which it has sought responses from a variety of individuals and organisations. As a continuation of this process of public involvement in planning, the Council also intends to publish a number of supplementary papers on particular issues. This planning document will take stock of our situation and look at trends in order to identify the strategic issues which must be taken into account in planning. It will define options within which choices can be made. It will bring out the interrelationship between some of the problems which have in the past been tackled in isolation. Sometimes the linkage is obvious. For example, there is now sufficient awareness of the changed energy situation for everyone involved in the discussion on urban growth to see that housing and subdivision policies must be adjusted to take account of the end of the era of cheap liquid fuel. This has obvious implications for transport planning and illuminates the need to bring jobs, recreation, and social services closer to where people live.

The case for planning is clear-cut. It can enable us to do better in the future than we have in the past. It can help in setting goals and priorities and identifying the constraints within which choices must be made. This will in turn help to make the process of adjustment less painful and will also ensure that those who would otherwise be the casualties of change will be given new opportunities. By emphasising the process of deliberate choice, we can also come to accept that not all New Zealanders will want to make the same choice. We do not all have to conform.

Documents produced by the New Zealand Planning Council in 1977:

- "Town and Country Planning Bill"*
- "A Moment of Truth"*
- "Regional Options"*

Tentative list for publication in 1978:

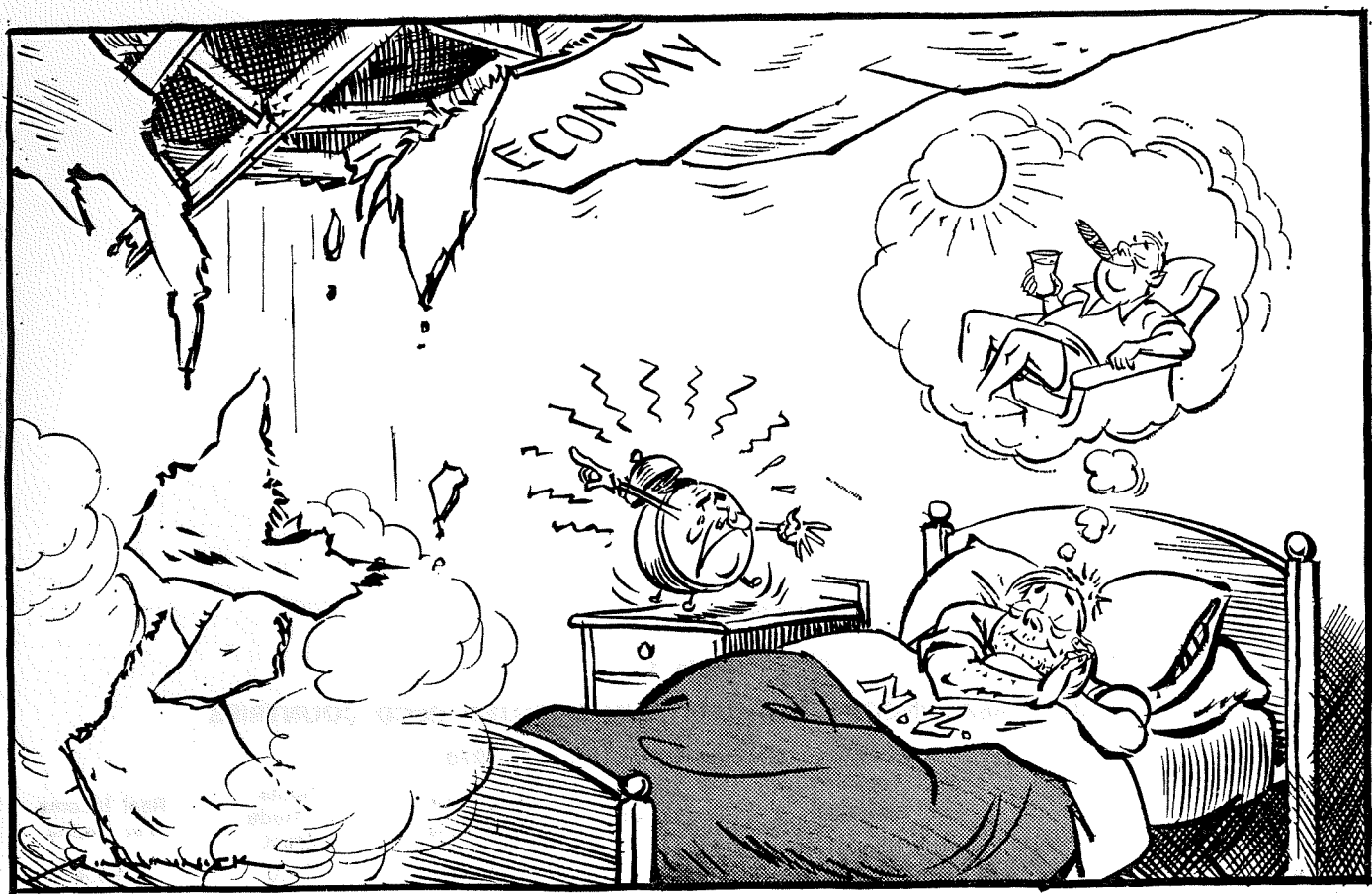
- "Taxation" (with a supplementary report on income maintenance)*
- "Economic Strategy" (with a supplementary report on agricultural strategies)*
- "Working Together Effectively"*
- "Towards a New Zealand Identity"*
- "First Things First" (cultural and recreational development)*
- "Urban Development"*
- "Social Policies in a Period of Slow Growth"*

"I had heard it all before, and was absent-mindedly gazing at the jugs of beer in front of him. A variety of news items flitted through my mind. The traffic officer who thought half the accidents he attended involved a drunken driver. The Auckland policeman who said nights were easy while the beer-tanker drivers were on strike. The orthopedic surgeon whose ward is 60 percent full of the consequences of accidents involving alcohol. The hospital which has 25 percent of its non-geriatric beds filled with patients directly suffering from the abuse of alcohol. The 53 000 New Zealanders who are alcoholics. The half a million New Zealanders who have a close friend or relation who is a liquor addict. The loss of production from hang-overs and deteriorated performance from drinking is over eight times the loss of production from industrial disputes."

Brian Easton, *New Zealand Listener*, 11 March 1978.

The next chapter will look at where New Zealand stands at present, and at the lessons to be drawn from the past. Then we need to look ahead at the trends in the medium term which will influence our decisions on key questions. After that the document is devoted to the options open to us. There may well be other alternatives. The Council, moreover, is aware that it has not yet been able to extend detailed coverage to a number of important problems (such as our management of transport, the use of alcohol, and planning for cultural, recreational, and leisure activities). Many of the pointers in this document should, however, assist us in organising these areas of New Zealand life in a more flexible way.

After studying the issues the Council has arrived at some definite conclusions, and these are included in chapter 6. The Council, however, would hope that debate will not focus only on that chapter. It would like to see the ideas and comment throughout the whole document provoking further discussion and providing a basis on which medium-term policies can be drawn up, not only by Government, but also by other political parties, groups, and individuals. Above all, the Council's purpose is to open up the avenues for a much wider debate about the directions New Zealand should be taking.



"Happy birthday, dear Kiwi . . ." (6/2/1978)

By courtesy of the New Zealand Herald.

Table 1
CHANGE IN REAL INCOME PER CAPITA IN SELECTED OECD COUNTRIES

Percentage Change from 1973 to 1976

	Real GDP	Population	Real GDP Per Capita	Terms of Trade Effect	Real Income Per Capita
New Zealand	2.5	5.0	-2.4	-12.0	-14.4
Australia	7.1	3.8	3.2	-1.2	2.0
Austria	7.4	0.1	7.3	-0.8	6.5
Belgium	4.4	0.9	3.5	-2.3	1.2
Canada	8.6	4.7	3.7	1.6	5.4
Denmark	4.3	1.1	3.2	-3.4	-0.2
Finland	4.9	1.4	3.5	-0.7	2.8
France	7.7	1.5	6.1	-1.4	4.7
Germany	2.7	-0.8	3.5	0.5	4.0
Greece	10.9	2.2	8.5	-8.5	0.0
Iceland	-0.9	4.2	-4.9	-6.5	-11.4
Ireland	4.9	3.6	1.3	-11.5	-9.1
Italy	5.9	2.2	3.6	-5.2	-1.6
Japan	7.4	3.7	3.6	-3.2	0.3
Netherlands	7.2	2.5	4.6	-1.2	3.4
Norway	15.5	1.8	13.7	-4.5	9.2
Spain	7.8	2.4	5.3	-4.7	0.6
Sweden	6.4	1.0	5.4	0.0	5.4
Switzerland	-5.9	-1.0	-4.9	-0.3	-5.1
United Kingdom	-0.7	0.3	1.0	-4.5	-5.5
United States	2.5	3.9	-1.3	-1.2	-2.5

NOTE—This table has been constructed from the national accounts and population statistics of member countries as supplied to the OECD. There are statistical problems of comparability between the deflators of current external transactions for different countries and the use of GNP or GDP concepts may, in certain cases, influence the final figures. These comparisons should therefore be treated with caution. For some countries OECD estimates have been used for 1976.

Sources: OECD, *National Accounts of OECD Countries* and Secretariat estimates.

CHAPTER 2

NEW ZEALAND 1978—WHERE ARE WE?

Before laying plans, it is important to know where we are now. The choices open to us for our future development as a nation must be conditioned by the urgency of dealing with some of the problems which we are now facing:

- a deficit between overseas receipts and payments which, though much reduced, is still too high to be sustained for long,
- negative economic growth and falling real income per head,
- unemployment higher than at any time since the Depression,
- a continuing stream of New Zealanders leaving for other countries,
- continuing high inflation,
- tensions in industrial and social relationships,
- a slackening in the momentum of the drive for higher exports and for improved productivity in all sectors of the economy.

At first glance, many of these immediate issues might be labelled "economic". Closer study will reveal, however, that their impact affects the inner health of society and the degree to which individuals can fulfil their hopes for the future. Neither can solutions be found solely through the manipulation of "economic" policies. "Non-economic" factors such as a sense of national purpose, good leadership, social cohesion, and constructive human relationships are vital. As the Task Force put it, "society is not a collection of separate economic, social, cultural, physical, and spiritual parts, but a living organism whose health depends on the soundness and harmonious interaction of the elements which analysts have labelled with these terms".

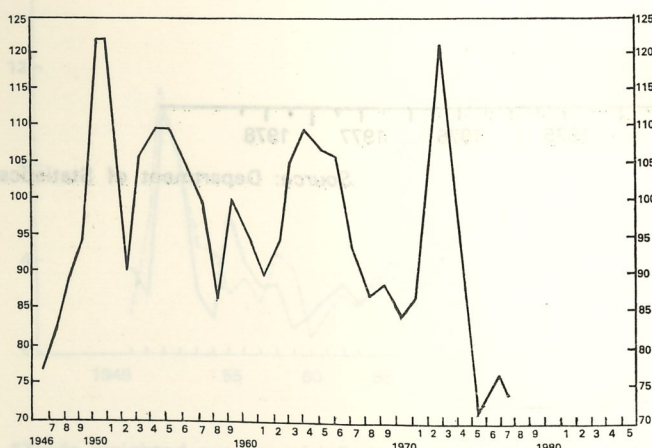
External influences . . .

Our problems stem partly from *external* developments, which we can do little about, and partly from *internal* changes which are much more within our own control. The most dramatic external development recently has been a drastic drop in our terms of trade (the ratio of export prices to import prices). Fig. 1 shows the fall from a peak in 1973 which was about 25 percent above the terms prevailing in the base year 1957 to a trough which was nearly 30 percent below. Fig. 2 indicates that the dominant cause was rising import prices. In contrast to most previous cycles of world activity since the war, our terms of trade improved little when industrial countries moved out of the 1974-75 recession, and have recently deteriorated again.

These external changes were major factors in causing the deterioration in our balance of payments. But not all our problems were externally generated. From 1973 the volume of imports grew appreciably while the volume of exports fell away (see fig. 3). These trends could not fail to cause difficulties when the short-lived overseas boom of 1972-73 collapsed.

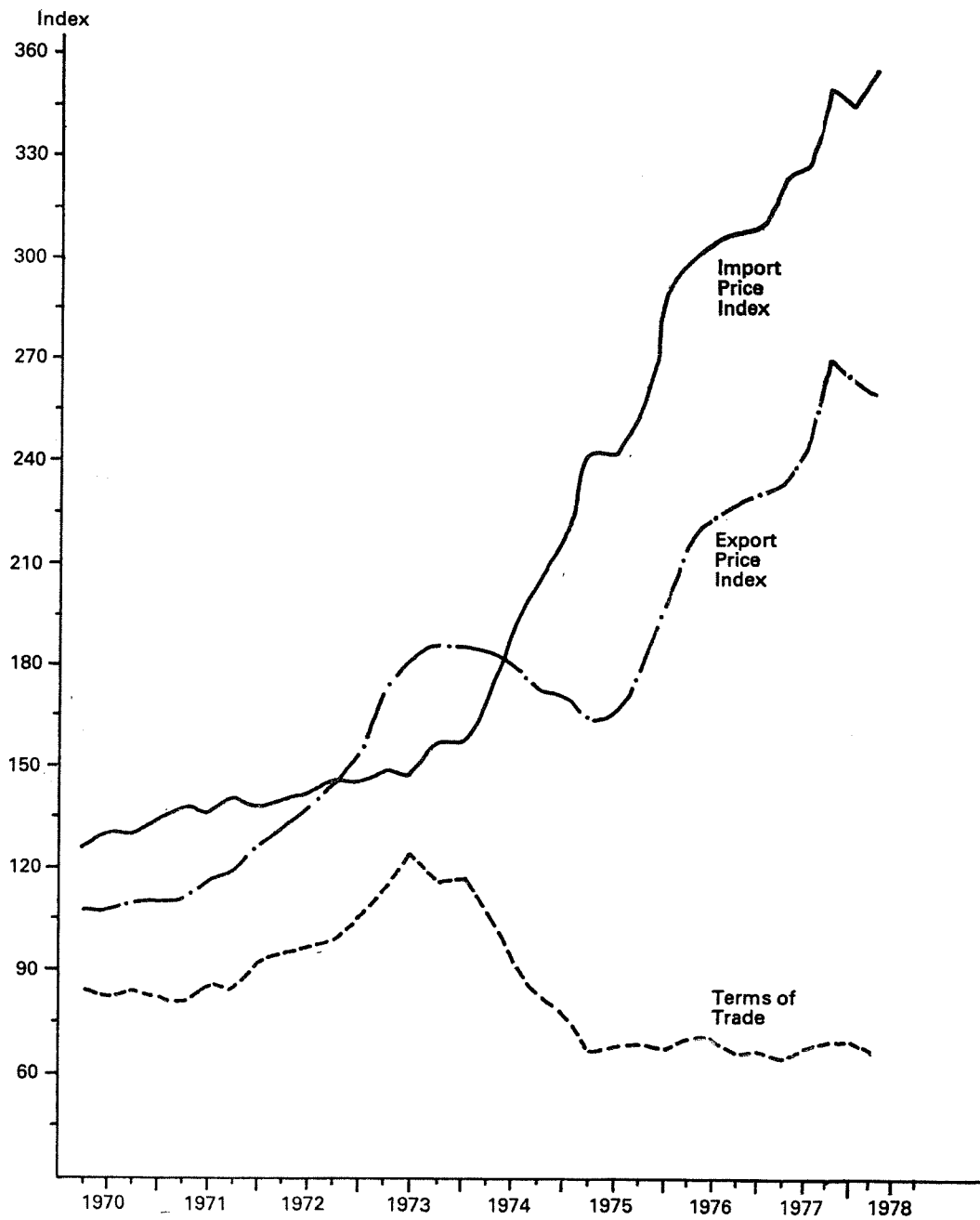
Correction of the deficit in our balance of payments necessarily involved reducing imports and expanding

Figure 1
TERMS OF TRADE
Calendar Year 1957=100



Source: Monthly Abstract of Statistics, March 1977, and New Zealand External Trade 1970-71—Report and Analysis, Department of Statistics.

Figure 2
EXPORT AND IMPORT PRICES
 Base: Calendar Year 1957 = 100



Source: Department of Statistics.

Figure 3

EXPORT AND IMPORT VOLUMES

Base: Year Ended June 1971=1000

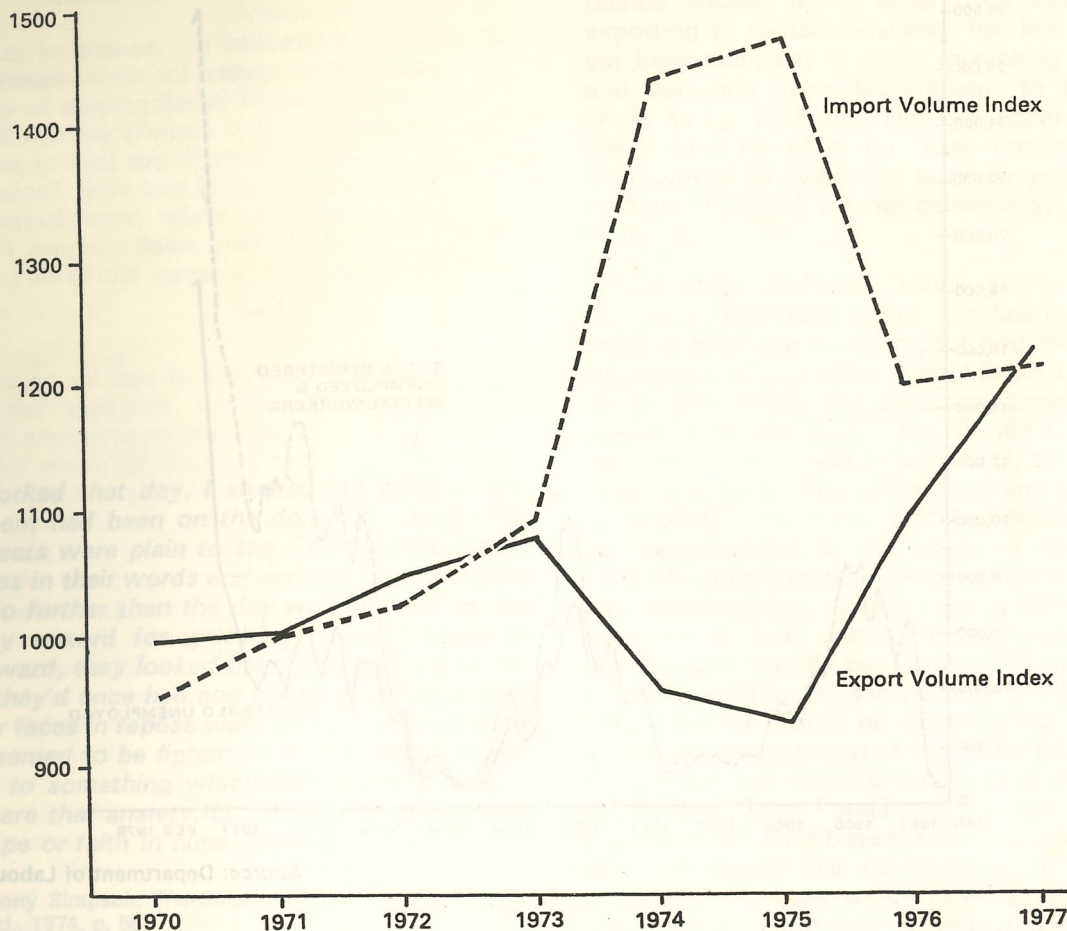
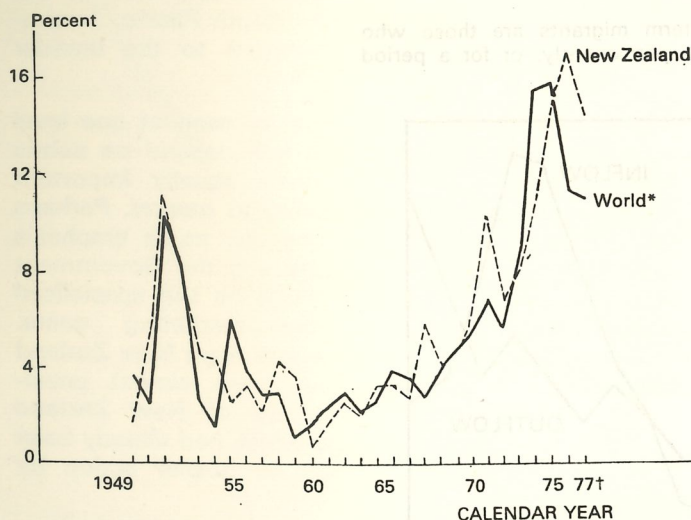


Figure 4

NEW ZEALAND AND WORLD INFLATION 1949-77

Annual Price Changes



*Trade weighted average of inflation rates in Australia, United Kingdom, Japan, United States, West Germany, France, and Canada.

†September year.

Sources: Derived from I.M.F. International Financial Statistics and New Zealand Department of Statistics data. Published in *Inflation*, New Zealand Monetary and Economic Council Report No. 33, December 1977.

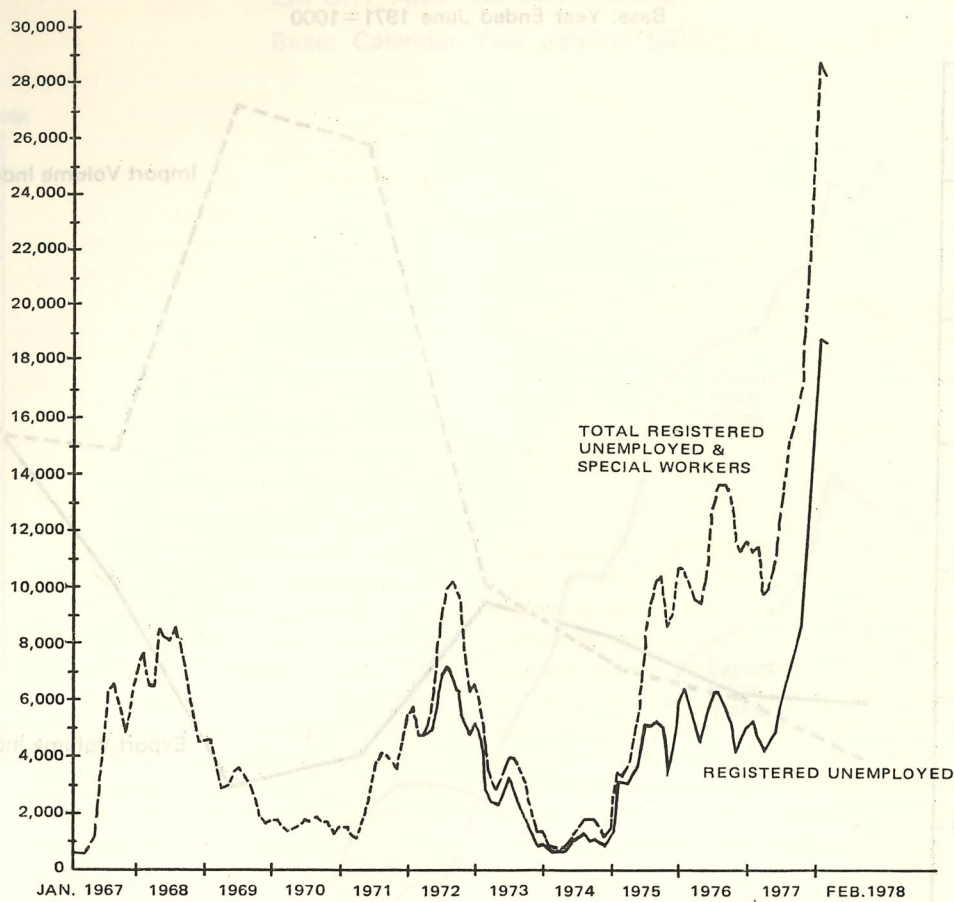
exports, especially as rising costs of travel and transport and of servicing growing public and private debts overseas were leading to substantial increases in our net payments to foreigners for services rendered. Fig. 3 shows the changes in export and import volumes which contributed to the improvement in the balance of payments situation between 1975 and 1977. But a good deal more adjustment is required to bring the deficit to a sustainable level.

The restraints on demand, and indirectly on imports, which were adopted to achieve this improvement inevitably had adverse effects on internal activity and on the real incomes of New Zealanders. As table 1 shows, for the period 1973 to 1976, the growth of the volume of goods and services produced (real GDP) fell behind the growth of population. As the terms of trade deteriorated, we could buy fewer imports with each dollar of exports. When adjustment is made for this terms of trade effect, and for population increase, it can be seen that our real income per head fell by 14.4 percent between 1973 and 1976.

External developments have also had a big influence on price levels, as fig. 1 suggests. The rate of inflation in New Zealand tends to follow the "world" rate (as defined in fig. 4). But it can diverge. Recently, progress in reducing inflation has lagged behind that of most of our trading partners. If this persisted, it would increasingly prejudice the position of our exporters and of local industries which compete with imports.

Figure 5

REGISTERED UNEMPLOYED AND SPECIAL WORK

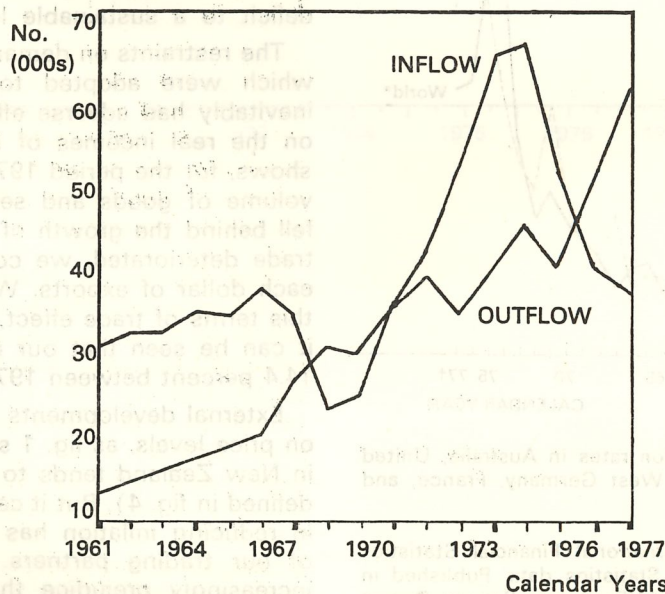


Source: Department of Labour.

Figure 6

PERMANENT AND LONG-TERM MIGRATION FLOWS

NOTE—Permanent and long-term migrants are those who indicate an intention to migrate permanently, or for a period of 12 months or more.



Source: Department of Statistics.

Internal impact . . .

The recession of economic activity has had adverse effects on firms catering mainly for the domestic market, particularly in building, car assembly, and related trades. Many enterprises have moved into exporting to sustain business, but the switch has not yet been sufficient to avoid increasing unemployment and demands upon Government to provide special work, as fig. 5 shows. This has occurred despite the swing from an inflow on "long-term and permanent" migration of 26 299 in the calendar year 1973 to a net outflow of 26 956 for the calendar year 1977, shown in fig. 6.

Like other economic issues, rising unemployment has very important social ramifications. Unemployment is selective in its impact and there are particular groups at risk—the school-leavers who have yet to develop skills, the lesser-educated, and the unskilled. It affects Maori and Pacific Island communities, and married women who wish to return to work, often part-time. The unemployment problem serves to underline the fundamental importance of growth and development of the economy as a basis upon which to build a society which achieves racial harmony and social equity. A major issue of economic management is that action to stimulate activity and employment could, by stimulating imports, impede progress in reducing the balance of payments deficit. This difficulty would be accentuated if the stimulus sustained or accentuated domestic inflation. Already, rising costs are causing a decline in the net incomes of farmers which augurs badly for the continued expansion of land-based export products. They are also prejudicing the continuation of the most encouraging increases which have occurred in sales of other manufactures and services overseas, especially as the manufacturers now need to diversify markets to supplement the less expansive conditions prevailing in Australia, which has been the main outlet for their earlier export efforts.

This suggests that New Zealand will find it difficult to avoid serious unemployment without inflation, unless we continue to reshape the economy, so that we are capable of earning more overseas exchange and of achieving our domestic goals with less proportionate dependence on imports. This restructuring must be based on more incentives to make the necessary changes and to improve efficiency in the use of resources in all sectors of the economy. Without productivity improvement, the quest for higher money incomes and prices will remain a fruitless, indeed damaging, pursuit.

The Council is optimistic about New Zealand's future potential. The evidence suggests that there are ample external opportunities to be grasped. We have educated and resourceful people, relative political and social stability, and an endowment of climate and resources with which to work. In the past, we have often seemed unwilling to make the changes in attitudes and policies which would strengthen the capacity of the economy to adapt to changing external circumstances. Our present serious difficulties with employment and overseas transactions could serve a useful purpose if they evoked in us a sense of urgency to make the necessary changes in a planned manner.

"As I worked that day, I studied my companions. Most of them had been on the dole for over a year, and the effects were plain to see. There was a visible hopelessness in their words and actions, their thoughts stretched no further than the day when they'd receive their scanty reward for grubbing gorse. Instead of looking forward, they looked back in retrospect to the good jobs they'd once had and the money they'd once spent. Their faces in repose were creased with anxiety, and they seemed to be fighting a mental battle, trying to hold on to something which was slipping away. I came to share that anxiety, but strange to say I never gave up hope or faith in New Zealand."

Quoted by Tony Simpson, *The Sugar Bag Years*, Alister Taylor Publishing Ltd., 1974, p. 88.

To do this, we need to reassess both the external and the internal forces which have a direct bearing on the process of change.

THE WORLD OUTSIDE

Efforts to understand the source of our problems and assess the prospects for their improvement lead to the consideration of developments in other economies. Perhaps as a small country we can be optimistic that relatively small shifts in our trading relations with the rest of the world could turn New Zealand's economic fortunes around (while remembering that this cuts both ways, so that small tremors in the world economy could leave us even worse off).

Trade . . .

There has been no lack of zeal by successive New Zealand Governments in pressing for favourable shifts. Trade and economic negotiations of one form or another have for at least 15 years taken priority over most other areas of official business. As the history of our dealings with the EEC has shown, the ultimate results depend primarily on a *political* assessment of the value of fostering trade with New Zealand. Outside Australia and the South Pacific the economic value of our partnership to other countries is minimal. Elsewhere the decision-makers who can control New Zealand's access to trade (and even finance) may at any given time number only about 500 people in various capitals. Within this group there is at any time a sort of consensus about New Zealand and the contribution it is making in the broader international scene. Preaching the virtues of freer trade in farm products to those in OECD countries, for example, is unlikely to achieve much. If, however, New Zealand is a worthwhile partner with them in assistance to developing countries, in defence, and in joint efforts to grapple with economic and political issues, it will help to provide a basis for exerting some influence in bilateral dealings or in multilateral negotiations on trade. Our very considerable role in the hemisphere which includes the South Pacific, Australia, and Antarctica is thus central to the broader export drive.

International trade may thus be seen at one level as a jungle in which survival will depend on subtle political techniques. At another, equally important level, it is a test of our capacity to *market*. Perhaps New Zealand has been putting too much emphasis on the political aspects ("expecting the Government to give a lead") and not enough on the specialised techniques required in the marketing game. Responses to the Planning Council from New Zealand representatives overseas have been almost unanimous in referring to the failure of New Zealand exporters to take up openings which had already been identified and which required *no further* action by government.

A changing pattern . . .

The last two decades have been marked by some significant shifts in the composition of exports and imports and also in the relative importance of our trading partners. Table 2 shows the dramatic changes in the pattern of trade which have occurred since

"With a few notable exceptions, including nowadays the Producer Boards, and a few other worthy if less notable ones, a large number of our firms fail seriously in one or more of the steps essential for successful exporting. . . . Lack of concern is shown in, for example, failure to look for opportunities, unwillingness to do the market and product research needed, dilatoriness in answering correspondence, carelessness in meeting specifications and deadlines, and not bothering to follow up—there are unfortunately many others. Most of these problems could be avoided by more dedication and hard work, plus a modicum of imagination. These qualities, even if in short supply in our society today, can to some degree be cultivated by proper leadership in individual firms."

Hunter Wade, New Zealand Ambassador, Bonn. *Moment of Truth* reply.

TABLE 2
DIRECTION OF NEW ZEALAND TRADE

		A. Direction of Exports (Percentage by f.o.b. ¹ Value)			
		1965 ³	1970	1975	1977
United Kingdom .....	.....	50.9	35.9	22.2	20.4
Other EEC ⁴ .....	.....	16.9	11.5	10.6	11.9
Other Europe .....	.....	1.9	2.3	3.3	3.4
Japan .....	.....	4.4	9.8	11.8	12.8
Other Asia .....	.....	1.8	4.2	8.9	9.6
Australia .....	.....	4.7	8.2	11.9	12.2
Other Oceania .....	.....	1.0	2.3	3.4	2.9
United States .....	.....	12.4	16.1	12.1	11.2
Other North America .....	.....	1.9	4.2	2.8	2.1
U.S.S.R. ....	.....	0.4	1.5	2.9	4.5
Other Eastern Europe .....	.....	0.7	1.1	1.3	2.1
Middle East .....	.....	0.1	0.2	2.7	3.0
Latin America/Caribbean .....	.....	1.7	2.0	4.5	2.8
Africa .....	.....	1.0	0.7	1.7	1.0
Total ⁵ .....	.....	100.0	100.0	100.0	100.0

		B. Source of Imports (Percentage by c.d.v. ² Value)			
		1965	1970	1975	1977
United Kingdom .....	.....	36.5	29.7	19.2	16.8
Other EEC ⁴ .....	.....	6.7	7.9	9.7	9.4
Other Europe .....	.....	3.1	2.0	2.9	2.5
Japan .....	.....	5.5	8.4	13.5	14.9
Other Asia .....	.....	5.8	5.7	6.5	6.8
Australia .....	.....	19.3	21.0	20.3	20.6
Other Oceania .....	.....	0.9	1.3	1.4	1.5
United States .....	.....	11.3	13.0	13.4	13.5
Other North America .....	.....	3.9	4.1	2.1	2.5
U.S.S.R. ....	.....	0.1	0.1	0.1	0.2
Other Eastern Europe .....	.....	0.2	0.3	0.4	0.4
Middle East .....	.....	4.5	4.2	8.3	9.2
Latin America/Caribbean .....	.....	1.1	0.9	1.2	0.8
Africa .....	.....	1.0	1.2	1.1	0.9
Total ⁵ .....	.....	100.0	100.0	100.0	100.0

¹ Free on board.

² Current domestic value.

³ June years.

⁴ EEC by 1978 membership.

⁵ Totals may not add exactly due to rounding.

1965. A large decrease in the proportion of exports going to Britain has been offset by significant increases in exports to Australia, Japan, and the USSR. The proportion of exports to "non-traditional" markets has almost doubled from 12.4 percent of the total in 1960 to 22.3 percent in 1977. This has been caused by a substantial growth in exports to Asia, Australia, the South Pacific, and the Middle East. Changes in the pattern of imports are not dissimilar, at least for our major trading partners.

These shifts in New Zealand's trading relationships have been achieved in part through marked changes in the composition of our exports and imports. Increased trade with Australia reflects the growing importance of manufactured exports while a substantial part of that with Japan is related to developments in the forestry sector. Our increased activity in manufacturing has reduced the proportion of imports which are consumer goods, while requiring relatively higher volumes of machinery and transport equipment, chemicals, fuels, and raw materials from overseas.

While this change may be seen as the consequence of obstacles to the marketing of agricultural products overseas, the inspiration for the strategy of "diversification" goes deeper. Its real roots can be found in the search for greater independence and security within the world. The imposition of import controls, and the incentives for "infant" industry, are examples of the policies which were designed to shield New Zealand from external forces. In colonial times, New Zealand's purpose was to supply agricultural commodities to Britain, and the nation's development was governed by fluctuations in world commodity prices. It is an ironic twist of fate that our efforts to insulate the economy through the development of manufacturing have in one sense widened the area of dependency and vulnerability, through dependence on imported raw materials and other inputs, to our industries.

This pattern of continued dependence has been reinforced by the "politicisation" of agricultural trade and the trend towards bilateral negotiations of one sort or another. Recent approaches to Japan and other countries in relation to fishing rights in the 200-mile economic zone offer a topical illustration. In such discussions we can rightly point to the lack of concessions from the other side which will build a stable basis for export growth. At the same time, we will ourselves be approached by nearby developing countries with similar arguments about New Zealand's own trade (and immigration) policies. They will argue that their economies too are highly vulnerable and that we are unresponsive.

In both instances, there will be no benefit if New Zealand pursues a policy of isolationism. We shall continually be making adjustments to trends in both the developed and the developing worlds. We have to see ourselves as part of a broader environment or we shall fail to find our real role.

New Zealand—where?

If we want to understand New Zealand's place in the world we should draw our own map, or adapt someone else's map to show our situation more graphically, see fig. 7 for example. We would then be able to assess the importance of our relative size

"Our size and isolation, our dependence and vulnerability, particularly in economic terms, and the fact that in world terms we belong to a minority—the western-type affluent society—all these factors point up the simple fact that we are expendable as far as the power centres of the outside world are concerned."

Task Force Report—New Zealand at the Turning Point, 1976, p. 158.



Figure 7

Source: New Zealand Atlas. (The Government Printer, March 1976.)

"Our size and isolation, our dependence and vulnerability, particularly in economic terms, and the fact that in world terms we belong to a minority—the western-type affluent society—all these factors point up the simple fact that we are expendable as far as the power centres of the outside world are concerned."

Task Force Report—New Zealand at the Turning Point 1978, p. 158

and isolation, which will always influence New Zealand's response to external influences. The pattern of social and economic development since the beginning of pakeha settlement has done little to diminish our vulnerability to events which take place thousands of miles away. Neither has there been any compensatory increase in our ability to influence these events directly.

When New Zealand looks at the outside world, we tend to concentrate on our success or otherwise as a trading nation. Even in trade, we now see our national destiny very differently from the way our predecessors saw it in the earlier years of this century. We have also been playing a more independent political role on the world stage than we did in the past. As we face the prospect of further rapid changes in our external environment, our plans must allow for further possible shifts in our perception of our role as a nation, even though we have not yet completely sorted out the appropriate reactions to the great external changes which we have recently experienced.

WHO ARE WE?

It is this air of uncertainty which has led the Planning Council to think rather hard about New Zealand's "identity"—meaning an awareness of what we are, what we believe in, and what we want.

Our writers, painters, and potters have striven longer and harder than most to establish where we belong. They have attempted to link the cultural traditions of Europe with the realities of New Zealand's geographical situation and ethnic composition. A new awakening in New Zealand's theatrical and musical life, including the renaissance of Maoritanga, reflects this concern.

When we ask ourselves who we are, it often leads to a strong identification with the European model (i.e., with the affluent societies which have had such a dominant world role for most of this century). Many of us remain perplexed by the Maori and wider Polynesian elements of our heritage. To accept these is, however, a hurdle in self-discovery, because we can then appreciate the simple truth that New Zealand does not *automatically* belong to the western world.

Our economic dependence on the western group has perhaps obscured this fact. If an independent observer looked at the structural problems of the New Zealand economy, the agricultural base, and the decline in real income, he or she might, however, classify New Zealand as belonging to the increasing number of middle-band countries, i.e., developing countries with a relatively high standard of living.

A question of identity...

Whatever the ultimate place of New Zealand in the world scene, there are some aspects of our emerging identity which already stand out:

- the range of our contacts with the outside world has broadened considerably, to cover not only our traditional partners and those countries near to us, but also the more distant Pacific rim of Japan and North America (West Coast), South-east Asia, and the Middle East;

"There is nothing soft about New Zealand, the country. It is very hard and sinewy, and will outlast many of those who try to alter it."

"This is one reason why New Zealanders, a young people but already with a place in history, are often wanderers and restless and unhappy men. They come from the most beautiful country in the world, but it is a small country and very remote. After a while this isolation oppresses them and they go abroad. They roam the world looking not for adventures but for satisfaction. They run service cars in Iraq, gold mines in Nevada, or newspapers in Fleet Street. They are a queer, lost, eccentric, pervading people who will seldom admit to the deep desire that is in all of them to go home and live quietly in New Zealand again."

John Mulgan: *Report on Experience*. Blackwood and Janet Paul, 1967.

"Nick and I were sitting on the hillside and Nick was saying he was a New Zealander, but he knew he wasn't a New Zealander. And he knew he wasn't a Dalmatian any more."

Frank Sargeson: *The Making of a New Zealander*, in *Collected Stories, 1935-1963*, Blackwood and Janet Paul, 1964.

"Being a Maori is—

*Having the greatest grandparents in the world.
Respecting your elders because they have earned it . . .*

Having 250 000 brothers and sisters . . .

To love paua and mussels and to be told you have to have a Pakeha permit . . .

Thinking that there's something wrong with your television set when it appears to be always hooked up to Great Britain . . .

Owning land and not being able to use it . . .

Liking Air New Zealand's tail . . .

Being Maori is hard, being Maori is sad, being Maori is to laugh, being Maori is to cry, being Maori is forever."

Quoted by Ranginui Walker in *The Listener*, 11 February 1978.

- much greater emphasis is being given to our immediate geographic surroundings of Australia, the Pacific Island states, and Antarctica;
- with countries in the South Pacific and South-east Asia we are promoting a broader sense of economic and political partnership in which economic aid as such will be only one component;
- nevertheless, our stake in the European tradition, and the stimulation our young people in particular can derive in North America, Britain, and other parts of Europe, remain very important;
- the cultural and racial diversity of our new partners reflect our own "plural" society in which various groups in New Zealand will draw from the cultural and spiritual strength of the Cook Islands, Niue, and Tokelau (all former New Zealand colonies) as well as Western Samoa, Tonga, and Fiji.

A new society . . . ?

In looking at *internal* influences, we immediately note that the changes brought upon us by overseas developments have coincided with a number of significant social trends. The exact nature of these trends may not be well understood—we are the actors and not the spectators—but they can be summed up as a move towards a society in which traditional roles and life styles are being challenged and redefined.

When one attempts to quantify such shifts through various social statistics, the underlying causes do not come out, only the effects. Social change centres around people, their attitudes and values, and the degree to which various organisations give expression to these. It is important therefore to assess whether public bodies have tended to become detached and impersonal—"them" rather than "us". Institutions are important as forums in which priorities are set regarding the use of human and physical resources; in a real sense they manage our total environment. We must therefore look at the changing community which our institutions were designed to serve.

Some of the trends in the level and composition of New Zealand society in the 1960s and 1970s are illustrated by table 3 and figs 6, 8, and 9. Perhaps the most important of recent movements are the sharp decline in fertility rates and the erratic migration patterns. The general fertility rate (the birth rate per 1000 women aged between 15 and 44 years) for example has declined steadily from a recent peak in 1961 of 140.6 to 83.2 (provisional) in 1976. An even more dramatic change has occurred in net migration levels (see fig. 6) culminating in 1977 with the largest absolute net migration loss in New Zealand's history.

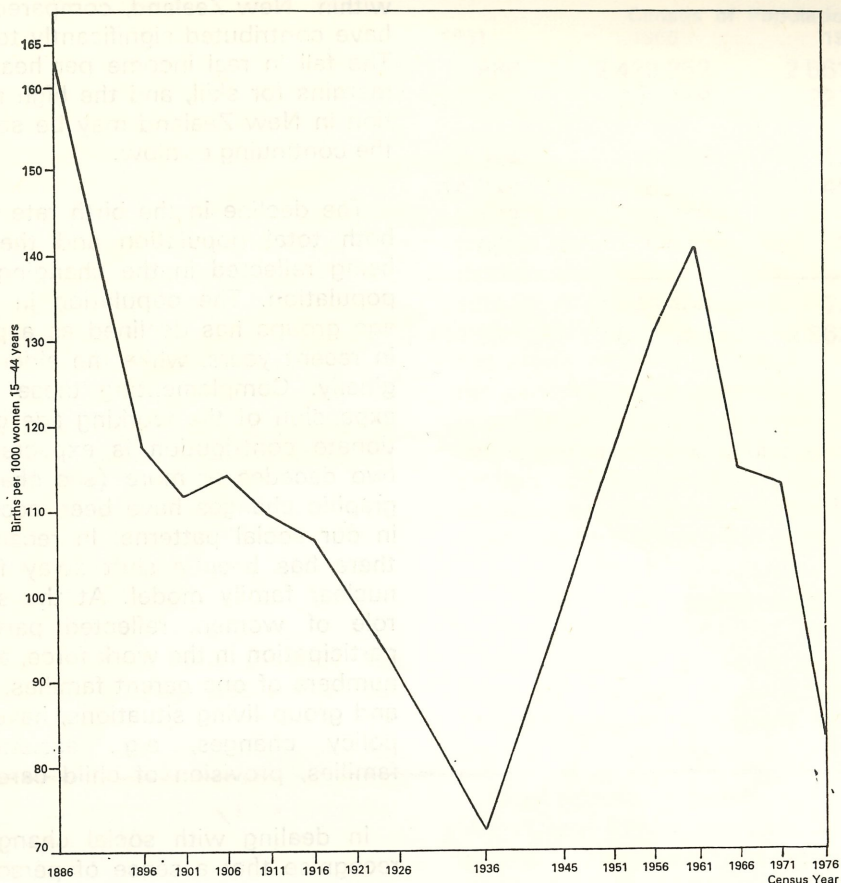
Many of the emigrants are skilled workers in the younger working age groups who have left New Zealand for a variety of reasons in addition to the search for "overseas experience". Nearly half of all emigrants in the last 7 years were between 20 and 29; a quarter were teachers, engineers, and other professional or technical workers, while nearly one-third were craftsmen, production workers, including machinists, electricians and carpenters. We do not know all the reasons for these departures; we do not know how many will return or when.

"Since the turn of the twentieth century, a number of important developments have taken place which, on the surface, would seem likely to alter the Victorian industrial society allocation of household work to women and conventional employment to men. These include:

- technological innovations;
- changes in family size and age at completion of family;
- education changes;
- legal acceptance of rights of women;
- changing information on family structure and parenting."

Social Development Council: *Housework and Caring Work: Can Men Do Better?* September 1977, p. 8.

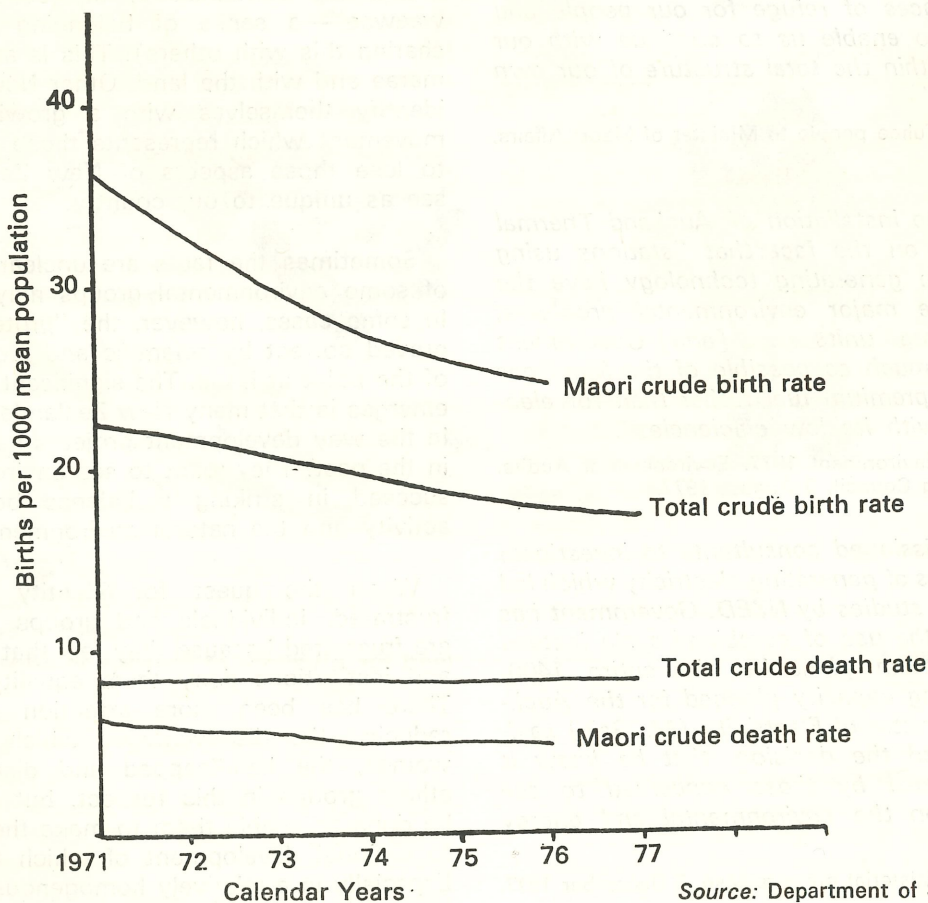
Figure 8
BIRTHS PER 1000 WOMEN 15-44 YEARS OF AGE
1886-1976



NOTE—Figures before 1956 exclude Maoris.

Source: Department of Statistics.

Figure 9
BIRTHS AND DEATHS



Source: Department of Statistics.

One of the reasons for the substantial increase in net outward migration is, of course, the slow-down in immigration. In addition, however, economic factors within New Zealand, compared with other countries, have contributed significantly to increased emigration. The fall in real income per head, the compression of margins for skill, and the high rates of marginal taxation in New Zealand may be some of the reasons for the continuing outflow.

The decline in the birth rate which is occurring for both total population and the Maori population is being reflected in the changing age structure of the population. The population in the young dependent age groups has declined as a proportion of the total in recent years, while the elderly are increasing marginally. Complementing these trends is the greater expansion of the working age groups, whose proportionate contribution is expected to rise for another two decades or more (see chapter 3). These demographic changes have been accompanied by changes in our social patterns. In recent years, for example, there has been a shift away from the predominant nuclear family model. At the same time the altered role of women, reflected particularly in increased participation in the work force, along with the growing numbers of one parent families, de facto relationships and group living situations, have brought pressure for policy changes, e.g., assistance to one-income families, provision of child care facilities.

In dealing with social change, it is important to recognise that a sense of personal security is a prerequisite for a stable society. Moreover, just as identity is important internationally, we have to know where we stand as individuals. To the Maori, these sentiments are contained in the concept of "turangawaewae"—a sense of belonging to a place (and sharing this with others). This is associated with the marae and with the land. Other New Zealanders, too, identify themselves with a growing environmental movement which represents those who are reluctant to lose those aspects of New Zealand which they see as unique to our country.

Sometimes the facts are unclear, and the actions of some environmental groups may appear extreme. In some cases, however, the "protesters" have been proved correct by scientific and technical reappraisal of the point at issue. The significant conclusion which emerges is that many New Zealanders lack confidence in the way development projects have been mounted in the past. They want to see environmental planning succeed in striking a balance between economic activity and the natural environment.

When the quest for identity and security is frustrated, individuals and groups pull apart. Some are frustrated because they feel that present practices and institutions deny them equality of opportunity. There has been more attention paid recently to reducing the disadvantages which have confronted women, the handicapped and disabled, and some ethnic groups in this respect, but much remains to be done to enable them to make the full contribution to national development of which they are capable. Especially in a relatively homogenous society, another

"Maraes are places of refuge for our people and provide facilities to enable us to continue with our way of life and within the total structure of our own terms and values."

From submission by Tuhoe people to Minister of Maori Affairs, Ruatoki, 1973.

Opposition to the installation of Auckland Thermal No. 1 was based on the fact that "stations using conventional steam generating technology have the potential to create major environmental problems, when installed in large units....., [and] Government should reserve as much as possible of the Maui gas field for use as a premium fuel rather than for electricity generation with its low efficiencies".

Commission for the Environment 1977. Environmental Audits. Letter to N.Z. Planning Council, 8 August 1977.

The ARA commissioned consultants to investigate more efficient means of generating electricity which led to further intensive studies by NZED. Government has since announced "the use of combined-cycle instead of conventional steam plant for the entire 1400-megawatt generating capacity planned for the Auckland area." The Minister of Electricity (Mr Gair) said, when he announced the decision, that he knew it would "be welcomed by those concerned to see emphasis placed on the environmental and energy efficiency aspects".

Based on Ministerial press release, 8 December 1977.

Table 3

ETHNIC ORIGIN OF NEW ZEALAND POPULATION

Ethnic Origin	Census of Population			
	1961	1966	1971	1976§
European*	2 216 886	2 426 352	2 561 280	2 693 183
New Zealand Maori‡	167 086	201 159	227 414	270 035
Other races*—				
Chinese	8 524	10 283	12 818	14 860
Polynesian†	14 340	26 271	45 413	61 354
Indian	4 179	6 843	7 807	9 247
Other	3 969	6 011	7 899	80 704
Total, other races	31 012	49 408	73 937	166 165
Total, all races	2 414 984	2 676 919	2 862 631	3 129 383

*Including persons of mixed descent.

†Other than New Zealand Maori.

‡Persons of half or more Maori origin are classified as Maoris.

§A change in 1976 Census categories means these figures are not strictly comparable with previous years.

"Other" includes not specified (65 000–70 000).

Source: Department of Statistics.



"Should auld acquaintance be forgot?"

By courtesy of the New Zealand Herald.

*I seek as others did before me
The depths of truth and understanding
Which cleave the inequalities of bias
To produce a balance that is fair.
Which make me listen to the faint cries of the humble
And mute the loud voice of privilege and authority,
Which clear my vision of the influence of the varied
pigments of man
And give me that which Solomon sought of God:
An understanding heart.*

*Tenei te wawata o toku ngakau
I heke mai i nga whakapaparanga
Kia rapuhia te hohonutanga o te hinengaro
E taea ai te whakatika i oku whakaaro
Kia ata rongo ahau i nga aureretanga o te hunga iti
Kia whakamamaiho te reo mana o te hunga kaha
Kia mau i ahau te maramatanga
E puta tika ai taku aroha mo te kiri mangu me te
kiri ma
Kia whiwhi ai ahau i te taonga i inoitia e Horomona
E te Atua Kaharawa
Tukua mai ki ahau
Te ngakau aroha-ki-te-tangata*

Supplied by R. Mete Kingi.

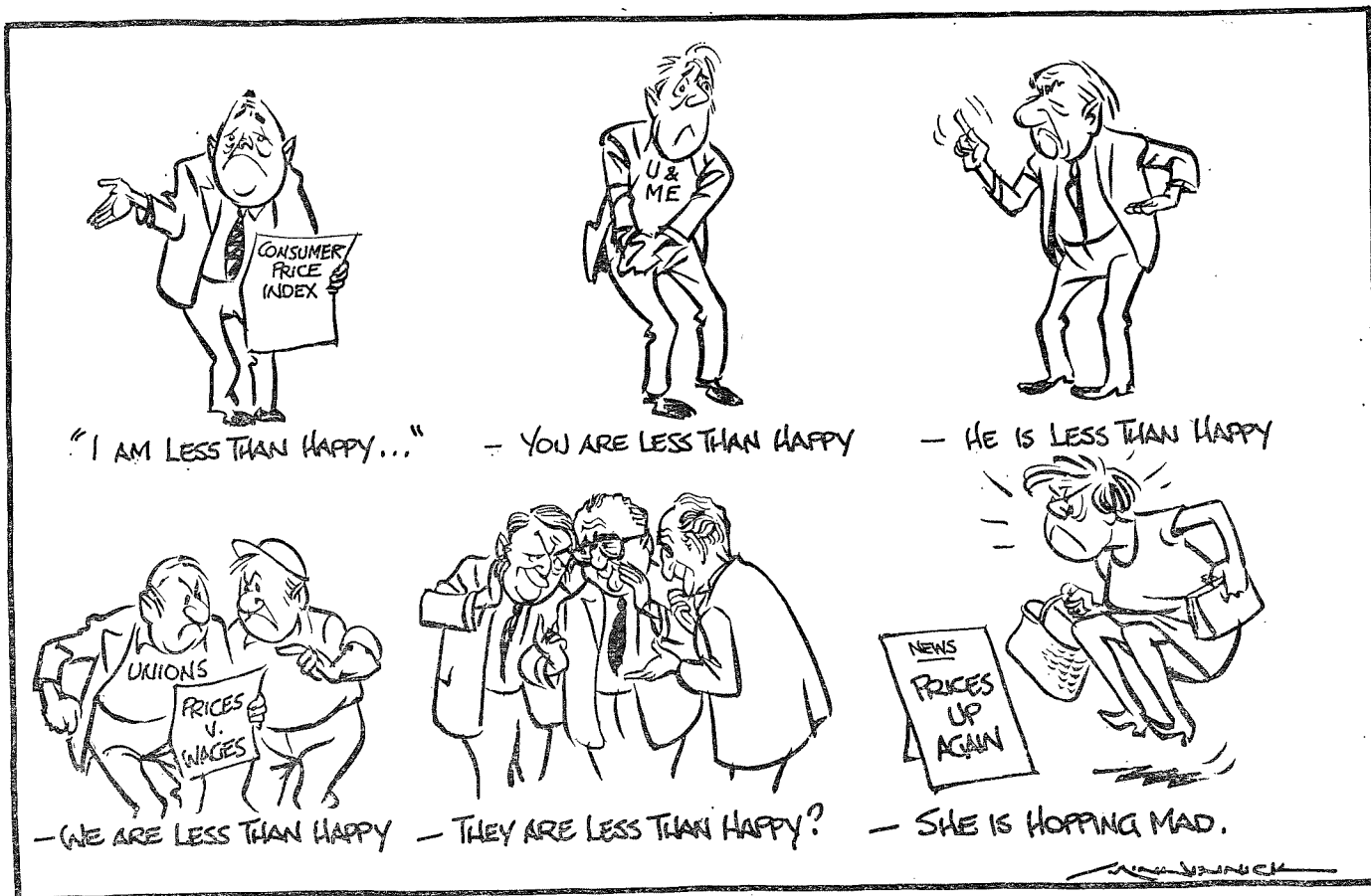
source of frustration and anti-social behaviour is undue pressure to conform on those who would like to live differently. Our traditional egalitarian philosophy, which we pride ourselves has helped reduce social and racial tensions, needs to be accompanied by a genuine tolerance of individual and group differences as we become a more diversified society than we were in the past.

Promoting a sense of identity and security is not only important for our social development but also for overcoming our economic problems. This is most evident in the work place. Bad relationships between management and workers in some important industries can and do reduce the output and exports upon which economic improvement depends. But it is also important nationally, if we are to generate sufficient sense of common purpose, to ensure that the conflict among different groups is kept within bounds which are conducive to stable expansion. It is needed too, if governments are to be able to implement policies which, though unpalatable in the short-run, are necessary for our long-term economic and social well-being. Herein lies the importance, in times when adjustment and belt-tightening are necessary, of ensuring that burdens are equitably shared and of sustaining cultural and recreational activities which contribute to our national morale.

Coping with change . . .

In this context, we must ask rather critically whether many of our existing institutions are as well-designed and well-operated as they might be to serve the interests of the whole community, especially in a period of change. When individuals become rigid in the way they serve the organisation to which they belong, it is probably just another way of saying they are uncertain in the face of change. Similarly, competitiveness within an organisation often turns into open antagonism and hostility towards "outsiders". The Planning Council, itself an institution, has been anxious to develop a spirit of open communication with New Zealanders in all walks of life. It has often been made aware that people are, however, conditioned by a national habit of confrontation. This holds both for organisations which are political (in the broadest sense) and those which are non-political. It makes real communication very difficult.

In summary, this leaves us with a picture of a country which has experienced a transformation in its fortunes but which has yet to take the fundamental decisions which are needed if its citizens are to lead satisfying lives and enjoy a sense of belonging. The starting point must be the link between economic survival and the recognition of our place in the world. One can trace this crisis of national identity through to the issues which arise in social planning—for example, how to attain the inner security which human beings require, whether in New Zealand or anywhere else. Social and cultural factors have a much more significant role than has been suspected in determining the capacity of the New Zealand economy to "respond".



"Mutual, I'm sure."

By courtesy of the New Zealand Herald.

CHAPTER 3

NEW ZEALAND 1983-85: TRENDS AND PROSPECTS

In this chapter an assessment is made of the trends which will condition the options available to New Zealanders in the medium term. The assessment shows that, even with a reasonably optimistic set of assumptions, the prospects are for only moderate growth in the economy, with a more moderate rate of increase of consumption. However, population is projected to grow even more slowly, so that there will be reduced demands for social capital in the form of schools, hospitals, and housing. The labour force should grow more rapidly than population. Normally this would be a favourable factor in allowing production and consumption per head of population to grow. However, there will be limitations on the supply of overseas exchange, shortages of energy may become more important in the latter part of the planning period, and competing demands for physical resources, particularly land and water, will impose constraints on the rate of development which can be sustained.

This picture emphasises the need for efficient and economical use of all these scarce factors if we are to achieve the opportunities available to us. The need to transfer resources into exporting and import substitution constrains what can be done to increase consumption and public services. The pressures for increases in Government expenditure to fulfil existing policies are very strong. These policies will require reassessment if the moderate growth postulated is to be achieved.

This chapter should not be read as a forecast or as a "best guess". It is not the aim of the Council to pinpoint precise levels for the various components of the economy in the mid eighties. Instead it has concentrated on making a few projections which are based on certain explicit assumptions. In some cases, a range of possibilities is used rather than a single statistical estimate. This serves to highlight the degree of uncertainty which we face in trying to forecast important determinants of our fate, such as the terms of trade. It also reminds the reader that the projection is not the inevitable reality and we all have an element of choice about what actually happens.

In our projections, what happens to exports is a critical determinant of what living standards we can achieve. We have assumed that policies will be adopted to secure a resumption of moderate expansion of traditional exports and continuation of quite a rapid growth of other exports. If this were not so, then our living standards would be lower. On the other hand, if we could do better with exports and with improving domestic productivity than we have assumed, and this is certainly possible, then New Zealanders could have more goods and services at their disposal to achieve their goals.

MEDIUM-TERM PROSPECTS FOR THE ECONOMY

Economic forecasting is fraught with difficulties, and these difficulties tend to increase as the forecasting period is increased from the short term to the

"Economic forecasting is a chancy business."

New Zealand Institute of Economic Research. Preface, *Quarterly Predictions*, December 1977.

longer term. This problem is exacerbated in New Zealand by lack of a tradition of good medium-term forecasting. A number of economists are now working in this area of medium-term forecasting but they are breaking relatively new ground and exposing areas which require a good deal of further study. The emphasis in forecasting has been on the short term, i.e., up to a period of about 18 months. It is not possible to simply extend these forecasts to the medium term (5-7 years) as different influences come to bear, and allowance must be made for fundamental changes in the structure of the New Zealand economy and the possibility of changes in tastes, attitudes, preferences, and so on, which may occur over the period. An analysis of a long period of economic history may not tell us much about the medium-term future.

We do not yet have a useful model of the New Zealand economy in which we can test the implications of alternative policies and strategies, and which will demonstrate the linkages and reconciliations which will occur between different policy options. However, in order to plan (even in the broadest outline) for the various sectors of the economy, we must have some view as to what it is reasonable to select as a range of possible outcomes. For instance, in planning public expenditure over the next 5 years, the likely real growth of the economy will influence our ability to deliver more resources (overall) and must be used as a guideline.

The economic survey of New Zealand, July 1977, by the Organisation for Economic Co-operation and Development (OECD), suggested that, in the absence of significant policy changes directed to switching resources into exporting or saving imports, only further very slow growth in real incomes would be possible and possibly some fall in real income per head would have to occur if overseas receipts and payments were to be brought into reasonable balance by about 1981 or 1982. A technical group of economists was convened by the Planning Council to evaluate the OECD estimates. The conclusion reached was that the OECD projection was rather too pessimistic, particularly on the high levels of imports. The Council agrees, however, that the balance of payments will remain a major constraint to the rate of growth which the economy can sustain over the period from now until 1985.

This being so, it is worth while examining the major factors which will affect the balance of payments over the period, and deriving a set of working assumptions in order to form a view as to the rate of growth which might be sustained. The procedure adopted has been to examine the effects of a 1 percent per annum and of a 3 percent per annum growth rate, on the external current account balance, under a set of reasonable assumptions about major variables including the terms of trade and the rate of growth of imports and exports.

Assumptions . . .

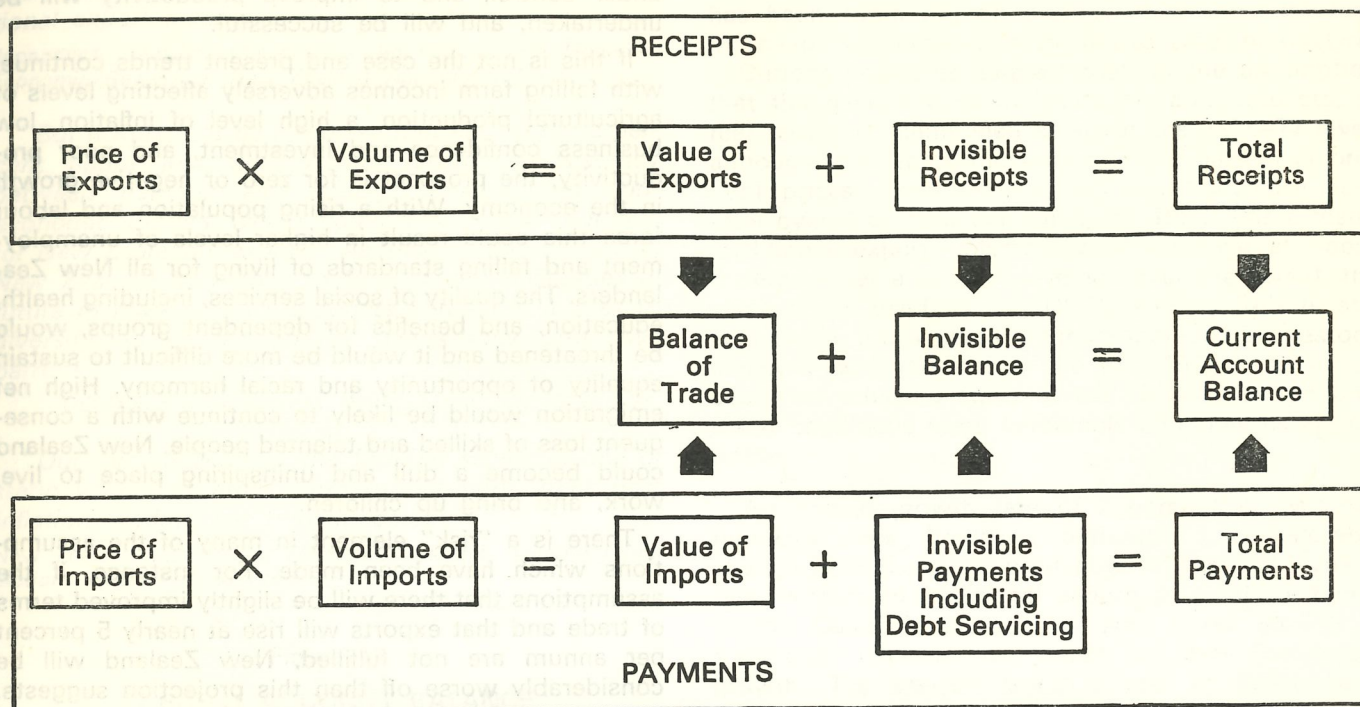
The detailed assumptions and their derivation are set out in appendix B. These assumptions do not simply represent a continuation of present circumstances but involve a very considerable change in policies, productivity, and attitudes. The assumptions are made

"The projections use Secretariat forecasts for 1977 as a starting point and then assume two different growth rates for total output—'slow' growth of 1 percent per annum and 'moderate' growth of 3 percent per annum. The results show that if 'moderate' growth was resumed in 1978 and continued, the current deficit would still be over 6 percent of GDP in 1982, and showing only very gradual signs of improvement. Nearly \$10 billion of official borrowing would have to be undertaken up until 1985 and more thereafter. Even if 'slow' growth were maintained the current deficit would not be eliminated until 1984, the trade account having reached surplus about 4 years earlier. However, from about 1981 or 1982, the current deficit would be less than the 2 or 3 percent of GDP that can be assumed to be financeable by private capital inflows. It should be noted that the goal of achieving a sustainable deficit is at least within more immediate reach than it would have been had policy not been severely tightened in the last 2 years."

OECD Economic Surveys. New Zealand. July 1977, p. 34.

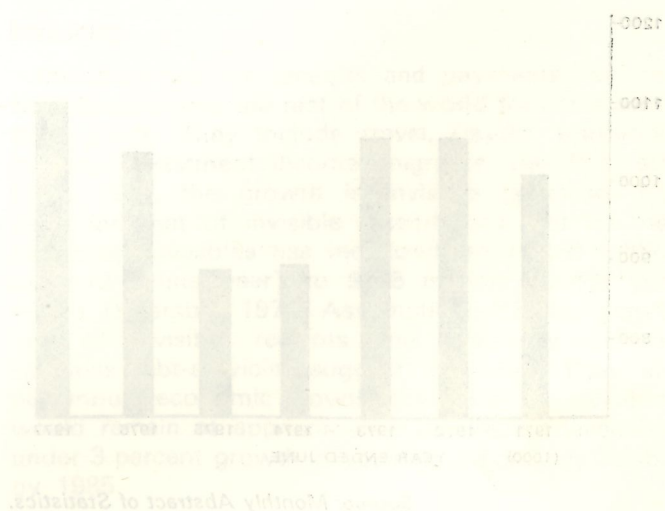
Figure 10

DERIVATION OF BALANCE OF PAYMENTS



$$\text{Terms of Trade} = \frac{\text{Price of Exports}}{\text{Price of Imports}}$$

Figure 11
VOLUME INDEX OF EXPORTS—ALL PASTORAL AND DAIRY PRODUCTS



on the basis that policies to encourage the development of agricultural exports, to restore the level of investment in the economy, to bring and keep inflation under control, and to improve productivity will be undertaken, and will be successful.

If this is not the case and present trends continue, with falling farm incomes adversely affecting levels of agricultural production, a high level of inflation, low business confidence and investment, and poor productivity, the prospect is for zero or negative growth in the economy. With a rising population and labour force this could result in higher levels of unemployment and falling standards of living for all New Zealanders. The quality of social services, including health, education, and benefits for dependent groups, would be threatened and it would be more difficult to sustain equality of opportunity and racial harmony. High net emigration would be likely to continue with a consequent loss of skilled and talented people. New Zealand could become a dull and uninspiring place to live, work, and bring up children.

There is a "risk" element in many of the assumptions which have been made. For instance, if the assumptions that there will be slightly improved terms of trade and that exports will rise at nearly 5 percent per annum are not fulfilled, New Zealand will be considerably worse off than this projection suggests. Assuming that it is the aim to bring down the balance of payments deficit from its present level of 6.5 percent of GNP to not more than 2.5 percent of GNP by 1985 for instance, it is estimated that if the rate of growth of agricultural exports is 1 percent rather than 2 percent there will be a fall of 0.6 of a percentage point in the overall rate of growth which New Zealand will be able to sustain.

This risk element points to the importance of strengthening our balance of payments position to one in which we are less reliant on overseas borrowing. For instance, should the world price of oil increase substantially in real terms, we may suffer not only from the higher costs of importing our fuel requirements, but also from the adverse impact on growth in many of our major markets. Since this is a real prospect for the mid 1980s, we must use the breathing space to reduce reliance on imported fuels as far as possible, to strengthen trading ties with countries likely to gain, either directly or indirectly, from the increased oil prices and generally to strengthen our capacity to earn and save overseas exchange.

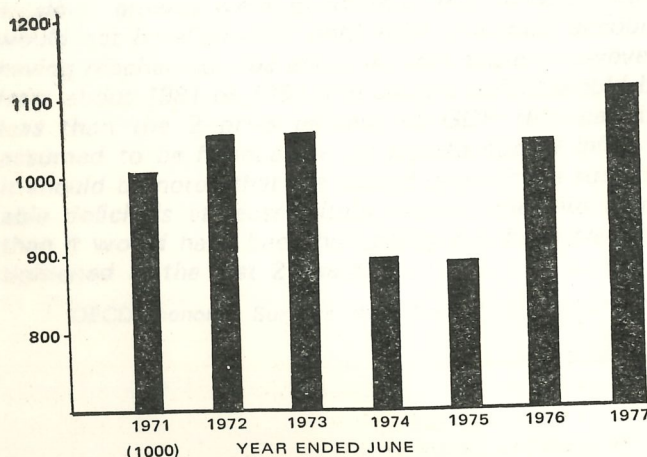
Terms of trade . . .

The terms of trade, which fell from 124 in the June quarter 1973, to 70 in the March quarter 1975, recovered to 77 for the March and June quarters of 1977, but have since fallen to 74 for the September 1977 quarter. It has been assumed that the terms of trade will recover and fluctuate around a level of about 80 for the period until 1985.

Growth of exports . . .

It is convenient to break down exports into two groups: "traditional", which consists of livestock products—meat, wool, and dairy products (which still represent 72 percent of total exports), and "non-traditional"—forest products, manufactured exports, and "other primary products".

Figure 11
VOLUME INDEX OF EXPORTS — ALL PASTORAL AND DAIRY PRODUCTS



Source: Monthly Abstract of Statistics.

"If the 2 percent livestock growth rate of the current year could be sustained until 1985, the result would be an increase of 17 million stock units, and on the basis of 1976-77 prices some \$320 million in additional export income."

Economics Division, Ministry of Agriculture and Fisheries. *Economic Review of New Zealand Agriculture 1977.*

"But it must not be forgotten that even if the 2 percent figure just quoted may ensure consistency between demand and supply, it discounts non-economic factors which could limit world demand for New Zealand's exports. As was mentioned earlier, New Zealand may have to face greater difficulties in future in marketing its products abroad as it tries to diversify its outlets and/or meets new protective barriers."

OECD Economic Surveys, New Zealand. July 1977, p. 34.

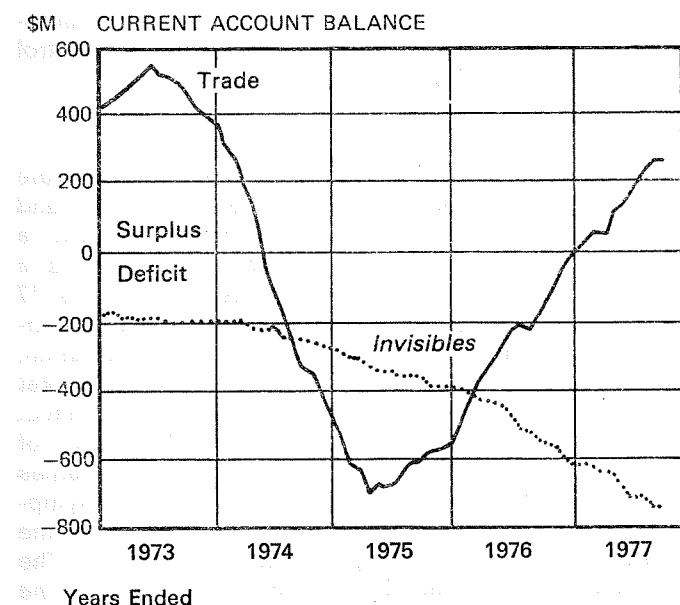
"Our overall view of the farming sector is one of static values of gross farm output with input cost inflation eroding net farm income."

New Zealand Institute of Economic Research, *Quarterly Predictions*, December 1977, p. 5.

Figure 12

CURRENT ACCOUNT BALANCE

Source: BNZ Business Indicators, January/February 1978.



"In considering 'invisibles' it should be noted that it is not only a matter of earning or saving foreign exchange. International trade negotiations are largely conducted on a trade basis and New Zealand is at a disadvantage in such negotiations since it has a trade surplus which is more often offset by an invisible deficit. Hence improving the net invisible earnings would strengthen New Zealand's net foreign exchange position as well as improving her international trade negotiating."

B. H. Smith, General Manager, Bank of New Zealand. *Moment of Truth* reply.

Over the past 7 years the volume of traditional exports has remained almost static, compared with a 3 percent annual growth achieved in the 1960s. After the pronounced decline of 1974 and 1975 there has been some growth associated with an increase in sheep numbers and in meat and wool production.

Current estimates suggest that on the assumption that the general level of prices of farm products, in real terms, is maintained at about the 1976-77 level, although with some movement in the pattern of product prices, livestock numbers could increase at a little over 2 percent per annum to 1985. (As a result traditional export volume would increase at about 2 percent per annum on average over the period, the same figure used by the OECD study.) This is still well below the 4 percent annual increase in livestock numbers achieved during the mid 1960s and which could be achieved again in the 1978-85 period provided conditions were favourable and policies appropriate.

An annual growth rate of 2 percent in livestock numbers does, however, represent a considerable change from the static production of the last 7 years. The increase in traditional exports is a crucial factor in the Council's projections. Any lower growth in traditional exports will result in lower economic growth. The present trend is one of falling farm incomes, principally as a result of rapid cost increases both on and off farm in the face of static or declining prices for most farm products. This trend will have to be reversed. Farm incomes at levels which will permit reinvestment in the farm and which will provide the confidence to undertake development are an essential prerequisite for increased agricultural production.

Non-traditional exports have grown at a rapid rate in recent years but are now slowing down. Over the whole of the non-traditional export sector the figure of 7.5 percent per annum used by the OECD appears on balance to be a little too pessimistic, and the Council has used an estimate of 10 percent per annum on the assumption that it will continue to be official policy to encourage investment in this sector. This gives an overall growth rate for total exports of 4.8 percent per annum, compared with a rate of over 6 percent per annum during the 1960s, but only 3.5 percent per annum over the period 1970 to 1977.

Invisibles . . .

Invisibles are the receipts and payments between New Zealand and the rest of the world for items other than goods. They include travel, freight, insurance, interest, investment income, migrants' transfers, etc. Since 1972, the growth in invisible payments has exceeded that of invisible receipts, so that the net deficit on invisibles has increased from \$184 million in 1972 (June year) to \$825 million for the year ended December 1977. Assumptions on the growth rate of invisible receipts and payments and on overseas debt-servicing suggest, that under 1 percent per annum economic growth, the deficit on invisibles would remain at approximately its present level, but under 3 percent growth it would approximately double by 1985.

Imports . . .

The reaction of imports to differing rates of economic growth is a major area of uncertainty in discussion of the future balance of payments. The Planning Council's technical group considered that the estimates used by the OECD were too high. For planning purposes a reasonable assumption would be that, for each 1 percent growth in incomes, the volume of imports of goods would increase by 1 percent, while the volume of imports of services (other than debt servicing) would increase by 1.2 percent, as opposed to the 1.5 percent for both goods and services used by the OECD for their moderate growth assumption.

It will be important to test the technical group's assumption because projections of the likely pattern of economic growth are very sensitive to the reaction of imports to increases in income.

An important factor in helping New Zealand to restrain the growth of imports will be the coming on stream of the Maui project.

Inflation . . .

The rate of inflation in New Zealand has been assumed to decrease from present levels (15.3 percent for 1977) to 12 percent for 1978, 10 percent for 1979, and to a world average, assumed to be 8 percent thereafter. This is based on the fact that in the past New Zealand's inflation rate has been close to the "world rate" (see chapter 2) and on the assumption that policies to bring inflation under control will continue to be adopted.

Investment . . .

As a percentage of GNP, and in real terms, private investment has been falling. Present New Zealand Institute of Economic Research forecasts show a continuation of the fall in private investment as a percentage of GNP from 16.9 percent in 1976-77 to 14.8 percent in 1978-79. This reflects a lack of confidence on the part of farmers and businessmen, accentuated for those catering for a domestic market by the recession. A major factor has been the effect of inflation on company profitability, the level of retained profits, and hence the ability of companies to finance investment from internal sources. A symptom of this is the difficulty experienced by some companies in maintaining productive capacity. The Council sees considerable cause for concern in the weakening in the financial structure of companies. It is assumed for the purpose of this exercise that policies to encourage investment are adopted and that investment grows as a constant proportion of GNP.

Economic trends—conclusion

The projections are shown in detail in appendix B. It should be remembered that these are trend projections around which there will be various cyclical and random influences. The projections depend heavily on the stated assumptions on the terms of trade, relative prices, and balance of payments policy.

Under the assumption of a 1 percent growth in real GNP, the current account deficit reaches its peak in 1978, then improves to become a surplus by

"Present trends in private investment spending particularly, point to the pessimistic outlook now prevalent in the business sector."

New Zealand Institute of Economic Research. *Quarterly Predictions*, December 1977, p. 3.

Care must be taken in interpreting the debt service ratio as it can only be used on the assumption that existing debt can be rolled over. That is, that loans as they mature will be renewed or refinanced, and only interest and dividends payments will be claims against export earnings. The debt service ratio also fails to measure the change in the burden of debt due to fluctuations in foreign exchange earnings. An "acceptable" debt service ratio in years of high export prices may become unacceptable in years of lower prices. The debt service ratio should not be used in isolation but needs to be viewed against the level of foreign exchange earnings, the rate of change of import prices, etc. (Note by Secretariat).

Table 4

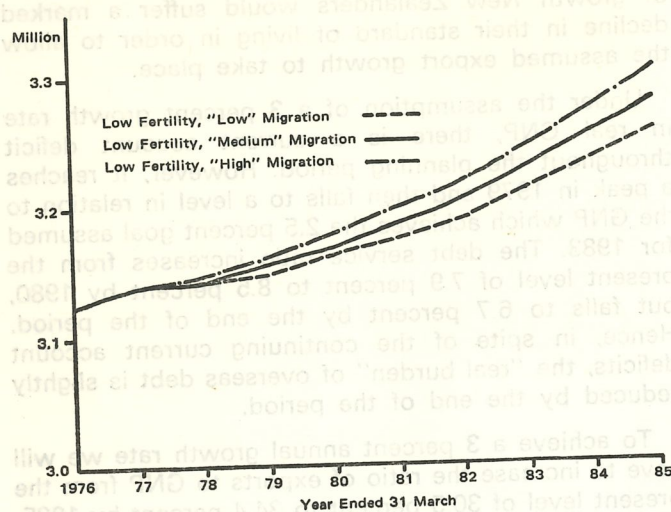
**ESTIMATES OF ANNUAL RATES OF GROWTH OF
PUBLIC AND PRIVATE CONSUMPTION, AND
INVESTMENT, UNDER ALTERNATIVE GROWTH
ASSUMPTIONS**

	Annual Growth Rate of GNP	
	%	%
Public and Private Consumption	-0.4	+2.6
Investment	-0.6	+1.9

Figure 13

POPULATION PROJECTIONS 1976-85

For details of assumptions and methodology see appendix C.



By comparison, the annual average percentage increase in the total population between the 1971 and 1976 Censuses was 1.8 percent (the total intercensal growth was 9.3 percent) while between 1966 and 1971 the average annual rate of increase was 1.3 percent and the total intercensal growth 6.9 percent. The earlier period included years of net migration outflow so that natural increase accounted for a large proportion of the total population increase. Conversely the growth between 1971 and 1976 was boosted substantially by record migration inflows which altogether contributed to one-third of the total net growth in the intercensal period compared with the historical contribution of one-quarter throughout this century.

(Note by Secretariat.)

projections showing the effects on population if these assumptions are realised. Because individual choice is a key variable in population matters, however, these assumptions will have to be constantly monitored and adjusted in the light of longer-term changes. Basic projections are nevertheless needed for decisions on policies for education, health and welfare services, housing, and urban planning—to quote the more obvious—and as such are a fundamental part of the planning process.

The Planning Council set up a special working group and had medium-term projections for the population and labour force prepared for the period to 1985. Details of these projections and of the methodology are set out in appendix C. The graph opposite indicates several likely trends, depending on which one of the migration assumptions proves realistic. Depending on which assumption is in fact borne out, New Zealand's total population will increase from about 3 129 000 at the time of the 1976 Census to between 3 255 000 and 3 301 000 in 1985. This modest growth reflects an average increase of around $\frac{1}{2}$ percent a year, the lowest rate of growth recorded over any annual intercensal period this century. It derives from an expected continuing decline in fertility till 1981, from which time fertility is assumed to stabilise. It is also assumed that around the same time migration patterns could return to balance and then move into a net migration inflow.

Within the overall pattern of slow population growth there are important aspects which we should understand for policy purposes. These include age structure, migration, the labour force, ethnic composition, and geographic distribution. By 1985 the population will have a lower proportion of children under 15 and an increased proportion in working age groups (although there may be some losses in the younger working age groups as a result of continuing emigration). The fact that most New Zealanders, including an increasing proportion who will be of diverse ethnic origin, will live and work in cities is a major consideration for planning.

Changes in age distribution will not assume urgency in terms of planning in the short to medium term. It is important to be aware of the longer-term directions which the trends indicate, however, because decisions have to be made now, for example, about the provision of housing, schools, and hospitals, which will have an impact over a longer period than that with which the Council is immediately concerned. Because of the age structure of the existing population there is a built-in momentum which will mean that the potential work force will continue to increase as a proportion of the total until about the first decade of the twenty-first

Table 5
WOMEN IN THE LABOUR FORCE

	1966	1971	1976	1981 (Projected)	1985 (Projected)
Total number	280 444	333 866	407 235	454 500 to 459 000	504 500 to 511 600
Percentage of total labour force	27.3	29.8	32.0	33.1	34.2
Females in labour force as percentage of all females	21.0	23.3	26.0	28.7	31.0

Source: New Zealand Census of Population and Dwellings 1966, 1971, and 1976. Population projections prepared for New Zealand Planning Council 1977 (see appendix C).

century. (Other studies have shown that thereafter this proportion will decrease.)

The NZPC projections indicate that during the period to 1985 the labour force will increase by nearly 200 000 to a level somewhere between 1 475 000 and 1 497 000. More than half the numerical increase is expected to result from the fact that there will be relatively more women working, following a trend which has become more pronounced in recent years. Over the period 1976–85, average annual growth rates are therefore likely to range from 1.6 percent to 1.8 percent with the female component growing at twice the rate of expansion of the male labour force.

The expected rates are relatively modest when compared with the growth in the labour force between 1971 and 1976, when an average annual increase of 2.6 percent was recorded. At the same time, the fact that the labour force may grow at a rate three times that of the population as a whole could, under normal circumstances, offer the potential for achieving higher rates of economic growth per head than reached in recent years—provided the labour force can be fully employed. New Zealand is currently experiencing unemployment levels unprecedented since the 1930s (see chapter 2) and the ability of the economy to provide the further job opportunities which will be necessary if increased additions to the labour force are to be actively engaged will depend heavily on our success in achieving effective economic restructuring. The availability of skills in the restructuring phase will be conditioned by the continuing outflow of New Zealanders overseas and the effects both immediate and longer-term on industrial production and training.

The migration assumptions used in the Council's projections are based on prospects that economic growth will continue to be relatively slow and the likelihood that opportunities elsewhere will always attract New Zealanders. Similarly, the tendency for relative wage levels to be increasing in traditional source countries means that even a very selective policy of attracting immigrants, particularly in the skilled and professional category, would require a high degree of incentive.

The low growth rate of the population in the next 5 years could reinforce the tendency noted at the time of the 1976 Census, namely the slow down of migration from other parts of New Zealand to the larger urban areas. Whether rural/urban drift will be contained or will continue during the planning period will depend to a large degree on the extent to which land-based and export-oriented policies, and programmes for regional development are adopted. These could provide vehicles for reversing the trends of depopulation which many rural communities and small towns have experienced and ensure less wastage of resources, including social capital, in these areas, as well as helping reduce pressures in major urban areas like Auckland and Christchurch, which have reached growth thresholds in terms of public utility investment.

During the period 1961–76 rates of household formation increased significantly, as a result of a variety of demographic and social factors. These were reflected, for example, in a substantial increase in single person households.

On the assumption of no net overseas borrowing in 1980, and not allowing for further import substitution or more labour intensive activities, structural unemployment in 1980 was estimated to be 49 000. It was found necessary to increase overseas borrowing to the equivalent of \$264 million in 1977 prices, in order to eliminate structural unemployment. If, however, import substitution and labour intensive production options were introduced, structural unemployment was eliminated with no overseas borrowing, but at the cost of a lower rate of increase of real GDP per person employed.

Derived from: Bryan Philpott and Ban-Cheong Choo. *A Victoria Model Analysis of Structural Unemployment in 1980*. Victoria University of Wellington. Internal Paper No. 48. Project on Economic Planning. February 1978.

"It is clear, however, that if unnecessary and undesirable social costs are to be avoided the distribution of economic activity and population over space cannot be left entirely to free market forces . . . those who have to decide on the location of economic activity do so in the light only of those private costs which fall on them as entrepreneurs; it is not their business to consider all the costs which may fall on the community as a result of their decisions. These comprise not simply the social costs, such as lack of amenity and air pollution which were referred to earlier; they also include the public investment required in housing, schools, and transport facilities for an increased population."

Gavin McCrone, *Regional Policy in Britain*. George Allen and Unwin Ltd., 1969, pp. 30 and 42.

It is difficult to forecast the patterns of household formation which will emerge during the planning period. The present age structure of the population would seem to indicate continuing high rates of household formation. Other factors, however, will affect this, including the extent to which continued outward migration of young people in the family formation age groups leads to a lowering of household formation rates. Social factors such as a continuing increase of one parent families, together with the needs of immigrant households, will also have an impact on household formation (and indirectly, housing demand). Moreover, geographical variations in population structure, internal migration movements, and regional differences in housing demand as well as housing policies and the availability of finance will all influence the total demand for homes.

It is important therefore that monitoring of future household formation rates is given high priority. Thus it may be possible to ensure that the building industry does not have a surplus of capacity and resources engaged in house construction. This would free those resources for use in other areas, e.g., export industries. It will be necessary to ensure that any programme designed to optimise utilisation of resources in the building industry is linked closely to the trends in urban development which are likely in the planning period.

URBAN DEVELOPMENT

Because of its impact on a number of resources, including the existing stock of housing, urban development is a key area of medium-term planning. There are many indications that the present pattern of urban growth is imposing unnecessarily high social, economic and environmental costs, and a period of slow economic growth will bring home the fact that these can no longer be sustained. A major cause of such costs is the continuing tendency to develop very low density housing in new subdivisions at the edges of our towns and cities. Recent research in New Zealand confirms findings elsewhere that "urban sprawl" is the most expensive form of development. Apart from the pressure on high-value agricultural land and the high energy consumption imposed by "sprawl", we need to recognise more clearly the high social costs built into such a pattern.

The cost of urban development is a very large component of national expenditure. The capital required to service urban growth at the rates experienced in the recent past will not be available during the next few years. A recent study relating to the cost of growth in Auckland* shows that vast sums of money would be required to achieve investment plans in the region (covering for example, roading, sewerage and water supply, refuse disposal, transportation, and social services). The study demonstrated that the Auckland region's development expectations are unlikely to be met. While it is likely that loan moneys will be available to cover contracts already let, there will be insufficient funds for development approved in principle, let alone that which is only at the proposal stage.

A period of rapid growth in the major urban areas has not only created backlogs in the provision of bulk services and other facilities, but has brought cities like

For example, in metropolitan Auckland, it costs the developer more than \$10,000 per section just to purchase raw land and develop it in conformity with the normal pattern of detached suburban housing. (June 1977 figures.)

From R. Goodwin. *Economic Aspects of Residential Subdivisions in Auckland*. Paper presented to the New Zealand Institute of Surveyors Conference, Auckland, October 1977.

Auckland Region Joint Study Group. *Auckland: The Costs of Growth*, September 1977. (It should be noted that the Joint Study Group's economic growth assumptions were slightly higher than those which the Council has adopted.)

"In discussions with local authorities during the course of the study, the Group has noted marked changes in the approach of local, regional and central government organisations to problems caused by lack of development finance. Considerable re-thinking is occurring and there is a general willingness to participate in solving regional problems. The momentum achieved towards better communication is promoting a better understanding of the development options."

Auckland Region Joint Study Group Report, p. 4.

"Alternative oil supplies are not likely to come on stream rapidly enough to significantly alter the situation. By 1980, growth in the North Sea supplies will be slowing, Alaskan output will have stabilised, and the USSR will be losing its status as a net oil exporter to the West. . . . While Mexico and Egypt will probably have emerged as substantial oil producers by the mid 1980s, their increased production will only put a small dent in demand for OPEC oil."

Central Intelligence Agency—International Energy Situation: Outlook to 1985.

"The supply of oil will fail to meet increasing demand before year 2000, probably between 1985 and 1995, even if energy prices rise 50 percent above current levels in real terms. Additional constraints on oil production will hasten this shortage, thereby reducing the time available for action on alternatives."

Derived from WAES (Workshop on Alternative Energy Strategies), *Energy: Global Prospects 1985-2000*, McGraw-Hill, 1977.

Auckland and Christchurch to the point where to accommodate any further growth they will require very expensive new servicing capacity. Besides placing a high demand on the public purse, this will duplicate services and facilities which elsewhere in New Zealand would become under-utilised if people continued to migrate to these main urban centres.

Since the immediate prospects are for relatively low economic and population growth, a realignment of present expectations is inevitable. This "pause" is likely to lead to a more basic reappraisal of urban development strategies in New Zealand, and the adoption of improved planning procedures to co-ordinate the many disjointed aspects of urban development. The aim will be to find low-cost solutions and get the best use out of existing resources. It will therefore be a period of adjustment for the many institutions in the public and private sectors, whose procedures are geared to the assumption that New Zealand is one big subdivision. Lending priorities and legal requirements will, for example, have to allow for a greater emphasis on the use of existing homes and on higher density redevelopment in older areas.

ENERGY

New Zealand's vulnerability to external influences is well illustrated by the impact of rapidly rising oil prices. By 1975 oil imports were equivalent in value to about 21 percent of our export receipts. Even though volumes have since been reduced the proportion was still 15.4 percent in the 1977 June year. This compares with an average of about 5 or 6 percent a year in the decade prior to 1973.

Our dependence on imported liquid fuels is illustrated by the fact that some 87 percent of our oil requirements are imported. Moreover, transport (which currently accounts for about 71.5 percent of our oil consumption) is almost entirely dependent on liquid fuels.

Currently the world is experiencing an interlude . . . a sort of calm before the storm. The rapid development of oil fields in the North Sea, Alaska, and Mexico has resulted in a production surplus which is helping to stabilise prices. Thus it is possible that in the medium term, with which the Council is concerned, the urgency of the situation may not be apparent. However, authoritative studies indicate that demand for oil will certainly outrun supply from sometime in the mid 1980s. And one study indicates supply will fall short of demand even if prices increase by at least 50 percent in real terms. While it is appreciated that the Government would not like to see oil imports rise above the present level of about 4 million tonnes a year through to 1990, there is reason to doubt whether the country will be able to afford even that level of imports.

New Zealand would be wise to try to reduce even further its requirements for imported oil. At present the only way to achieve this is to divert natural gas, earmarked for thermal power stations which are still at the planning stage, for use in the transport sector. Even with a much lower population and economic growth rate than earlier planning for electricity generation assumed, it will be necessary to concentrate not

Table 6

NEW ZEALAND PRIMARY ENERGY CONSUMPTION

	1976 PJ	1977* PJ
Coal	59.58	52.54
Oil—		
Indigenous	21.59	30.52
Imported†	184.01	168.00
Hydro electricity‡	59.68	56.65
Natural gas	40.22	64.35
Geothermal heat§	2.00	2.00
Total	367.08	374.06
Energy imported	50.12%	44.91%

*31 December years.

†May differ from actual imports due to stock changes and exports: 1.45 PJ of waxy crude (3703 tonnes exported to Japan and Singapore) exported in 1977 and 9.16 PJ held in stock at Marsden Point at 31 December 1977.

‡Includes electricity generated from geothermal power, but excludes that generated from gas, coal, and oil.

§Geothermal heat used direct as process heat.

NOTE: PJ = petajoules = 10^{15} joules; 41.868 PJ = 1 million tonnes of oil; 24.702 PJ = 1 million tonnes of coal; 3.6 PJ = 1000 GWh (electricity).

Source: Ministry of Energy Resources.

Table 7

USE OF PETROLEUM FUELS IN NEW ZEALAND IN 1975

Sector of Use	Consumption	
	Millions of Litres	Percent
Domestic transport—		
Road	2 397	47.5
Rail	84	1.7
Sea	88	1.7
Air	137	2.7
Total	2 706	53.6
International transport—		
Sea	389	7.7
Air	129	2.6
Total	518	10.3
Other vehicle	387	7.7
Non-vehicle	1 435	28.4
Total	5 046	100.0

Source: Beca, Carter, Hollings and Ferner. NZERDC Report No. 27, *Energy in Transport*, Vol. 1 and 2: March 1977.

NOTE—More recent figures are not available.

only on conservation but also on the development of our own renewable energy sources such as hydro and geothermal. Plans to encourage the development of small hydro stations are already having some effect, but this should not be regarded as a panacea. To achieve the total potential of small hydro schemes it will be necessary to construct some 100 stations in the 0–50 megawatt range. Thus the development of large and small hydro schemes will be necessary, and these have significant land use implications. The alternative to the use of hydro and geothermal stations instead of either natural gas or coal-fired thermal stations would appear to be nuclear heat. It is assumed that a decision that commits the nation to the use of nuclear energy for electricity generation will not be made in the planning period. This question is at present being studied by a Royal Commission. Moreover, the rapid expansion in electricity demand experienced in past years may not be so evident in the future. Quite apart from specific measures which are likely to be implemented in order to reduce demand, the population trends referred to above indicate that a major factor in demand creation will have diminished.

While we may be able to perceive an acceptable solution to the generation of electricity in the medium to long term, there is as yet no long-term solution to our reliance on transport requiring liquid fuels. The new energy era has already made an impact on the New Zealand scene. This is reflected in the development of Government pricing policies which mirror the new value of energy, and the imposition of an energy resources levy on natural gas and coal. The need for greater efficiency in use is reflected by the decision to use the recuperative combined cycle for any future gas-fired thermal power stations built around Auckland. It is also indicated by the wide range of measures introduced to encourage efficiency and conservation in energy use. Conservation depends on individual commitment to save energy by, for instance, turning off a switch, insulating a home, taking one less car journey.

The development of new technologies and the application of them in New Zealand will be important. The use of solar and wind energy to generate electricity could play a part in the medium to long term, as could the burning of domestic rubbish. Organic matter (biomass) may also make a contribution in the longer term. Any decision to embark on large-scale energy farming would, however, have to be made after detailed study of the effect such a scheme would have on agriculture, the pulp and paper industry, and, indeed, the whole economy. With the development of the Maui gas field, up to 400 000 tonnes of liquefied petroleum gas (LPG) a year will become available. Most could be utilised by the transport sector. Compressed natural gas (CNG) will also be able to play a significant role in transport. But these are only partial solutions to what we perceive as a major problem for New Zealand within the next 10 to 15 years.

NATURAL RESOURCES

The discussion on energy should increase awareness of the need for conservation and better use of scarce resources generally. Water and high-quality agricultural land are becoming increasingly valuable

"New Zealand is moving into a period in which it would be essential to use its resource base wisely. This will involve greater attention to resource use planning and the application of environmental science, and greater efforts through conservation, multiple use development, and good husbandry to realise the capability of the environment to meet the needs of New Zealanders."

Communication from I. L. Baumgart, Commissioner for the Environment.

"Industry has to be persuaded that efficient resource management, which usually entails a higher level of investment than needed when resources are used wastefully, will at least be economically attractive in the long term."

I. L. Baumgart, Commissioner for the Environment. *Moment of Truth* reply.

"The lack of comparability or inter-relationship between the major land uses has led to and will continue to result in conflicts in land resource use . . ."

Department of Lands and Survey. *King Country Land Use Study*, Stage 1 Report, September 1977, p. 86.

"I would like to outline the magnitude of the present problem on the West Coast. . . . We will be examining various possibilities for the use of forested land, including reservations, forest production and agriculture."

M. J. Conway, Director-General of Forests. Opening address for *Seminar on the Future of the West Coast Forestry and Forest Industries*, Hokitika 1977.

"The planning problem is the accommodation of the different land and water uses . . ."

Ministry of Agriculture and Fisheries, Forest Service, Department of Lands and Survey, Ministry of Works and Development. *A Strategy for the Conservation and Development of the Marlborough Sounds*. 1976, p. 1.

and the indigenous forest policy, which aims to perpetuate native forests, is providing a baseline against which new resource proposals and plans are being measured. Seasonal gaps between water supply and demand already exist in a number of regions in New Zealand, for example in Waimea and Franklin Counties. The amount of water required for development of primary and secondary industries means that this gap could increase in the years ahead. There is a danger that increased pressure on the country's resources could result in environmental damage such as the South Island high-country erosion which resulted from past burning off and over-stocking. However, the potential pressures for environmental exploitation can be offset by more efficient use, better technology, recycling non-renewable resources, and shifting to use of renewable resources.

Better technology for waste treatment, for example, has resulted in some cases in improved efficiency and new products and avoided environmental damage. Recovery of lanolin from wool scour effluent, protein from meat works effluent, energy from forest processing waste, and the successful marketing of whey products are all examples of waste utilisation.

This type of resource management usually entails a higher initial investment and may only be economically attractive in the long term. Nevertheless the trend is towards greater application of such techniques.

Growth of primary industries based on our natural resources will inevitably produce land-use conflicts. Recent land-use studies have identified competing demands from exotic forestry, indigenous forestry, energy development, agriculture, conservation, and urban development. Similar competing demands have been identified for estuarine and harbour areas. These conflicts will accentuate the need for more systematic consideration of the relative costs and benefits of alternative uses, including non-use, of natural resources. It is important that these costs and benefits take into account future requirements outside the planning period. For instance land has been planted in forests without planning for the necessary roads and ports to sustain a timber industry. Just as population trends will affect the future of the building industry, decisions on land use for forestry will affect future regional development of industry and transport.

There is already increasing recognition that single purpose approaches to land, water, and energy development are no longer desirable. At the regional level, the resource surveys at present prepared by regional development councils may enable regional planning authorities and others to see the regions' land and water resources as part of a total picture.

Table 8

CENTRAL GOVERNMENT EXPENDITURE 1963-78

(\$ million)

Year Ending March	Total Government Spending ¹	Percentage of GNP	Goods and Services and Hospital Board Transfers ²	Percentage of GNP	Monetary Benefits ³	Percentage of GNP	Other Transfers, Government Debt, Interest and Subsidies ⁵	Percentage of GNP
1963	847.1	28.7	500.8	16.9	218.6	7.4	127.7	4.4
1964	896.6	27.7	551.2	17.1	229.4	7.1	116.0	3.5
1965	974.4	27.6	616.0	17.5	233.6	6.6	124.8	3.5
1966	1,074.8	28.1	682.8	17.9	242.2	6.3	149.8	3.9
1967	1,165.5	29.3	752.9	18.9	251.6	6.4	161.0	4.0
1968	1,181.1	28.6	781.3	18.9	269.1	6.5	130.7	3.2
1969	1,212.4	27.8	822.9	18.8	277.5	6.4	112.0	2.6
1970	1,317.1	27.4	887.6	18.5	298.4	6.2	131.1	2.7
1971	1,597.8	28.9	1,062.8	19.2	328.0	6.0	207.0	3.7
1972	1,862.3	28.9	1,244.3	19.3	365.9	5.7	252.1	3.9
1973	2,219.3	29.6	1,489.5	19.9	487.5	6.5	242.3	3.2
1974	2,633.2	30.5	1,636.5	18.9	593.6	6.8	403.1	4.8
1975	3,410.8	36.3	2,103.2	22.3	675.2	7.1	632.4	6.9
1976	4,385.9	40.6	2,647.9	24.5	846.4	7.9	891.6	8.2
1977	4,504.3	35.1	2,857.7	22.3	1,023.0	8.0	623.6	4.8
1978 ⁴	5,300.0	36.5	3,312.7	22.8	1,384.0	9.5	603.3	4.2

¹In Budget table 2 terms.²Includes both current and capital expenditure.³Benefits and family benefit advances.⁴Does not include Supplementary Estimates.⁵Includes transfers to local authorities (other), net transfers overseas, interest on Government debt paid in New Zealand, and subsidies.

Table 9

NET CENTRAL GOVERNMENT EXPENDITURE 1975-76 to 1977-78

(\$ million)

	1975-76	1976-77	1977-78 Budget	1977 Supplementary Estimates	1977-78 Revised
Administration	267.9	316.8	372.0	5.7	377.7
Stabilisation	208.0	71.5	90.0	6.3	96.3
Foreign relations	271.0	288.7	329.1	2.5	331.6
Development of industry (including agriculture)	514.5	428.2	447.2	40.0	487.2
Education	627.0	699.4	795.7	11.9	807.6
Social services	997.0	1,158.9	1,521.6	25.8	1,547.4
Health	605.7	689.1	804.7	17.8	822.5
Transport and communications	274.8	235.3	236.8	17.3	254.1
Debt services	272.8	371.3	414.5	.....	414.5
Miscellaneous investment transactions	39.1	36.3	60.4	.....	60.4
Subtotal	4,077.8	4,295.5	5,072.0	127.3	5,199.3
Miscellaneous financing transactions	308.1	208.8	228.0	.....	228.0
Total net expenditure	\$4,385.9	\$4,504.3	\$5,300.0	\$127.3	\$5,427.3

Our capacity to discuss future prospects for the public sector in an illuminating manner is constrained in New Zealand, by comparison with several other countries, because our Government has not yet adopted the practice of publishing forward estimates of its own expenditure for more than a few months ahead. It is hoped that, as part of its commitment to planning, the Government will soon adopt the practice, now common, for example, in Britain and Germany, of sharing with the public a more distant look ahead, at least in respect of the existing policies to which it is committed. Such a look ahead, for a period of 3 years, is already made for its own purposes. The Task Force reported evidence from permanent heads on the deficiencies of the estimates made for the second and third years of the triennium. Nevertheless, it would assist public discussion of medium-term prospects if a more open approach were taken by Government in future. A further weakness is the paucity of information available about the future intentions of local authorities.

In the meantime it can be noted that, after remaining relatively static in relation to GNP during the decade up to 1972-73, Central Government expenditure has risen markedly since then, from 29 percent of GNP in the March year 1973 to over 40 percent for the year ending March 1976. At the same time, the size of the deficit between Government revenue and expenditure widened appreciably, becoming equivalent to 9.1 percent of GNP in 1975-76. Expenditure was reduced to 35.1 percent of GNP in 1976-77, with firm restraints on staffing in the Public Service, and reductions in subsidies and transfers to Government financial institutions (e.g., the Housing Corporation and Rural Bank) playing an important role in the change. With revenues from income tax rising rapidly with inflation, this brought the deficit back to 3.9 percent of GNP. However, the tendency now appears to be for the proportion of Government expenditure to GNP to rise again, despite continued restraints on staffing. These tendencies reflect the momentum which exists for Government expenditure to rise under existing policies, particularly in social services, and through the introduction of new economic and social policies, notably the national superannuation scheme.

It would be the Council's judgment that, even if no new policies were introduced, the tendency would be for the ratio of Government expenditure to GNP to continue to grow for the next year or two. This tendency is likely to be apparent in the growth of expenditure on goods and services (including wages and salaries, which represented about 34 percent of total expenditure in 1976-77) and on benefits. It will, of course, be more pronounced if new policies are introduced. Thus, it will be no easy task for a Government which wishes to see a reduction of the share of the nation's resources taken by the public sector to achieve its aims.

In 1973, when 30 percent of New Zealand's GNP was taken in tax, the United Kingdom was taking 33 percent of GNP, France and Germany 37 percent, and Sweden 43 percent. (Note by Secretariat.)

Table 10
TAX RATES 1968-78

March Year	Personal Income Tax as Percentage of GDP ¹	Average Tax Rate for Married Persons on Average Ordinary Time Wage ²	Marginal Tax Rate for Married Persons on Average Ordinary Time Wage ²
1968	10.5	11.8	22.5
1969	10.6	12.3	22.5
1970	10.9	12.2	24.5
1971	11.9	13.7	24.5
1972	13.2	15.5	28.4
1973	13.3	14.8	28.2
1974	14.9	16.7	30.6
1975	17.6	18.5	34.5
1976	16.8	18.0	33.5
1977	17.7 ³	20.4	39.5
1978 ⁴	19.3 ³	23.2	45.5

¹Source: Annual reports of Inland Revenue Department; *Monthly Abstract of Statistics*.

²Labour Department October Surveys; Inland Revenue Department. The tax rates are those applicable as at October preceding the March year end. It is assumed that in October 1977 the average wage increased by 15 percent over October 1976.

³Treasury estimates and Budget tables.

⁴Personal income tax was reduced by 5 percent from 1 February 1978. This adjustment is not included in these figures.

Report of the Committee of Inquiry into Inflation Accounting. September 1976. Chairman I. L. M. Richardson.

As one would expect, the ratio of tax revenue to GNP has also risen, though with a lag in relation to expenditure. It is about 33 percent of GNP now, compared with about 30 percent 4 years ago. This is not an exceptionally high figure by comparison with many other OECD countries. We are distinctive, however, in the proportion of total tax revenue raised in the form of personal and company income taxes and, over the years, this proportion has been growing strongly, as the figures opposite show. Within total income taxes, moreover, the proportion of the total paid by private individuals as distinct from companies has also been growing strongly: in 1959-60 the personal/corporate income tax ratio was 71:29, whereas in 1976-77 it was probably about 82:18.

The reasons for this situation are not hard to find, and in recent years relate principally to the impact of strongly rising personal incomes (largely as a result of inflation) on a relatively unchanged personal income tax structure. As recently as 1967-68, the tax rate on an additional dollar of income (the marginal tax rate) earned by a married person on the average wage was 22.5 percent: in 1977-78 it is 45.5 percent. The total effective tax on company profits is difficult to determine. In part, this is because that part of company profits which is paid out as dividends is subject to both company income tax (45 percent) and personal income tax, and the latter can vary widely, of course, depending on the personal circumstances of the recipient. At the maximum, the total tax on company profits as conventionally measured can be as high as 78 percent.

On the other hand, Government tax concessions, especially export incentives, allow many companies to reduce greatly and in some cases eliminate their tax liabilities, so that overall the ratio of company tax to company income, expressed in normal terms, has been declining. But not all companies enjoy the incentives.

Another problem arises from the debate among accountants about how to measure "true" profits. The Committee of Inquiry into Inflation Accounting suggested in 1976 that conventional principles *overstated* real corporate profitability, on average, by more than 40 percent in 1975. If this is true, then the total income tax levied on the profits of many companies exceeded 100 percent of their real profits.

By contrast to high rates of income tax on individuals and company profits, indirect taxes, or taxes on *expenditure*—customs duty, sales taxes, petrol and highways taxes, beer duty, stamp duties, etc.—are relatively unimportant as a source of revenue in New Zealand. As the table indicates, their importance has declined sharply over the years. In dollar terms, indirect taxes increased more than fourfold from 1959-60 to 1976-77; but income taxes increased more than eightfold over the same period.

Taxes on wealth and property, mainly estate and gift duty, and on capital gains are of minimal importance.

It is not surprising that the effects of these tendencies in taxation have been arousing concern in many sections of the community. The concern arises

not only because of their direct financial implications for individuals and companies, but also because they are seen to affect incentives to work, save, and be enterprising, and to provoke demands for higher pay, fees, and prices. There is too little incentive to generate output and earn income, too much incentive to spend and to avoid or evade the taxes if you can. And the paradox is that the situation is little better judged against the criterion of social equity. While the tax structure is superficially very progressive (aimed to ensure that high-income earners pay not only absolutely but also proportionally more tax than low-income earners) the actual situation is probably quite different, with a progressive tax structure applying to a wide band of wage and salary earners, but substantial scope for tax avoidance available to the highest income earners and little or no tax payable by those who have substantial wealth invested in a non-income generating form.

Such a tax structure, therefore, is unattractive both from a viewpoint of economic growth and also on grounds of equity.

There has been no shortage of recommendations for change in this situation in the post-war period. However, the historical record summarised in table 11 indicates how strong the tendencies towards reliance on the present income tax structure are. The possibilities of change will be considered in chapter 4.

Many factors will influence the capacity of governments to make income tax concessions responsibly during the planning period—whether other developments require fiscal restraint or stimulus, how far they feel able politically to change the structure of taxation, and particularly, how far they are able and willing to curb the growth of public expenditure. The forces pressing for increased expenditure are strong, especially in the social services. At the same time, limited resources and projected lower rates of population growth in the planning period highlight the need for a re-evaluation of expenditure commitments.

Education . . .

Fertility trends are reducing numbers in the younger age groups. Primary school rolls will decline. However, this will not necessarily lead to corresponding reductions of expenditure. In particular, rolls in some areas will continue to grow, and their increased requirements for staff, buildings, and equipment can be only partly met by transfers from areas with declining rolls. Although the numbers of pre-schoolers are diminishing, existing policies to improve access to early childhood education will call for more expenditure, though this could be constrained to some extent by flexibility in the use of buildings, staff, and equipment under-utilised through declining primary rolls. Again, existing policies for the expansion of vocational training and community education call for extra capital and current expenditure, especially in technical institutes and community colleges. The tendency for unemployment to grow, and the need for a more active labour market policy, are likely to increase pressures for extra expenditure in these institutions and at the higher levels of the secondary schools. Moreover, the planned integration of private schools into the State system will add to existing costs.

Table 11
SOURCES OF TAX REVENUE, SELECTED YEARS
1876-1977

	Taxes on Income	Taxes on Wealth and Property	Taxes on Expenditure	Total
1875-76	0.0	0.0	100.0	100.0
1890-91	0.0	13.9	86.1	100.0
1910-11	8.1	12.6	79.3	100.0
1934-35	33.9	10.9	55.2	100.0
1947-48	52.0	5.3	42.7	100.0
1959-60	58.8	4.5	36.6	100.0
1969-70	66.0	2.5	31.5	100.0
1976-77	73.6	1.6	24.8	100.0

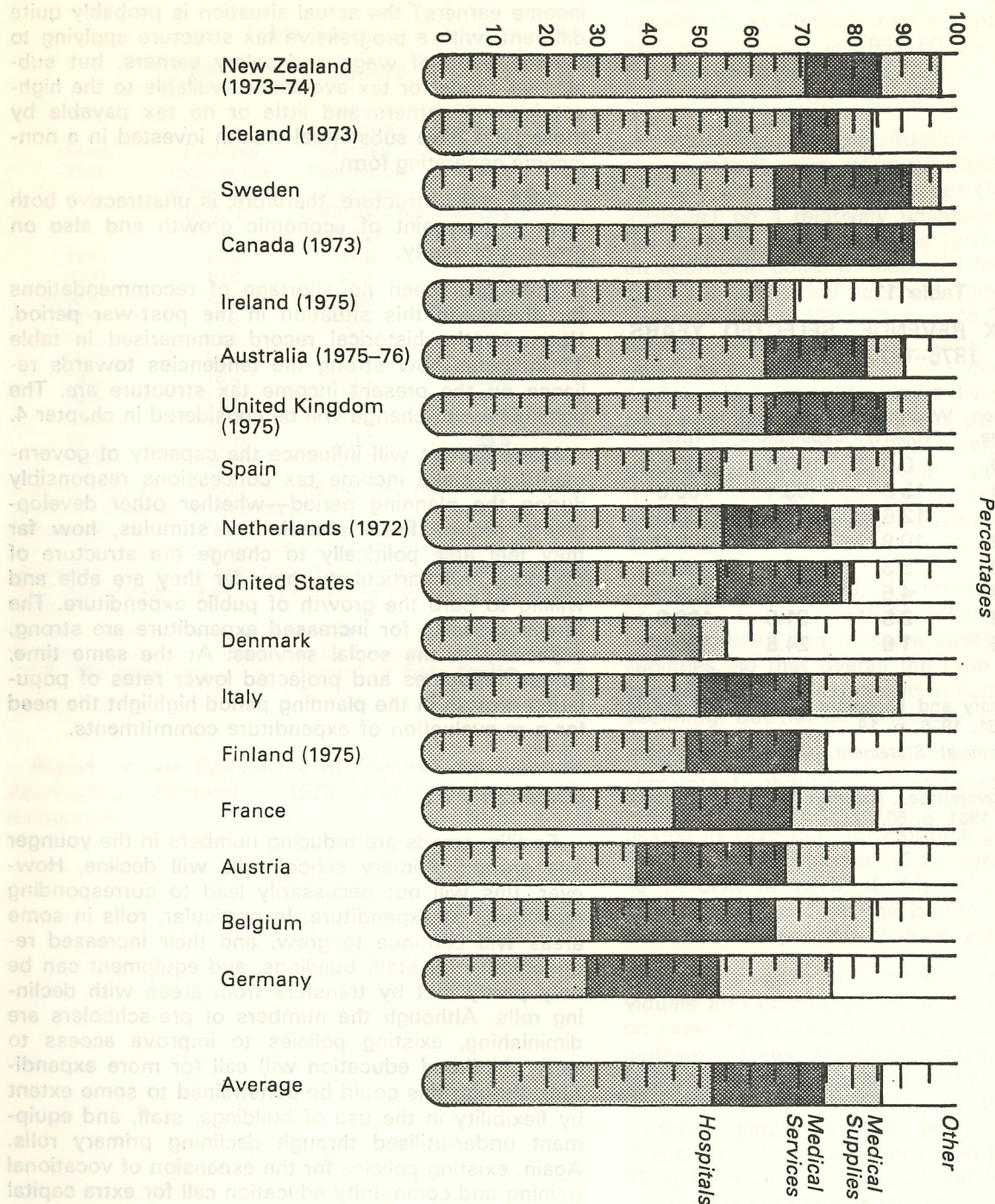
Sources:

New Zealand Monetary and Economic Council. *The Public Sector*, Report No. 31, 1976, p. 19.

Muldoon, R. D. *Financial Statement*. Government Printer, 1977. Table 3, p. 48.

Taxation Review Committee. *Taxation in New Zealand*. Government Printer, 1967, p. 55.

Figure 14
DISTRIBUTION OF PUBLIC EXPENDITURES ON HEALTH
(1974 or latest date available)



Source. OECD Observer, May 1977.

Health . . .

Developments in health are strongly influenced by trends in the provision of hospital care, which absorbs about 70 percent of government expenditure on health. Here there is already a built-in momentum as new hospitals under construction become completed and require staffing and equipment. The marked increases in the real cost of health care in recent years can be attributed to increased labour costs, the adoption of expensive technology and the expanded role of institutionalised care. While greater emphasis is being given to increasing the range of health services which people can receive outside hospitals this may not affect the growth of demands for institutional care greatly during the planning period. Thus, even without new policies, health spending is likely to grow rapidly during the planning period unless existing policies are changed.

Table 12

HEALTH EXPENDITURE

Year Ended 31 March	GNP	Public Funds		Private Funds		Total (\$ million)	GNP %
		(\$ million)	%	(\$ million)	%		
1961	2,622	101.2	77.9	28.6	22.1	129.8	5.0
1969	4,307	186.0	76.7	56.4	23.3	242.4	5.6
1974	8,593	399.2	79.0	105.9	21.0	505.1	5.9
1977	12,845	689.1	n.d.	n.d.	n.d.	n.d.	n.d.

n.d. = not determined.

Source: Department of Health, Management Services and Research Unit.

Social security . . .

The rising costs of social security benefits will continue to contribute to expanded Government expenditures in the planning period. Benefits now constitute nearly 23 percent of Government expenditure. On the basis of existing policies, the share of the total flowing to the aged and to those receiving the domestic purposes benefit seems likely to rise markedly during the planning period, while family benefits will continue to decline in relative importance.

Table 13

SOCIAL SECURITY EXPENDITURE

The following table summarises social security expenditure according to type of benefit and per head of mean population, and also relates expenditure to GNP.

Year Ended 31 March			GNP	Expenditure				Total	Per Head of Mean Population \$
				Health Benefits	Family Benefits (\$ million)	Other Benefits	National Superannua- tion		
1972	.....	.....	6,452	65.5	73.9	253.2	.....	392.6	136.59
1973	.....	.....	7,498	77.2	128.7	315.1	.....	521.0	178.02
1974	.....	.....	8,636	90.4	160.1	383.7	.....	634.3	212.45
1975	.....	.....	9,452	111.0	153.2	464.7	.....	728.9	239.23
1976	.....	.....	10,928	139.8	164.7	611.4	.....	915.9	295.73
1977	.....	.....	12,845	161.2	156.6	672.2	114.9	1,104.9	353.00
Percentage of Expenditure to GNP									
1972	.....	.....	.....	1.0	1.1	3.9	.....	6.0	.....
1973	.....	.....	.....	1.0	1.7	4.2	.....	6.9	.....
1974	.....	.....	.....	1.0	1.8	4.4	.....	7.3	.....
1975	.....	.....	.....	1.2	1.6	4.9	.....	7.7	.....
1976	.....	.....	.....	1.3	1.5	5.6	.....	8.4	.....
1977	.....	.....	.....	1.2	1.2	5.2	0.9	8.6	.....

Table derived from: *New Zealand Yearbook*, 1977, p. 149; Report of the Department of Social Welfare, 1977, p. 61; Estimates of the Expenditure of the Government of New Zealand, 1977, p. 125; *Monthly Abstract of Statistics*, November 1977, p. 65.

Despite some uncertainties, the main features of the medium-term outlook are fairly apparent. The attainment of real economic growth will depend very much on factors such as the terms of trade, which are only partly under our own influence and control. There will be a need to make a careful ordering of internal priorities and to make judgments concerning the level of overseas borrowing and of Government expenditure which can reasonably be sustained. The prospect of low economic growth will be accompanied by low growth in expenditure in these circumstances. It will be necessary to contain the growth of private consumption in order to provide the opportunities for diverting resources to export industries. In any event, the loss of skills through migration, combined with the need to find employment for a growing total work force, suggest that New Zealand will need to manage its human resources much more carefully than before.

These developments will force us to give greater consideration to the long-run effects of policies designed for short-term advantage. The increased real price of energy and the need to become less dependent on imported oil will assume a greater weight in the evaluation of new projects. Policies in the areas of housing and urban development will play a major part in determining the gains in overall efficiency which will be achieved.

Perhaps the main conclusion to be drawn from the general outlook is that, even if everything runs in New Zealand's favour, there is not much margin for insurance against future adversity, and a number of significant changes will have to be made in specific areas. From the Planning Council's point of view, the central issue is whether such changes are made as part of a broad strategy for recovery or whether we continue to "kick for touch" with separate adjustments in each sector whenever the pressure is felt. If a strategy is to be arrived at and openly accepted by New Zealanders in all walks of life, it will rest largely not on the nature of the choices which the Council's members make between the options. The Council's own preliminary view on how the strategy might be developed is set out in chapter 8.

Other expenditure . . .

Built-in commitments for extra expenditure are not confined to the social services. Deferred works and defence programmes, improvements to the police and prison services, expansion of diplomatic and trade activities overseas, for example, call for extra outlays in the early part of the planning period. The Government's net expenditure may be contained to some extent if trading departments continue to be required to set charges so that operating surpluses are generated. Nevertheless the present indications are that existing expenditure commitments will push up the total faster than the GNP for the next year or two at least.

The capital expenditures of local authorities have been under considerable constraint, especially since 1976, and some of the larger urban areas in particular have a backlog of works projects with which they are anxious to proceed. There has not been the same contraction in current expenditures, but expectations regarding standards and the services which local bodies should provide have been rising. Several of the larger city councils, for example, have felt obliged to provide social services to meet new situations and to meet needs previously seen as the responsibility of others. There is pressure upon Central Government to give local authorities access to new sources of finance. Legislation providing for the establishment of a new system of united and regional councils, and the improvement of regional planning, may also have its effects during the planning period. We consider later whether this should reduce or expand the proportion of local government expenditure to GNP.

Even this brief examination of a few components of public expenditure serves to illustrate the sizable built-in commitments from existing policies, and they will contribute to other pressures to expand the public sector. In periods of rapid change it is not unusual to find many people who expect the Government to do more. Competition between political parties also creates pressures for the extension of existing policies and for new policies.

As each category of Government expenditure is examined it is relatively easy to find reasons why built-in commitments or changed circumstances will not allow any reduction in real resources devoted to the activity in the medium term. In the major categories of expenditures—such as education, health, and the provision of social services—New Zealanders have become accustomed to continual improvements in the quantity and quality of services received. Thus the choice ahead is whether to challenge certain "sacred cows" in order to contain the share of GNP devoted to public sector activity. Forecasts of a relatively modest rate of real economic growth suggest that expenditure commitments cannot be met without further thwarting the expectations of New Zealanders for some increase in real private incomes. The share of total resources which should be committed to the public sector will thus become a major policy issue during the next 5 years.

Despite some uncertainties, the main features of the medium-term outlook are fairly apparent. The attainment of real economic growth will depend very much on factors such as the terms of trade, which are only partly under our own influence and control. There will be a need to make a careful ordering of internal priorities and to pass judgments concerning the level of overseas borrowing and of Government expenditure which can reasonably be sustained. The prospect of low economic growth will be accompanied by a low growth in population. In these circumstances there will be the need to contain the growth of private consumption in order to provide the opportunities for diverting resources to export industries. In any event, the loss of skills through migration, combined with the need to find employment for a growing total work force, suggest that New Zealand will need to manage its human resources much more carefully than before.

These developments will force us to give greater consideration to the long-run effects of policies designed for short-term advantage. The increased real price of energy, and the need to become less dependent on imported oil, will assume a greater weight in the evaluation of new projects. Policies in the areas of housing and urban development will play a major part in determining the gains in overall efficiency which will be achieved.

Perhaps the main conclusion to be drawn from the general outlook is that, even if everything runs in New Zealand's favour, there is not much margin for insurance against future adversity, and a number of significant changes will have to be made in specific areas. From the Planning Council's point of view, the central issue is whether such changes are made as part of a broader strategy for recovery or whether we continue to "kick for touch" with separate adjustments in each sector whenever the pressure is felt. If a strategy is to be arrived at, and openly accepted by New Zealanders in all walks of life, it will rest in large part on the nature of the choices which New Zealanders make between the options. The Council's own preliminary view on how the strategy might be developed is set out in chapter 6.



By courtesy of the New Zealand Herald.

FRONTING UP: THE CHOICES BEFORE US

Why do we have to choose? The chapters on stocktaking and the analysis of trends have hinted at the range of choices open to New Zealand. So far, however, the implied assumption has been that the choice will be for "more of the same" and that some of the more fundamental options may be either ignored or deferred. It is the central task of the Planning Council to establish whether we can do better and front up to some of the difficult questions.

There is no magic order in which the choices can be presented. The Council does, however, see a certain logic in asking first how we can achieve our **full potential**, both as people and as producers, without undertaking any large-scale readjustments. This set of issues will be with us whatever course the economy takes. Assuming, however, that the trends have been picked with reasonable accuracy, there is a second important set of choices which revolve around the process of **shifting resources**. Finally, allowing for the strain which any process of adjustment will impose on society and on its institutions, it is necessary to think more consciously about how one might **enlist support** for an overall approach which would put New Zealand on a new course. This is the order in which the choices will be presented in this chapter.

There is a final heading, which involves the Planning Council more directly, and this concerns the way in which planning can be used as a technique for improving New Zealand's performance in all areas. Should New Zealand aim for a more open consultative process which allows people to make a greater contribution towards the formulation of strategies for economic, social and cultural development? The Council comes down categorically in the affirmative, and would also see the question of "open planning" as a companion to "open government". Its views on these issues are set out in chapter 5. They lend immediate relevance to the wider choices presented in this chapter.

Some doubts may arise from the fact that in certain areas New Zealand may appear to be a long way from achieving any sort of broad consensus as a nation. This should not, however, blind us to the urgency of settling those issues on which we may be able to reach general agreement within the next year or two. Indeed, if this is done it might clarify the remaining choices. Consensus is catching, even though there will always be some hard-core questions on which political and other leaders have to take decisions on their own responsibility; a central element in the Council's thinking is that those decisions will be easier to take, and will be more readily implemented, if there is a clearer commitment to take all points of view into account whenever possible.

There is, in fact, more than one way ahead. Different people and different political parties may prefer various patterns of development. However, to avoid change is not an option. The adverse trends of recent years have already forced significant changes on society—derived mainly from the effort to reduce heavy over-spending of foreign exchange.

"Yes, I believe there is a Pacific way; there is a distinctive style of thinking which we can call the Pacific way of thinking. Most importantly, the Pacific way is capable of being applied to practical situations.

"The Pacific way is a way of looking at things in relation to all the facts and circumstances involved in a given situation. It is a way which takes into account not merely the legal, the political, the social, and economic aspects; it takes into account the moral, ethical, and spiritual implications and consequences of decisions. By definition, therefore, the concept of justice is built-in to the Pacific way.

"The Pacific way is concerned that 'nobody gets left out' which is another way of saying that the Pacific way cares about the individual. And if nobody is left out, this means that everybody is in—which is what democracy is all about."

Mahe Tupouniua, Director of the South Pacific Bureau for Economic Co-operation.



Sam—"The answer."

By courtesy of the New Zealand Herald.

This adjustment is by no means complete. Despite the very real possibility that standards of living will decline further in the medium term, the evidence mounts up day by day that many New Zealanders are not yet fully committed to strategies which will ensure a better performance. Nor are they aware always of the need for such strategies. This is particularly noticeable when the required changes involve the overhaul of institutions and the modification of traditional practices.

There are a number of broad social objectives to which most people would subscribe, but on occasion a balance has to be struck in favour of one objective against another. For example, one of the central dilemmas posed by economists is as follows: a strategy to seek a higher average standard of living through increased efficiency may imply greater rewards to individuals who are more productive, and this may result in a more uneven distribution of income. In the present New Zealand context, the high marginal tax rates which apply to middle-income earners and the recent steady outflow of skilled and professional people to Australia are limiting New Zealand's prospects for achieving greater efficiency and productivity in the medium term.

This is why it is important to establish objectives regarding the overall rate of economic growth and the distribution of benefits from such growth. Otherwise expectations will not adjust to the real level of economic performance—workers will seek wage increases and entrepreneurs will expect rates of profit which are only attainable in periods of greater economic expansion. Recent experience has shown how individuals and groups can become preoccupied with the goal of maintaining their own positions rather than in coming to terms with the issues facing the country.

Social Objectives

- (i) Each person has access to employment and vocational opportunities which are satisfying and within his or her capabilities.
- (ii) Each person has the maximum opportunity to be as physically and emotionally healthy and fit as his or her potential allows, and has ready and adequate access to necessary health and social welfare services.
- (iii) Each person has equal and effective access to opportunities to learn knowledge, skills and attitudes, which will enable the development of the person and of his or her contribution to the well-being of the community.
- (iv) Each person or family group is housed adequately according to their needs in keeping with currently accepted standards.
- (v) Each person does not have his or her participation and enjoyment in the community restricted by an inadequate income.
- (vi) The hazards of injury, accident and crime are kept to a minimum, and each person has adequate access to processes of law and equal rights before the law, is aware of his or her obligations under the law, and does not experience any avoidable hardship through being the victim of injury, accident or crime.
- (vii) Each person has the right to leisure and the opportunity to participate in leisure-time activities including social, intellectual, artistic, cultural and physical pursuits.
- (viii) Each person has the opportunity to participate in community decision-making and is encouraged to accept his or her responsibilities to the community.

New Zealand Social Development Council 1977.

Answers to the Moment of Truth made various points about the meat industry. It incorporates the historical dependence on one market, the effect of this (and of overseas ownership) on attempts to diversify, the lack of sufficient understanding (and suitable institutional arrangements) to guarantee good industrial relations, problems associated with changed hygiene regulations, different market specifications, and both internal and external transport costs. The Planning Council consequently decided to concentrate further attention in the agricultural sector on the meat industry as a particular case study.

(Note by Secretariat).

These problems permeate society and represent the Achilles heel of any strategy to solve our external problems by increasing exports. All those producing for export face the problem of costs and inefficiencies "upstream" in the economy (the costs of raw materials and other inputs increase the costs of production) as well as "downstream" (the cost of getting the product to market). These are costs which squeeze the exporter, but which he cannot recover from the overseas consumer. (A clear example of this can be seen in the debate about further processing in the meat industry.)

For this reason it is impossible for exporters single-handedly to help New Zealand "trade its way out" of its problems. Future strategy will have to stress greater efficiency and productivity in all sectors of the economy. Similarly, setting objectives for "growth" or "restructuring" is not a job for technocrats. There are few goals which can be achieved without the co-operation of all people in New Zealand. It may be easy to decide to grow but it is extremely difficult to connect the plan with reality.

On the basis of the analysis in chapter 3, it is clear that there is a relatively narrow range of options regarding the desirable level of growth. Zero or negative growth is not a viable option since it is unlikely that consumption patterns will change overnight, and the pressure on resources would not allow the necessary internal adjustments to take place. The level of growth which is judged to be sustainable lies between 1 percent and 3 percent per annum increase in real GNP. The implications of a choice at either end of this scale in terms of other key economic variables are set out in table 4.

The focal importance of the growth issue stems from its widespread influence across the board. The recent downturn in the economy is causing many social and economic expectations to be frustrated. The real value of the take-home pay of many people has been reduced. Government and local body expenditures have been subject to tight restraints and plans for new capital works and improved social policies have been thwarted. As we approach the various choices it must be with the clear aim of bringing social and economic aspirations into line with what New Zealand can actually achieve.

ACHIEVING OUR FULL POTENTIAL

The most important of all our resources is our people. Some would argue that they are the resources which are most under-utilised in economic terms. Others would stress the tensions in the society and within individuals which are a side-effect of economic pressure. Either way, the tendency towards confrontation and away from a measure of tolerance towards conflicting viewpoints will undermine the achievement of both economic and social goals. We have the option of letting this tendency run or taking deliberate steps to hold it in check.

Since the movement of people, both in and out, is likely to remain an important factor in developing the human potential of New Zealand, it is important to decide how far the economic requirement for skilled people can be met through immigration policies, and how far we should concentrate on making better use

"... investment in human beings is at least equal in importance to investment in capital goods. . . ."

W. B. Sutch, *Colony or Nation?* Sydney University Press, 1966, p. 146.

"People are the most important asset of any company. New Zealand must do much more to develop its people."

C. W. Mace, *Moment of Truth* reply.

of the people who are here. New Zealand cannot now count on attracting migrants in the same way as in the past because they will find better economic prospects elsewhere. Apart from selective recruitment of key personnel our choices may become, in the short run, more limited than ever before.

The emphasis, therefore, turns on the measures which will improve worker-management relations and increase rewards for skill, effort, and responsibility. There is a parallel need to build up training programmes, new job opportunities, and more flexible work patterns. Behind all such measures is the choice—which is particularly important in a time of recession—about how far the Government should be directly involved and how far the initiative can be left with the private sector.

Unemployment

This is an area where it is inevitable that the Government will become increasingly involved, at least in the short term, as the social and political costs of waiting for the economy to recover are clearly too high. There have already been pleas for an extension of the unemployment benefit to married women who are out of a job and also suggestions about Government assistance in financing redundancy payments. It can be expected that with unemployment rates well above the traditional level, public expenditure may well increase in this area and threaten the goal of holding Government spending in check.

There are, however, options about the nature of Government's role. One is for assistance to be given to those improvements which business wishes to undertake to raise efficiency and channel production to export (or reduce import costs). Government would facilitate these changes and market forces would ensure an increase in employment opportunities. Another option is to press ahead with work which has already begun on the development of a more positive labour market policy. (This would rely on making it easier for labour to move in accordance with the changing needs of the economy.) With the help of the Industrial Relations Council and the educational institutions, a package could be worked out which covered:

- measures to reduce the natural fears of workers about redundancy and unemployment;
- training (for workers and managers); and
- housing facilities (including transferable mortgages) to make it easier for those people who wish to take up new job opportunities in other centres.

The approach to unemployment and to making better use of the workforce at present in New Zealand is under any option closely bound up with the question of trade training and the acquisition of marketable skills. Employers have limited room to move when conditions are tight. This underlines the obstacles created by the present system of apprenticeship. The Vocational Training Council is in the process of reviewing the system and one option is to give urgency to the introduction of new trade training procedures.

Another approach, which could supplement all the above measures, is to plan and calculate the range of occupational skills which it is estimated the economy

"The greatest problem that has emerged . . . is the shortage, indeed the paucity of skilled people . . . even in these days of growing unemployment we cannot easily acquire additional competent staff."

A. M. Tait, Tait Electronics Ltd., *Moment of Truth* reply.

will require. This would include identification of areas where particular skills are in short supply and the mounting of special courses to meet particular requirements in industry (or the needs of the unemployed). Such planning has the advantage that it can go hand in hand with educational planning, as well as investment and development decisions (particularly at the regional level), but the numbers cannot be "fine-tuned". Indeed, the approach may not be workable given the high mobility of the New Zealand workforce, and this provides a sound argument for allocating labour through wage rates.

Choices in this general area have to be made in the full knowledge of the impact which the present employment situation is likely to have on women. Society can readily fall into the trap of assuming that the movement of women into the work force will have to be delayed until the economy improves. Similar judgments may be made about the training of Maori and Pacific Island workers. In terms of longer-term goals there is, however, only one option, namely to make objective judgments about the potential of each individual; this may mean positive measures to remove those elements of discrimination which tend, for example, to obscure the notion that a breadwinner can be female or male.

Industrial relations

This is an area in which a new look is needed at New Zealand's use of human resources. Industrial stoppages have increased in recent years, and this has meant losses in wages, productivity, and social cohesion. The Planning Council has had a special subgroup looking at the issues and will shortly issue a discussion paper under the title "Working Together Effectively".

It is inevitable that tensions should exist between sections of unions and employers, and that these will be accentuated in a period of economic downturn. The purpose of the paper will be to explore how far New Zealand might be able to develop a better way of handling such tensions; it will suggest that sensible anticipation of work-place friction can reduce the area of conflict.

Choices which could assist in creating a better climate all centre on the need for the partners in industrial relations to be much better informed. As far as the worker is concerned, the first requirement is to be able to see how the immediate job fits into the overall process. This can lead on to information about the profit and loss situation of the enterprise and about the general state of the economy. **Communication** as such is clearly a problem; good communication up and down rests in part on technique and also on time and effort. It also implies willingness on both sides; management, for example, is unlikely to communicate unless it first accepts the need for workers to know more about the economic prospects facing a firm. Workers, for their part, will only communicate when they accept that management also has a stake in their need for security in the job.

Another option to be explored is the deliberate strengthening of leadership within unions and at the personnel level of management; training for these roles could thus be part of an overall approach. More progress towards implementation of the Federation

of Labour's policy of amalgamation of unions on an industry basis should make this option easier to achieve.

Perhaps the most urgent requirement is to bring about a better understanding of the effects of inflation, which has altogether changed the industrial ball-game. It has, moreover, created a vicious circle, since attempts to combat inflation hinge on the prior commitment of all sections of the community. Irresponsible demands by unions, or an unwillingness to accept a share of the cost of fighting inflation can, however, work in the opposite direction. Such demands often spring from ignorance and for this management has to accept some responsibility.

There are wider aspects to the industrial relations issue. One is the need to look at the nature of the jobs which modern workers are required to perform in a large enterprise. Can they be adjusted to give greater satisfaction? What is the New Zealand variant on "worker-participation"? Last, but not least, there is a need to define the rule of law in relation to industrial disputes. The best legal framework is one which is not used too often because it gives pride of place to the exercise of individual responsibility.

None of these choices provides a short-term solution, but all groups in New Zealand could contribute to an improvement by using facts rather than hearsay. The return of free collective bargaining shifts much of the responsibility from the governmental machine to the parties more immediately involved.

A diverse society

Most work in New Zealand is based on the standard week of five 8-hour days. This may no longer be the appropriate pattern for all. Valid alternative choices include job-sharing and a pre-retirement reduction of the working week, which could be combined with greater involvement in community work. If room is to be made for these new patterns, employing bodies will have to be convinced of their broader advantages. It is known that there are certain costs in having a standard working pattern, e.g., in traffic congestion and peak demands for transport, and also that better utilisation of capital could be achieved through greater variation in working hours, e.g., in shift work and flexible shop trading. We do not, however, have the techniques of assessing the overall social and economic benefits of becoming much more flexible in this and other areas. A few of the benefits have become more apparent through the introduction of glide time.

Compared with some other countries in the OECD group, New Zealand has a high proportion of its male population actively engaged, but the number of women in the work force still lags behind. As noted, this calls for certain positive measures, but it also opens up the choices which society faces on whether or not to provide child-care and after-school care, as well as longer-term issues in town planning, such as the provision of jobs close to home. In employment policy, the "more flexible" options include credit for voluntary work within certain career structures and the easier availability of second-chance education for all citizens. Again the choices will be governed by the community's attitudes, and in particular whether New

"... the undervaluing of community and home experience of women bring about waste which we cannot afford..."

Committee on Women, *Moment of Truth* reply.

Zealand is committed to making the most of the untapped potential of women.

The achievement of full potential in human terms also covers broader satisfactions of a cultural, recreational, or spiritual nature. The development of New Zealand is the sum of the development of all its people, and the choice centres on whether to regard "human development" as an end in itself. If so, there will be a much greater need to accept the diversity of individuals. This opens up the whole area of options about lifestyles, and the dynamic interplay of different paths to personal and cultural development.

New Zealand society consists of a number of distinct groups which can be categorised by race, location, age, sex, and other dominant features. To meet their needs society can choose from several broad approaches. One option is to concentrate on the values of the "majority", and try to persuade the "minorities" to toe the line. A second approach is to assume that the changes in society are a passing phase, and deal with issues as they arise in the belief that they will ultimately go away. A third possibility is to use diversity as a deliberate method of improving our administrative and economic performance.

It was this last approach which led the Task Force to advance the notion of a "multicultural bias" in public affairs, and by using the Maori land issue it is possible to illustrate how this and the other options might operate. Despite the wider acceptance, for example in the revised Town and Country Planning Act, that land retains a particular significance in the Maori context, many administrative actions by central and local authorities reflect the first choice and treat land as just another commodity. Resentment among Maoris (or any citizen who feels a particular bond with a piece of land) is discounted and the main priority is given to using the land for some form of development or public works.

The second option now appears, however, to be more current in New Zealand. Issues such as the Bastion Point land dispute have been approached on a case-by-case basis and solutions worked out which attempt to accommodate the interests of tribal or other groups with a stake in the land. Implicitly, it is assumed that those not directly involved will accept that justice has been done and that the land issue will subside once all points of friction have been dealt with in this way.

The third option is virtually untested. It would rest first on making an assumption that the economic potential of Maori land is normally best attained under some form of collective ownership, e.g., incorporations or trusts. One then needs to look at the difficulties faced by such groupings when they are looking for assistance from institutions which are geared to catering for the individual owner. The "multicultural bias" would suggest that ways be found for facilitating access to finance even when blocks are in multiple ownership, particularly when the owners wish to purchase land (including land which was confiscated) to extend their operations.

In this particular instance—which is the touchstone of New Zealand's commitment to genuine racial

"Samoan is the mother tongue of many New Zealanders. . . . It seems to me most reasonable that they should communicate in their own language in any way in which other people communicate including communications by way of newspaper advertisements."

Race Relations Conciliator. Report for the Year Ended 31 March 1977. Government Printer 1977.

" . . . is that Moment of Truth seems to commend the demand management (through dampening and switching of expenditure) approach that has been adopted in the last few years. . . . It is, I suggest, unreasonable to expect worker groups to have faith in a remedy that has manifestly failed in the past."

New Zealand Public Service Association (Inc.). *Moment of Truth* reply.

"Under the choice which involves greater use of the private sector the Government's role would be to make the climate more conducive to success. There are two aspects to this: (1) educative, (2) incentives and penalties."

"On the educative aspects, the key requirement is to instil into the general New Zealand public an awareness that the state of the New Zealand economy is precarious, and that the man-hours spent now in bickering and lead-swinging must be replaced by a return to a hard day's work. This message should not be directed principally at trade unions, who traditionally have become the target for it. It should apply to all sectors of society. In particular, it is necessary to convince agriculture and industry sectors that the pursuit of overseas markets is an end in itself and not merely a side-line to domestic production. It would be different from exhortations of the customary type, since it would be addressing a radical change in the status quo."

equality—the choice of option has to take account of a factor which is less obvious in the European tradition than in the Polynesian. This is the existence of a new urban generation whose link with the land may be no more than symbolic but who, in the opinion of their elders, could be directly fortified in their own adjustment to society if there are "success stories" for them to identify with. Having pioneered the incorporations as an avenue towards increased production from the land, New Zealand now has the option of using them (and other Maori enterprises, such as co-operative light industry based on the marae) as a vehicle for long-term social goals.

As a general comment on options relating to the acceptance of diversity and flexibility in New Zealand, some emphasis needs to be given to the broader calculations of economic advantage. The long-term social costs of alienation among urban youth are accepted by most planners; less apparent are the immediate costs and inefficiencies in the delivery of health, education, and welfare services when individual members of society are unable—for whatever reason—to achieve their full human potential. In other words, economic and social goals do not diverge because both bear on the total well-being of society. It is in this light that the options in the sphere of economic management need to be assessed.

The role of the market

Once the goals of economic performance have been established the next step is to determine the mechanism through which the necessary shifts in the use of our resources will be brought about. If it is accepted that there is a need to "restructure" the economy—that is, to change what is produced, how it is produced, and who produces it—such shifts become an essential element of the strategy.

Alternative approaches to planning for changes in the structure of the economy can run along a continuum from, at the one end, a greater reliance on the market to, at the other end an emphasis on centralised direction and control. The balance between these will vary depending on community goals and objectives.

The "greater reliance on market forces" choice would allow resources to be allocated without interference in the market in cases where true competitive conditions prevailed. It would also try to increase the areas in which the market operated through the removal both of private restrictive practices and various forms of economic protection. The "more centralised direction and control" strategy, on the other hand, would lead to the establishment of a system through which Government, aided by various groups, would play a major role in steering the allocation of resources to particular sectors and projects.

The strategy of placing greater reliance on market forces does not imply unbridled producer or consumer sovereignty. Government will always need to correct distortions created by restrictive practices, and make appropriate adjustments to the distribution of income. It also protects the public interest by pursuing a range of social policies, and by ensuring that account is taken of long-term considerations and other factors which may not be given adequate weight in a market

It would be based upon a positive plan of action for the future, which of itself would merit a restoration of faith in New Zealand.

"The second governmental role would be to impose major changes in incentives and penalties. This would provide the back-up in the event that neither private sector planning nor efforts at education achieved much. Essentially the purpose would be to turn New Zealand into a much more open economy, much less protected, and egalitarian. It would make selling overseas much more profitable, selling domestically much less profitable. Consumption at home would be limited by higher sales taxes. Large devaluations would be required, plus removal of import protection and many domestic restrictions (regulations, licensing, limited shopping hours, etc.) which currently result in monopoly-type situations and high costs. Further details of such a policy could be developed once the objective was accepted. If it is argued that such a radical change involves more than it is worth, the reply is that we can hardly expect miracles of economic growth within the constraints imposed by our present system of society. On the contrary, we are headed for further reductions in our standard of living."

Lloyd White, New Zealand Ambassador in Washington, *Moment of Truth* reply.

"The mixed economy as it exists in New Zealand may be described as a market economy where markets are seldom permitted to operate efficiently together with a centrally planned economy without a central plan."

I. McLean, *Agricultural Strategies for New Zealand* (to be published by NZPC).

"The trouble really is that the process of getting approval is so tedious, time-consuming, and frustrating that few people have the tenacity to go through the whole gamut of endless committees, commissions, etc."

D. A. Patterson, National Airways Corporation, *Moment of Truth* reply.

setting. As in any mixed economy, Government is itself an important influence in the New Zealand market, e.g., through its role as provider both of goods and services and various types of welfare benefits.

It should be stressed that both the existence of a planning process and the active participation by Government in some aspects of the economy are common to the two strategies. The difference between these lies in the style and manner in which influence is exerted, and the extent to which Government makes final judgments concerning the overall goals and objectives of the society.

Under either strategy Government would need to oversee the actions of monopolies. New Zealand's small market means that some monopolies can and should exist, when economies of scale are present, in order to promote greater efficiency in some industries. Government itself acts as a monopoly element in the provision of public utilities, communication and transport services. Its pricing and investment decisions in these areas have considerable impact on private decisions.

New Zealand to date has allocated resources through a process which is a mixture of market forces and Government direction and control. Traditionally the balance has tilted towards administrative rather than market mechanisms. Incomes and pricing policies, import licensing, restrictions on the entry of firms and individuals into activities, provide a partial inventory of the tools employed by recent Governments. Even where more market-oriented methods are used, there has often been a strong preference for selective measures, many involving ad hoc decisions by officials, e.g., tax incentives, subsidies, and grants. When New Zealand has been in trouble over the balance of payments, governments generally have preferred selective methods to stimulate exports rather than more general incentives such as devaluation.

A flexible exchange rate policy can in fact be used as an illustration of an option which relies on market forces for its effect. In this case, if the trend was for overseas payments to exceed overseas receipts, the price of overseas exchange would be raised. This would mean that exchange-earners would receive more local currency for their earnings than before, while those wanting to spend overseas would pay more local currency than before. This would provide the right sort of incentives to produce more for export and economise on imports. If these factors were allowed to influence the exchange rate of the New Zealand dollar more directly there would be fairly frequent adjustments of a minor nature which would ultimately bring payments into line with receipts. Periodic adjustments of this type would not have the same sudden impact throughout the economy which are a feature (and the main drawback) of large devaluations or revaluations of the currency. The sensitivity of the New Zealand economy to trends in world markets would be that much greater and the internal adjustments would follow without the need for a complex policy of "restructuring".

Of course this assumes that other policies support the alteration of the exchange rate, and that the higher domestic costs which devaluation tends to

"... any relaxation of regulations protecting the role of railways in New Zealand would need to be accompanied by a restructuring of road user taxation to ensure that the road transport industry paid its full infrastructure costs and that the cartage rates on road reflected the true economic costs of that operation."

A. F. Stacey: *Recent Changes in the Funding of the National Roads Board*. Paper to International Road Federation Australasian Conference, Melbourne, April 1978.

"While our export earnings from manufacturing are making impressive gains, exports of primary products are still the backbone of our economy and they will continue to be so as far ahead as I or anyone else here can see."

Right Hon. R. D. Muldoon, speech opening Taihape Agricultural and Pastoral Association's Annual Show, 28 January 1978.

"However, quite clearly we have no understanding of the direct relationship between the level of the subsidy and the efficiency of fertiliser use."

Professor J. D. Stewart, Principal, Lincoln College, *Moment of Truth* reply.

cause are not permitted to generate an inflation which would dissipate the benefits. Exchange rate alteration on its own is no panacea.

Other examples of a "more market" strategy could be quoted in the area of Government pricing and tax policies. In August 1974, a graduated sales tax (related to engine size) was introduced to save fuel. Another illustration of extending the play of the market is the recent decision to move the limit for movement of goods by road from 64 kilometres to 150 kilometres. It should be noted, however, that to ensure greater competitiveness among transport modes all hidden subsidies which give preference to one particular form of transport over another would need to be removed. The trend towards greater competition in capital markets is another illustration of the "more market" approach.

The choice on the role of the market will determine how the problems of different sectors, such as manufacturing or tourism, might be tackled. If the choice is not clear-cut this will in turn confuse the choice of policies in each area. Perhaps, therefore, a major advantage of the "more market" option is that it does not divide the economy into compartments. This eliminates the need to make as many distinctions for policy purposes between farming and other forms of production for export.

Options for agriculture

The importance of maintaining farm incomes at levels which would provide farmers with the confidence to undertake development and to increase output of both traditional and non-traditional land-based products was stressed in chapter 3.

In general the "more market" approach to agriculture has a number of advantages. It would result in a progressive improvement in the position of all those who produce for export. More frequent but slight alterations to the exchange rate would reduce the need for income assistance. Many incentives to farmers and other measures could ultimately be phased out. There is scope, for example, for the reduction of subsidies on inputs such as fertilisers, on the grounds that they often lead to inefficient use of resources. The retention and further development of price stabilisation schemes is not inconsistent with this approach. There would be less monitoring and centralised direction than at present, and some resources could be diverted to raising actual production and the value of the return.

There is little evidence that central direction and control would produce a response from New Zealand farmers. In practice even a modification of central direction through selective administrative measures has a limited longer-term effect. There have already been shifts to relate incentives more closely to actual increases in production, as in the Livestock Incentive Scheme the impact of which, however, appears to be diminishing.

An additional weakness of intervention of this type is that it does nothing to increase the response of New Zealand agriculture to shifts in external demand. If further barriers to trade are created in overseas markets, the farmer needs to decide now to shift pro-

"Of course, it is possible to devise subsidy systems which only reward those farmers who do increase production, of the same sort as those at present paid to manufacturing exporters. But a fatal objection to such arrangements is that they would fail to reward those farmers who have already developed their production to peak level and who technically and economically could not press further ahead. The danger is that such farmers in conditions of income erosion due to inflation may be tempted to reduce production perhaps by moving to less intensive lower cost production methods. Such a tendency has possibly been evidenced over the last few years in New Zealand agriculture and it is the very reverse of what we want.

"The proposed productivity related subsidy/tax is one way of meeting these objections by providing support only for those who need it or who will respond to it by raising production or maintaining high production."

B. P. Philpott, *A Productivity Subsidy/Tax to Raise Production and Stabilise Income in Agriculture*. Project on Economic Planning, Victoria University of Wellington, May 1976.

"Current agronomy research with new pasture species, and with stock bred for high genetic merit indicate a further 50 percent increase in output should be technically feasible. Given the essential technical input and other resources there seems no reason why hill country should not be just as productive, or more so because of better rainfall patterns, than much of the flat and rolling land."

G. K. Hight, in *Review of the Farm Industry*. Advisory Services Division, Ministry of Agriculture and Fisheries. March 1976.

"The marketing concept is an approach to business that involves a customer orientation, backed by integrated marketing, aimed at generating customer satisfaction . . . our important exporting operations are some way off achieving that particular approach to our business, and that's rather sad."

Professor Wayne Cartwright, *Organisation for Growth in Agriculture*. Proceedings of Agricultural Policy Seminar, November 1976, Massey University.

"The arbitrary and historical division between agriculture and industry has been of no assistance in the development of new products and/of markets in agriculture."

Sir William Dunlop, *Moment of Truth* reply.

"I am as firmly as ever convinced that the return to affluence as we have known it will only come through the rapid expansion of export-led manufacturing and processing—not to the detriment of farming, but in addition to an increased volume of farm exports, and particularly by the efficient production of a great variety of products made from what we are able to extract from the soil."

F. Turnovsky, *The Role of Manufacturing in Development and Exports*. Proceedings of Agricultural Policy Seminar No. 3, Vol. 1. November 1977, Massey University.

duction to fit in with the requirements of those markets which are more promising. Even under the "selective intervention" approach, however, there are ways of moving towards a "more market" oriented approach. One possibility is to change taxation policies so that there is an increased differential in rewards between those farms which, with similar soils and climate, show wide variations in productivity.

The farm sector as a whole does not pay a large amount of income tax (typically about \$170 million a year). However, under the present system of income tax, it appears that many farmers do not undertake farm development because of insufficient after-tax returns. An alternative to income tax would be a tax based on the land value of a farm (often called a factor tax) although this might have administrative difficulties. Since it would not depend on how much was earned in a particular year, such a tax would reward those farmers who are more efficient. Adjustments could be made in years when there were sharp increases in either prices or costs, but the spur to increased production would be constant.

Another way to increase production is to step up the development of new farms (particularly in the hill country, which is estimated to be capable of carrying 50 percent more livestock than at present). This could be done both by the Government and by private interests. A method of achieving this would be to help young farmers with good management records (and a strong incentive to increase output) to get on to their first farm. Facilities for funding development, improvements in stabilisation schemes, and management advisory services are other avenues which could stimulate increased agricultural production.

Whatever the level of production in future years, a major option for New Zealand is to **concentrate on winning a greater value for each unit of agricultural produce**. The main way in which this could be done is through efficient processing and the infusion of a professional marketing philosophy through all links of the production chain and therefore involve a closer investigation of what the consumer wants and is prepared to pay for. The arguments for this have been well rehearsed. The marketing strategies for New Zealand's agricultural products need to be more consumer-oriented. A "cheap food" approach will not see New Zealand agriculture through another century.

Towards a broader trade and marketing strategy

The central role of agriculture should not be allowed to obscure the growing interdependence of all sectors of the economy. It may be timely for New Zealand to start thinking of "land-based production", and the "food" or "fibre" industries, in order to remove the idea of conflict between different parts of the export effort. Moreover, the marketing aspect shows how the future of farming is linked with the question of further processing. Here the same criteria will apply whether the product is farm-based or manufactured.

The common factor is that the growth of non-traditional exports will depend on the capacity of New Zealand enterprises to identify the requirements

"One could predict that Australia will be as important to New Zealand in the future as any other single country . . . The structure of our national interests is very distinct, we are not another Tasmania, and there may be areas in which the two societies develop along different lines. Australia for its part may prefer us to be subdued and take a lead from Canberra. Our influence in the South Pacific does however enable us to point out that it is in Australia's interest for New Zealand to contribute to development and security in the immediate vicinity. It is also in Australia's interest to see a healthy economy in New Zealand, which is her main market for manufacturers, so we need not hesitate to claim the benefits of improved trading conditions under NAFTA and other forms of economic advantage."

New Zealand at the Turning Point, p. 166, December 1976.

of particular markets and then to deliver, at a competitive price, an article or service acceptable to the overseas customer. The battery of incentives and trade promotion activity has not produced sufficient emphasis on the consumer's need. It can be argued that a reduction of controls and regulations would in turn allow the exporter to expend more effort on marketing.

This process, including the gathering and dissemination of market intelligence would, under any option, continue to be basically a private enterprise operation. The advantages of exporters working together in product groups and in particular markets could be exploited. The potential of horticulture may well repay an "integrated" approach in the collection and dissemination of market intelligence.

In theory, however, one possible change would be for trade promotion overseas to be handled entirely by the private sector. Government representatives would then concentrate on dealings with official agencies. In practice, this would not eliminate the need for on-the-spot assistance for New Zealand exporters, whether through the existing trade commissioner service or through some alternative of the "export court" variety. Smaller companies require access to market intelligence, transport and storage, while larger companies need a steer in new markets with different ways of doing business, such as the Middle East and Eastern Europe.

Any variant of the marketing approach will need to link with a trade strategy which aims to win better access. Here the options are limited by the policies of other governments, and the question is one of emphasis and direction. Should new opportunities be pursued throughout the world, at the possible expense of our efforts to retain access in markets such as the EEC? How far will access questions become linked with other political factors? It was suggested in chapter 2 that this tendency would be more marked in areas for future expansion, such as the Pacific Basin and the developing world generally.

An outstanding example is the Australian market, which for a period was successfully tackled within the limited framework of NAFTA, but where New Zealand exporters now face a serious set of problems. Clearly, a breakthrough in such a major market could increase net overseas earnings. New Zealand has in any event the problem of deciding how to deal with the stalemate that has arisen over NAFTA. One approach would be to see the medium term simply as a holding period, i.e., until the Australian economy improves. Another option is to use the present difficulties which both countries face as an opening to propose more far-reaching solutions.

One formula would be for the two countries to eliminate progressively over a 10- to 15-year period most barriers of trade between them. A list of exceptions may be necessary to cope with special cases but the aim would be to move to a full free trade area, customs union, or broader form of economic integration. This would have to rest on a recognition at the political level that it is in neither country's interest to drift further apart, and that New Zealand has an important role to play in that part of the world which is also Australia's prime area of concern.

"In the structural changes now required, rapid development of an export-oriented, profitable, efficient, and internationally competitive industrial sector can make a crucial contribution to the fulfillment of New Zealand's social, cultural, and economic goals."

New Zealand at the Turning Point, p. 310, December 1976.

"Tourism can be a valuable asset to any country; its advantages should be social, financial, and physical. Carefully planned tourism can afford an opportunity for meaningful contact between peoples, enriching the experience of both the tourist and the local inhabitant. It can contribute an added incentive to appreciation and conservation of the physical environment. It can constitute a source of foreign exchange."

Commission for the Environment Newsletter, January 1978.

Any move towards Australia would probably need, from the point of view of both partners, to include a reassessment of trade relations with other neighbouring markets, e.g., the South Pacific and the ASEAN countries. Both areas hold great promise for the export of goods and services, and for the private sector the challenge will be to combine the marketing effort with careful attention to the political concept of "partnership". For such countries, New Zealand's acceptability as a source of supply is likely to be directly influenced by our willingness to provide better access.

This leads back to the options open to New Zealand on the degree of protection it affords to its own industry. Greater reliance on a less discriminating tariff and the flexible use of exchange rates would be at the "more market" end of the methods available, the extensive use of selective import controls at the other. Similarly, a shift to greater use of the tariff could be part of a "more market" approach. Whatever choice is made on protection, it would be a major objective to ensure that the adjustment process did not cut across strategies on regional development and priorities in the social area, such as full employment.

Other choices lie in the services sector, which can also contribute to exchange-earning and saving. Consultancies and expert services can be seen as part of the export effort. A sector such as tourism brings in significant funds, even though the pace of growth has slackened since the 1973-75 boom. Like any other part of the economy it could benefit from a clarification of the options which are appropriate in the New Zealand setting.

In the first place, the "more market" approach could be used to remove regulations and controls, e.g., on room tariffs. There could also be a recognition of the need to provide family-type accommodation in the lower cost bracket (to allow New Zealanders the opportunities of choice in holidays here). The broad question would be whether to concentrate within the "more market" approach for the Australian and New Zealand holidaymaker, or whether to envisage large numbers of visitors from further afield.

This is linked to the choices which need to be made about the type of tourist facility which is needed, and the degree to which the industry plays a role in regional development and in support of New Zealand's cultural development. For example, the development of high price enclaves can draw criticism of "trampling" on local values and of isolation from the local people in the area in which the resorts are located.

Whichever choice is made, it is clear that the careful planning of tourist development at both the national and regional level can fit into the "integrated" view of planning which is reflected elsewhere in this document.

THE SWITCHING OF RESOURCES

Since the achievement of full potential in New Zealand's present circumstances goes hand-in-hand with the reallocation of resources, there is a further set of choices to be made about the techniques which could

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R. Rose and B. Peters, *The Political Consequences of Economic Overload*. Studies in Public Policy No. 4, University of Strathclyde, Glasgow, 1977.

R. Bacon and W. Eltis, *Britain's Economic Problem: Too Few Producers*. Macmillan Press Ltd., 1976.

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be used to encourage such shifts. Just as the above options revolve around the role which is to be given to the market, the central choice in the "restructuring" process is the degree to which the public sector will actually release resources in order to spearhead the necessary changes. If it does not, and if the public sector maintains or increases its share of GNP, there is a supplementary issue about flexibility within the public sector to meet changes which are part of the adaptation of the New Zealand economy to the circumstances outlined in chapter 3.

Overload and the public sector

New Zealand has experienced a period during which the public sector (the term includes both central and local government, hospital and education boards, and the whole apparatus of publicly-funded organisations) has been the dominant influence on the economic and social fabric of the country. Apart from its role in the market, which has already been commented upon, the Government has traditionally assumed a central role in social policy.

Along with a number of Western countries with a similar administrative tradition, New Zealand has seen the public sector grow in response to a number of pressures. Ultimately, the commitments of central and local government take such a large proportion of any growth achieved in the economy that there may be no significant increase in the share of resources available to the private sector. If the public sector takes the first slice of increases in national product, then individuals become frustrated as there is little remaining from which to provide a real increase in their take-home pay. This problem becomes more acute in periods of relatively low growth, during which many New Zealanders have experienced a drop in living standards.

Political and economic commentators now regard the problem as a crucial issue for a number of countries. They have described the total effect as "overload", and the analogy with an electrical circuit which can no longer carry out its proper function is an apt one. The fact is that a great deal of public sector expenditure is made up of commitments which are built into the structure of Government and the functions which it is expected by most citizens to perform. To this must be added the need for each newly-elected government to implement policy commitments, and it will be seen that the dilemma of overload will not be resolved without extensive changes both in the administrative structure and in the expectations of the public (and politicians) place in the system and its capacity to deliver.

Overload is also difficult to deal with because many of the effects are hidden. In a period of high inflation—during which there has been no adjustment to the tax structure—middle-income people quickly move to the rate of tax originally set for the high-income bracket. The increase in total tax thus enables governments to finance growing expenditure out of this automatic growth in revenue. Moreover, there are social implications, since overload inevitably creates strains between the Government and the governed. This can be manifested in acts of tax evasion, a growing civil indifference to political authority, and finally

"We see the primary school as a focal point for the development of small community groups . . . we see parents and other adults from a neighbourhood coming together . . . sharing ideas, ideals, and skills . . . there are opportunities for wider horizons for children and helpers and a feeling of being a vital part of their own neighbourhood . . . we are being introduced to a wider range of resources, beginning with the network of relationships . . ."

Working Party on Recreation and Out of School Programmes.
Paper presented to "Leisure 77", National Seminar, Wellington,
November 1977.

disobedience. The early signs of such strains may already be apparent in New Zealand, for example, the tendency to use devices such as working for "mates rates" or requesting payment in cash for incidental services. These practices are ways of avoiding paying additional taxes.

What does this mean for the options in the public sector? First, the overall growth in the economy will dictate the rate at which public policies can be augmented without the danger of overload. Secondly, whatever the growth rate there is a need to divert more resources into exporting and attempts to "trade out" of present difficulties will impose a lower growth rate on the public sector spending. Thirdly, since new pressures will be felt in a period of readjustment, especially if unemployment is high, the public sector spending must be cut back in some areas so that it can grow in others.

As far as the containment of public spending is concerned, new procedures have been introduced in the last 2 years to check all estimates of expenditure more rigorously. New techniques are also being used to ensure that public resources are used more efficiently. Overload will no doubt lead to further scrutiny of the use of capital by the public sector (e.g., in providing public services such as transport). One option which is already apparent from a number of policy discussions is to move the emphasis in the public sector away from high capital and high technology towards the use and motivation of people to achieve given goals, particularly in the social area.

If it is realistic to assume that public sector growth will be at 2½ percent per annum (or less) in the medium term the next step is to look at the implications of this for education, health, and welfare. Not only are these areas of high spending, but they are also subject to the many pressures which flow from social change. An overriding issue is to consider whether efforts to contain spending on institutions (e.g., on buildings, staff, and hardware) will, in fact, lead to reductions in the real level of education/health/welfare services enjoyed by the community. The Council therefore intends to do further work in this general area.

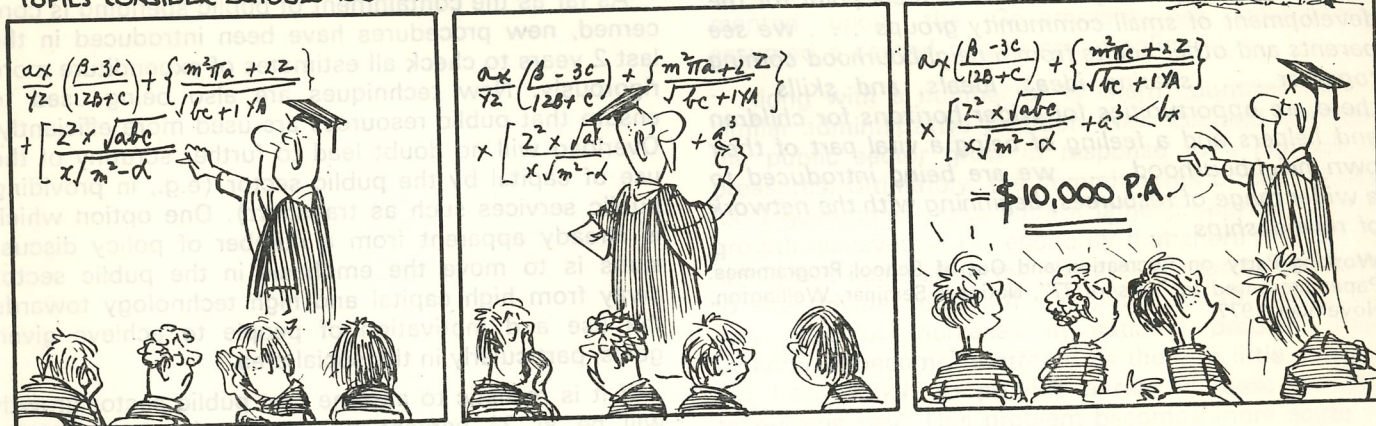
Education

It has been noted that the built-in growth in spending on education is high. Since the Educational Development Conference in 1974, annual increases have been more than 5 percent in real terms, although this may slow down in the short term. The questions which need to be asked are whether some aspects of education spending can be curtailed to make room for expansion of other programmes, e.g., in vocational training and retraining. The following options for reducing spending could be explored:

- a restriction on school building programmes, in view of the fact that primary school roll numbers are falling and secondary rolls are reasonably stable;
- more comprehensive use of existing educational buildings and equipment, e.g., by setting aside unused primary school facilities for pre-school education or by training social workers and librarians in teachers colleges;

- a reduction in the pre-service training period for teachers (perhaps substituting compulsory training in mid-career);
- the substitution of the standard tertiary bursary instead of student allowances (and bonding) for those at teachers college;
- a more critical look at expenditure on university education, including whether bursary assistance should be on a loan rather than a grant basis, and the scope for integrating the use of university staff and facilities into research, and continuing education activities that are important to national development;
- more extensive use for training purposes of existing extramural and correspondence facilities.

"PUPILS CONSIDER SCHOOLS TOO ACADEMIC WHEN IT COMES TO PREPARING THEM FOR A JOB" — NEWS



Sam—"The Answer."

By courtesy of the New Zealand Herald.

Health

In considering the development of health care in the period ahead one question is whether health expenditure should be expected to come down as a proportion of GNP. Alternatively, commitments and needs in this area may be such that health expenditure should be allowed to rise broadly in line with GNP. The third option is to permit expenditure on health care to continue to increase faster than GNP. To assist the consideration of these options, the Council has had consultations with a number of people and has found wide agreement (inside and outside government) on the following principles:

- that in the delivery of health services increased emphasis should continue to be placed on health education, health promotion, and the prevention of disease and accidents;
- that more emphasis should be placed on the development of public health services, such as occupational health and environmental protection;
- that policy should continue to move towards the provision of community-based services, including voluntary services, and away from hospital-based services (note: hospital boards are themselves able to participate in this movement).

Welfare

The rising level of expenditure on transfer payments to the aged and other beneficiaries obviously poses difficulties for a policy of constraining the ratio of Government expenditure to GNP. The related issues of income maintenance and guaranteed family income are discussed in the context of tax options (page 73). There will be continuing debate about the broad tax/transfer system. Both Government and the Opposition are committed to the continuation of the national superannuation scheme and in a period of severe restraint on public spending any government will need to decide whether further modifications are desirable to any element of the transfer system. At the present stage, however, the options all hinge on whether the system is considered to apply the right pattern of payments to the various beneficiaries.

Housing

This is an area in which real shifts of resources are possible. It has been seen that flexibility should apply in planning where we live and work. There is increasing evidence, for example, that the basic suburban house does not meet the needs of an extended family or the elderly. While standards for housing development can have the advantage of reducing costs and simplifying supply, some are in excess of minimum health and safety requirements. Although ostensibly promoting the public interest, some standards and other codes in fact narrow the options both on housing types and urban development generally. One alternative is to allow more room for variations which reflect local conditions (e.g., for heat insulation) and individual housing preferences.

The existing stock of houses is a resource which is not fully utilised. Young families find it hard to finance older properties and this does not help potential sellers who want a smaller dwelling. Young families are generally compelled to move to new subdivisions while older people are left with large houses which become a burden both physically and financially. This situation could be eased by removing entirely the "new house" lending condition. Another option is the encouragement of housing construction methods which enable rooms to be added or subtracted from a house as accommodation needs change. This last concept has considerable application for the "extended family".

The availability of housing could become an important aspect of regional development policies, since housing is a means of attracting both firms and workers. It must, however, be considered very early in the planning sequence. The Government role in housing could concentrate on this and other aspects, such as research and experimentation with new designs, particularly with "low energy" specifications, and the re-evaluation of land development and building standards, with the aim of reducing resource wastage and increasing the range of housing options.

Regional options

This area, encompassing the topics of regional planning, regional government, and regional development, has been examined by a Steering Committee of the Council in order to assess how far the regional approach could be used to achieve a more efficient use

"Upwards of 40 000 households would consider moving into smaller dwellings if the market were to facilitate this."

Supplied by National Housing Commission, 1978.

"The key feature of the next decade's economic development will be regionalism."

Rt. Hon. W. E. Rowling. Speech to Wellington Jaycees, 8 November 1977.

"A wider, resource-based, regional development programme will mean regions will be able to assume greater responsibility for development of their own resources."

Hon. George F. Gair. Speech to Southland Progress League, Invercargill, 17 November 1977.

Task Force on Economic and Social Planning. "The Regional Setting", chapter IV, *New Zealand at the Turning Point*. December 1976.

"As regards climate and geographical features—our diversity is astonishing. As regards social and political attitudes, however, our regional diversity is minimal. Socially most New Zealanders are equally at home in Kaitia or Invercargill. They drive the same cars, drink the same beer, shop at similar supermarkets, eat the same prepared foods, take home similar wage packets, go to like schools, live in similar houses—adjusted for climate, bet at the TAB, see the same TV channels and listen to similar radio programmes, benefit from a national electricity grid, a national airways system, a national railway system and a national roading system all of which are used extensively to supply the citizen with the means for mobility which makes a mockery of the concept of regional social uniqueness"

S. J. Callahan, Director-General of Social Welfare; *Regional Options* reply.

"Different regions may well have different needs and different resources (including different stocks of buildings and equipment), so their justifiable priorities may well be different."

"But more than that: even where the problems are in common, I question the tactic of shepherding the various regional authorities towards a uniform solution."

Prof. R. H. Brookes, Victoria University of Wellington. Letter to NZPC.

"It seems even clearer now that essential, complex, and expensive functions such as electricity supply, civil defence, land-use planning, water planning, or health services can only be carried out effectively on the basis of administrative units of some size . . . sound regional organisation is more likely to provide an effective channel for local ideas to the centre and more effective machinery for carrying out worthwhile ideas from the centre and in fact for implementing national objectives."

New Zealand Electricity Department, *Regional Options* reply.

"Certain functions, e.g., transport, education, health, and to a lesser extent, social services, are national concerns and should properly be left as responsibilities of Central Government."

Manawatu Catchment Board. *Regional Options* reply.

of New Zealand's resources. A related question is the degree to which the functions of Central Government might be modified over a period of time so that more activity is "decentralised" or "delegated" to the regional level. If this is to be achieved efficiently then there may well be a need for modifications to existing structures and procedures for allocating financial resources so as to allow the greater determination of priorities in a regional setting.

Recent legislative changes in both the Town and Country Planning Act and the Local Government Act and modifications to the Regional Development Programme show that a co-ordinated regional policy is still in the process of evolution. Regional development assistance which has traditionally provided incentives for manufacturers in "slow growth" areas, has recently been extended to cover other resource based activities. Both the Task Force report and the Steering Committee have drawn attention to the need to include both "fast" and "slow-growing" regions in any strategy for regional development.

Greater attention to regional planning and development will require a knowledge of regional resources. A number of regional resource surveys have already been drawn up and these have served to highlight the diversity between regions and subregions. Active recognition of these variations could open the way to a greater choice in development patterns and in lifestyles—ethnic composition is, for example, one significant aspect of regional diversity. Greater regional variations could produce substantial economic and social benefits and facilitate the better use of all resources.

In the context of overload, it is quite apparent that a more positive use of the regional focus would reduce the number of decisions which have to be taken to Wellington. Greater efficiency in the public sector could be promoted through closer co-ordination of the delivery of Government services with the planned use of local amenities, in consultation with the people who know the needs of the "clients". The argument is, however, likely to centre on the degree to which central powers can be genuinely delegated (which is partly a question of administrative practice and technique). Possibilities include the decentralisation of certain social services (in particular where the emphasis is shifting to the "community"), roading, public transport, utilities, housing (bringing in the link with job opportunities), library services, and the planning for small-scale energy developments and energy distribution, among many others.

The regional concept, when seen in terms of regional government, is often considered to be a threat to local and ad hoc authorities. If, however, it can be used to link physical and social planning and development, the conflict disappears. One option therefore is to build the regional framework for "planning and development" around functions rather than structures. This would include the possibility that the functions would vary from region to region (and that the administrative and other arrangements could be varied to suit the needs of different regions). This is important because Government departments and other bodies do not yet have a standard "regional structure".

Within overall objectives for national development, the question is whether local people should have the opportunity to influence a region's pattern of development in a direction which might be different from the centrally-designed "single model" solution. **Whatever choices are finally made, there is a prior need for Central Government to improve its machinery for co-ordinating the various aspects of regional policy which sooner or later have to be implemented at the regional level.**

As far as the format of regional government is concerned, existing legislation links the regional planning function with the choice between Regional or United Councils. The former are directly elected (through something akin to a ward system) while the latter are appointed from local authorities (each of which has an equal voice and right of veto). Only the Regional Council has its own rating powers. Planning as such is clearly most effective when it is carried out by a body which is constitutionally representative and financially accountable. In other words, a Regional Council can in theory both plan and implement its policies better than a United Council.

A decision to move in the "Regional Council" direction need not cut across the aims of local bodies. The Municipal and Counties Associations are agreed that regional groupings are desirable to provide a link with Central Government and to act as co-ordinators for development. There is a general acceptance that local government can indeed be strengthened by amalgamating smaller units. Another avenue is to encourage a balance of skills and capability through an integrated career "civil service"—covering all bodies which are financed by public funds and by providing access for local authorities to Central Government facilities (computers, specialised services and information).

As far as finance is concerned, the issues are clear enough. A recent report by the Local Authority Finance Committee explores the options by which local and regional governments could have greater influence. It suggests a shift from specific purpose grants to general grants. At present, virtually all grants to local authorities are of the former variety, that is they are tied to a given project (water and sewerage schemes, roading, etc.). One option is to make greater use of general (untied) grants but make them conditional on the formation of an accountable structure at the regional level (Regional Council or others). If this is not considered to provide sufficient financial accountability then it will be necessary to have a hard look at options for regional revenues.

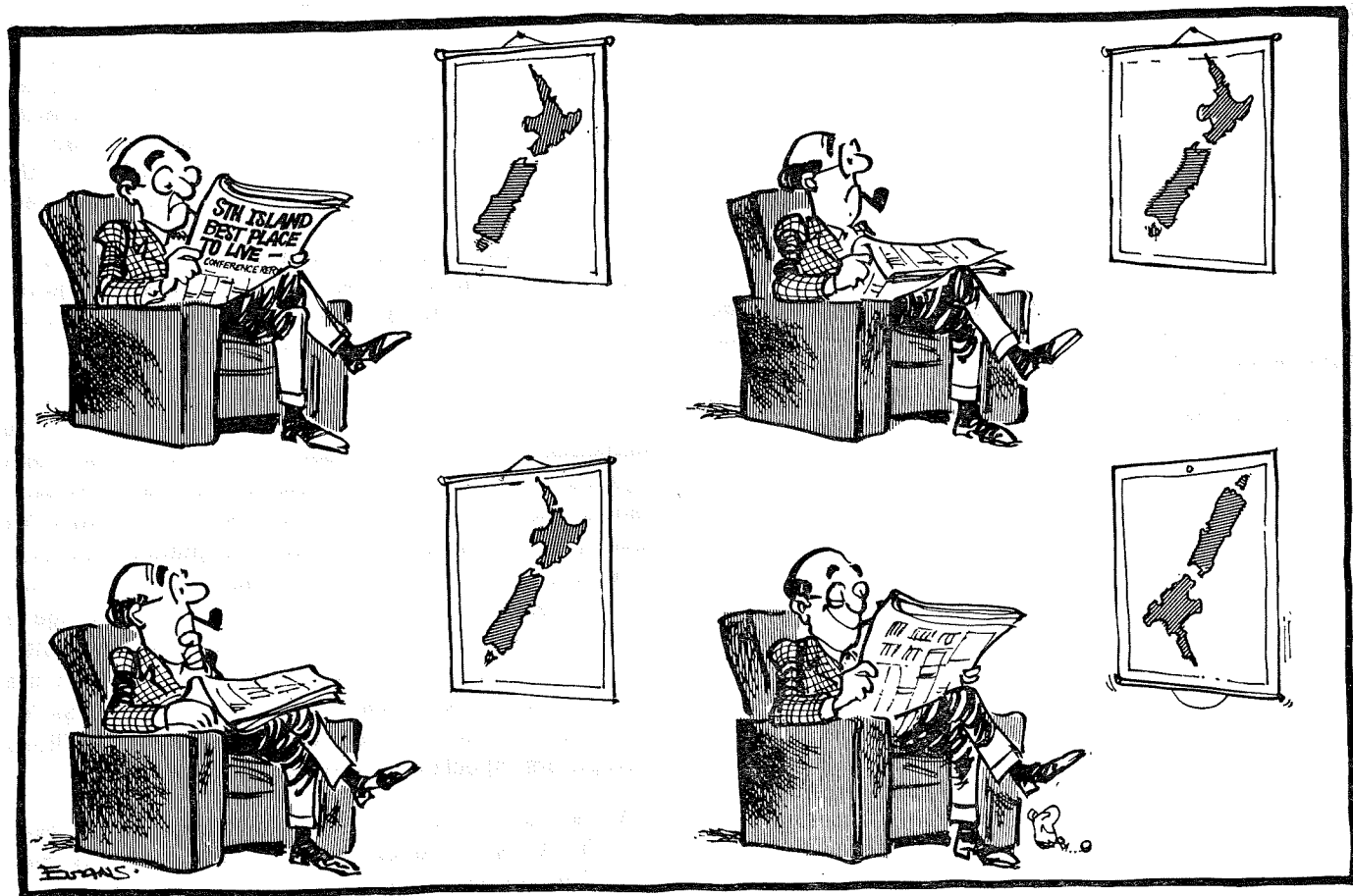
The conclusion to be drawn is that organisational and financial responsibility must go hand in hand. There are dangers of creating another layer of government with insufficient powers or resources to accomplish the gains in efficiency which are inherent in the regional option. The need remains for New Zealand to decide on the choice which preserves the important principle of financial accountability, while lending support to objectives regarding regional development.

"To be most effective the regional body should be a directly elected body so an independent stance on regional matters can be made."

Director of Water and Soil Conservation. Paper presented to New Zealand Planning Institute Conference 1977.

"The Government should use every endeavour to reduce taxation and, instead of subsidising and endowing local bodies, the local bodies may thus be enabled to tax themselves for their local requirements."

Manawatu and Rangitikei County Council resolution 1881, in K. Gregory, *Land of Streams*, Waimea County Council, p. 23.



"Regional options."

By courtesy of the New Zealand Herald.

"The strongest argument of all in favour of extensions to regional government is the one that emphasises the need for a regional forum that requires all the potential relevant decision-makers to sit around a common table and speak a common language: the esperanto of consensus and co-operation."

"The alternative is a continuation of the adversary battleground where the Town and Country Planning Appeal Board is called upon again and again to resolve problems that should not have arisen and to untangle webs that should not have been woven."

J. R. Dart, Editorial, *Town Planning Quarterly*, 47, 1977.

"The arguments at Pureora, Okarito, and elsewhere are not whether complete preservation or total destruction shall prevail, although this may be generally and purposefully implied."

"The choice is between complete preservation on the one hand and the existing policy on the other—which is to select and preserve a set of reserves of all the more important types of forest and associated wildlife and to carefully and selectively cut a portion of the timber in remaining forests."

A. Kirkland, Assistant Director-General of Forests; in *Evening Post*, 30 January 1978.

"The turbulence about the energy and environment situation can be a blessing rather than a curse if it highlights the question 'what future do we want?' The way in which energy and environment issues are dealt with today will be a major factor in shaping the future."

Dr R. W. Durie, Visiting Senior Fellow.
Commission for the Environment.

"If proposed reserves are set aside . . . and selective felling . . . practised, the life of the resource . . . will drop from 50 years to about 15 [that is] 5–10 years before significant quantities of exotic softwoods become available and continuity of softwood sawmilling would not be possible . . . Eventually one or more of the options must be chosen (by Government) as a basis for a revised West Coast forestry policy."

A. Kirkland, Assistant Director-General of Forests; Introductory Statement for the Seminar on the Future of the West Coast Forestry and Forest Industries, Hokitika, June 1977.

Any decision designed to achieve greater potential or shift resources to a more efficient pattern of use will fail unless there is open acceptance of it, both among the public and the various cogs of the administrative machine. The regional option, provided it is used to bring real decisions closer to the people who are affected (and have to pay), is one avenue for enlisting greater support than is possible under New Zealand's present system. But there are other important areas in which a deliberate choice to go one way or another will have a direct bearing on public support for new strategies. Two of these have been singled out for special attention by the Council at this stage; one is the question of resource management, which covers the choices on "environmental policy", and the other is a possible review of the tax structure and the options in the income maintenance area.

Resource management

Part of the argument which is used to support the regional approach is the claim that by shifting resource management from the centre it will be easier to arrive at the best use of land, sea, and other resources. The catalogue would cover both human and physical resources, including items such as mountains and the coastline which can be classified as environmental assets, as well as wildlife and the absence of pollution. It should be easier to avoid the sort of breakdown which often arises at the central government level if, within broad guidelines from Wellington and the active participation of departmental experts, planning at the regional level were used more extensively to reconcile the inevitable conflicts which arise.

This is not however the main issue as far as the "environment" is concerned. Given the pattern of pressure on natural resources outlined in chapter 3, and the emphasis on this area which has emerged as part of the discussion of energy options, it is clear that New Zealand has to make a judgment about how to use its natural resources. If the level of desired use is "sustainable" and does not alter delicate ecological balances, there is no problem. But if the desire to increase production or consumption goes beyond what is "sustainable", then it immediately becomes necessary to weigh the short-term economic advantage against the long-term costs of depleting a resource or damaging the environment.

Seen in this light, the "environmental issue" is not about leaving resources untouched. Even at the zero-growth, low consumption end of the continuum of economic options, some resources are needed to sustain human life. The question is whether the managed use of these resources strikes a balance between man's activities and his physical environment.

One sequence to arrive at a balance would be as follows; first, collect resource data, including landscape inventories, identification of ecologically sensitive areas, and social and economic information. The data would then be assessed against possible uses, including non-use, and considered against local, regional, and national priorities and environmental guidelines. A series of possible options for future resource use within the area (whether it is for land, water, or coal, etc.) could then be identified (including the consequences of particular options).

R. G. Norman, Assistant Commissioner of Works. Address to New Zealand Administrative Staff College, October 1977.

The inevitable result of conflict in any form is to put up the cost. If information comes in too late to change a design scheme, and this can happen under "impact" reporting, the need to make changes later creates added expense. The alternative is to reconcile as many conflicts as possible in the earliest stages of planning and avoid the friction which "protest" can create later on. This area has become a sensitive one for many citizens and it is important, in order to win support and commitment for any option for economic growth, that procedures be adjusted to meet this need.

Public attitudes, and therefore the support for innovation and change, are directly influenced by the level of tax exacted by the state, and by the level of benefits (for unemployment, sickness, etc.) paid by the State. In chapter 3, a number of deficiencies in the current tax system were identified as having a detrimental influence on both efficiency and equity. The high marginal rates of tax, payable even at quite low levels of income, were of particular concern. This area has been investigated on behalf of the Council by a small working group on income maintenance. Several options came out of this study which can be considered as means of reducing some of the deficiencies.

The tax-take in cents per dollar through all income levels could be reduced, and the rise in the rate of tax which accompanies an increase in income could also be reduced, if some or all of the lost tax could be collected in other ways. Some means of achieving this would be through the taxation of fringe benefits and capital gains (arising from the sale of assets). Other means would be through the reduction or elimination of the personal tax rebate, and the removal of other deductions, e.g., the exemptions which apply to interest earnings. (Some of these measures would however reduce existing incentives to save and invest.)

Direct taxes are those levied on persons and companies while indirect taxes are levied on transactions of some kind. Thus taxes on income and the ownership of property are direct taxes while sales taxes (whether levied at the wholesale or retail levels) and stamp duties are examples of indirect taxes. (Other examples would be an import surcharge or a tax on foreign exchange, which are both options for dealing with balance of payment problems.)

72

The expenditure tax has recently been given further consideration in the United Kingdom. Unlike the sales tax, which is applied at a constant rate and has the greatest burden on low-income people, the expenditure tax can be applied at a progressive rate to higher income groups. The tax indirectly incorporates capital gains which become subject to tax once they are realised and used to finance expenditures. It has been suggested that there would be high costs of administration associated with the tax; however, these could be reduced significantly if the tax were only applied to higher-income groups. (Note by Secretariat.)

rates of income tax also affect pay claims as we have seen. Sales taxes allow individuals some discretion with regard to their tax liability, since tax can be avoided so long as income is saved or invested (rather than spent). However, because higher income groups save and invest a greater proportion of their incomes, sales taxes tend to place the greater burden on lower income groups. While measures can be taken to exempt certain commodities (such as food and other necessities), this increases the administrative costs associated with collecting tax and also reduces the capacity of the tax to raise sufficient revenue.

The addition of new taxes

The use of new taxes as complements to existing ones could assist in achieving a better distribution of the total tax burden among different groups. For example, the introduction of a tax on net wealth or a tax on expenditure (which could be at a progressive rate on those whose income and/or assets exceeded a given level) would assist in increasing the tax yield. (This option would have the advantage of encouraging investment.)

It is a hard fact of life that if the rate of increase in Government expenditures cannot be restrained then there will be little scope for reducing taxes. Tax relief can only be achieved for some groups by shifting the burden onto others. To the extent that the tax structure is progressive and not indexed to rates of inflation, there is an automatic growth in the tax-take which could provide some flexibility to achieve certain reforms. However, the fact that this increase is automatic may not impose sufficient discipline on policymakers and politicians to prompt them to contain the growth of public sector spending. For this reason serious consideration should be given to means of indexing the tax structure to the rate of inflation. This would reduce the ability of governments to increase public sector commitments without having to show their consequences in the form of higher tax rates.

The Council's working group also looked at the distribution of income among households after taxes and transfers. It identified certain possible objectives:

- there should be a common minimum level of income support, both for families relying on market incomes and for social security beneficiaries;
- increased allowance should be made for those who currently support dependent children; and
- effective tax rates on additional earnings should not be so high as to discourage persons receiving a benefit from becoming at least partially self-supporting.

Although growth prospects make it unlikely that any major extension of income maintenance can be undertaken in the short term, the options which might ultimately be used in this area require detailed consideration and debate, since they raise important principles of social policy.

One option which was considered for ensuring minimum standards of living for individuals and family units is the adoption of a set of "income equivalences"—this would establish the relative net income

Table 14

PROVISIONAL INCOME EQUIVALENCES FOR NEW ZEALAND HOUSEHOLDS

(Distinguished by number of adults and number of children taking a household of two adults as a standard, with a value of 1)

Number of Adults	Number of Children						
	0	1	2	3	4	5	6
1	0.60	0.92	1.20	1.46	1.70	1.94	2.16
2	1.00	1.27	1.53	1.77	2.00	2.22	2.43
3	1.35	1.60	1.84	2.06	2.28	2.49	2.70
4	1.67	1.90	2.12	2.34	2.55	2.75	2.95
5	1.96	2.19	2.40	2.61	2.81	3.01	3.20

Source: Jensen, J., *Minimum Income Levels and Income Equivalence Scales*. Unpublished, 1977.

required by different groups (in order to enjoy an equal standard of living). Such equivalences could be employed to establish a floor or minimum income below which no household should fall. What the minimum should be at any one time is a political judgment which will be conditioned by what the Government considers to be practical and equitable, given the resources available. In making such choices there will be a conflict between various objectives for improving the income maintenance system and the objective of reducing taxes in order to increase take-home pay.

Although redistribution has often been intended to provide for families with dependent children, a co-ordinated policy has been difficult to achieve through a tax system which treats the individual rather than the family as the unit for tax purposes. Existing policies centre around the family benefit, the domestic purposes benefit, and the use of tax rebates (which are available to low-income families). Possible options for reforms in this area include:

- extensions of the existing tax rebate system (including the adoption of an income equivalence approach) so as to redistribute income to low-income families with dependent children;
- modifications to the family benefit rate so as to vary the benefit according to the age of the child and/or the income characteristics of the family;
- a family allowance (or tax credit) paid to households in which there is an earner and a non-working spouse; and
- more generous provisions for working mothers to assist them in financing child-care.

Preliminary work by the study group, which applied a table of income equivalences to the distribution of household income, suggested that a significant number of families dependent on market incomes achieved a level of support relative to their needs, lower even than some households supported through benefits.

Looking ahead

The range of options set out above is not exhaustive. The Planning Council is aware of a number of other areas in which New Zealand will need to take a careful look at alternative approaches in order to grapple with the various problems which it is likely to face in the Eighties. Many of these problems are faced by other Western-type countries, but this will not make the solution any easier. If anything it reinforces the need to front up to our choices. Although there is no doubt much of value in the overseas literature, the particular circumstances of New Zealand will not be repeated in any other country and the responsibility of making a coherent set of choices rests with us and with our institutions.

That is why the nature of the planning process is itself an important issue. This is dealt with in the following chapter, but rather than set out options the Council will on this topic state its own preference as a starting point for discussion. The central purpose of planning should be to make it easier than it might otherwise be to reach consensus on the complex

"First, the European nations should try to accelerate the shift away from their old model of fragmentation, stratification, secrecy, and distance, which produced an acceptable balance between democratic processes, bureaucratic authority, and some aristocratic tradition, and experiment with more flexible models that could produce more social control with less coercive pressure. Such experimentation, which is bound to succeed in the long run, looks dangerous in the present vulnerable situation when we hesitate naturally to jeopardise what remains of the old means of social control as long as one is not sure of the quality of the new means. Innovation, nevertheless, seems to be absolutely indispensable. It has to be careful innovation, but it is the only possible answer to Europe's dilemma.

"European nations should at the same time try to reorient the trend of economic growth. They badly need to maintain growth to prevent unemployment and an exacerbation of social conflicts, but they cannot maintain the type of growth of preceding years which has brought more and more costly disruptions and can be considered one of the important causes of inflation. A new emphasis on quality, on collective amenities, on a more careful allocation of space is not impossible. New goals for facing the future can be given priority: modernising the education process; improving community and regional decision-making; establishing more responsible information systems; radically changing working conditions and restoring the status of manual work; developing income maintenance programs; making public bureaucracies responsible to the citizens and private bureaucracies to the consumers."

Michel Crozier, writing in *The Crisis of Democracy*, a study by the Trilateral Commission, 1975.

choices which confront us. The Council has often thought of its task as something similar to the preparation of a menu (complete with the price-tag and calorie count). The options will not appeal equally to those with different tastes or different appetites, and although there is a certain logic about taking them in sequence some options can probably be left altogether. The main thing is to know what we are choosing.

So much for the options. There is only one footnote which should be added, and this concerns those choices which appear radically different or dangerously experimental. These will often be opposed on the grounds of "administrative difficulties" or because they could "create too many problems". Such judgments are subjective and have no bearing on the objective exercise of choice; we would need to know how these difficulties and problems compare with those we would encounter if we stick to the "safe" formula every time. In a period of rapid change, there is no tried and tested method which will reduce the "problems" and meet all contingencies. The methods of the past must inevitably give way to the exercise of conscious judgment about the most rewarding way in which to adapt to the new circumstances of tomorrow.



"The UFO season."

By courtesy of the New Zealand Herald.

CHAPTER 5

OPENING UP THE PLANNING PROCESS

There is no doubt that planning can serve as a device for clarifying the views which people hold about the options set out in the previous chapter. One of the Council's tasks is "to act as a focal point for a process of consultative planning"—this implies that it should take the initiative in seeking wide involvement in the debate about New Zealand's medium-term development.

The Council is keen to do this in a way which encourages participation by citizens in making the de-

cisions which they must help to implement. People are not all the same, do not share the same experiences, and do not perceive the same solution to problems. This is especially true in a multicultural society. It follows from this that any legitimate and effective planning process must endeavour to involve as many people as possible, while recognising the impossibility of allowing all major decisions to be decided by referenda. The Council sees "open planning" as a companion to "open government".

INFORMATION AND RESEARCH

A prerequisite for the success of this process is the free availability and exchange of information. Also important is the consistency and clarity with which information is presented. Many people have told the Council that there is a great deal of information available but that decision makers often find it difficult to reconcile the many items which cross their desks. Others have claimed that there is plenty of information but that it is of the wrong sort.

Council believes, therefore, that it has a major task in sifting through the information flows which are available to decision makers in New Zealand, with the aim of deciding how greater efficiency can be achieved. It also sees a need to assess the impact in New Zealand conditions of information systems and new technology. As the Task Force suggested, these factors not only govern the techniques of planning itself but also have far-reaching implications for the processes of government and the format of our administrative systems (both in the public and private sectors). The Council has not, as yet, been able to give this task adequate attention, but it will be convening a technical working party to examine the issues during the remainder of 1978. This exercise will involve other interested agencies, and one of the purposes will be to ensure that the Council itself is able to work with something more than a haphazard information base as it takes the monitoring of various key indicators a stage further.

Even without the benefit of this study, the Council is already aware of serious gaps in the information base. These gaps are crucial for planning in certain areas; the most obvious include trends in internal migration, rates of household formation, and the motivations (and other characteristics) of the group which is currently moving overseas "permanently", i.e., for 12 months or more. All of this information is essential, for example, in order to calculate future housing demand, and the Council will be pressing for other elements in the statistical information base to be improved—particularly in relation to the needs of those who are responsible for regional planning. It should be noted that the Department of Statistics is aware of the need, and is actively consulting with users in order to reassess its own priorities.

The main weaknesses in terms of information relate to the social area. For a variety of reasons, New Zealand has not yet developed a system to monitor social trends, and this will be indispensable to the integrated planning which the Council is advocating. One reason for this is the lack of official sponsorship for a proper programme of research in the social area. The Task Force drew attention to this issue and it has since been the subject of a series of discussions (under the aegis of the National Research Advisory Council (NRAC)). These have been directed at working out a method for funding social science research within the overall research programme of Government.

There is a conflict between the sort of research which simply concentrates on the effect of particular policies, e.g., in health and social welfare, and the broader investigation into social trends which is the main preoccupation of the social scientist. The Council believes that this may remain insoluble as long as research activity is determined by the preoccupations of politicians and departments. The need for research is, moreover, very urgent and nothing short of a "crash programme" will enable the right sort of work to get under way. In the context of energy, an independent Energy Research and Development Committee was set up with public money to expand New Zealand's understanding of a crucial problem; the Council believes that something similar is needed in the social field.

In keeping with the Task Force view, the Council has treated population as a key area in which to develop information for planning. Having worked up the data used in chapter 3 (the detail of which is in appendix C), the next step is to monitor the actual trends, for example in migration and fertility, and where necessary revise the initial projections. This applies also to economic indicators. Indeed the proper monitoring of trends is as important as any other single phase of the planning sequence. In some cases, this may require special research.

There are other areas in which the allocation of resources to research might usefully be reviewed. Mention has already been made of the relatively small

proportion of the Government effort which is devoted to processing and marketing—as opposed to the continuing high volume of research on problems that are inside rather than beyond the farm gate. Is this relative allocation of resources still appropriate? There is a clear case for additional work on the processing of fish, horticultural items and crops, and on food technology (in its widest sense). Transport has been raised in submissions from almost every sector as a major impediment to industrial development. Research in this field could be aimed at improving the efficiency of individual operations and would also assess the efficiency and suitability of different modes of transport (both public and private) in the light of longer-term energy, social, economic, and land use changes. Some effort could also be directed towards

improving other aspects of the efficiency of the service sector. In vital fields such as industrial relations there are only a few dedicated researchers trying to shed light rather than heat on the situation.

A planning body will always have a view on research priorities and on information generally. It will see the availability of facts and figures to all parties as essential for genuine consultation. It will resist attempts to withhold information and it will comment on the implications for democracy if habits of unnecessary secrecy come to prevail. The move towards more open government has been late in coming to New Zealand but it is clearly gathering strength. The establishment of the Planning Council is in itself a step towards more open and informed debate before political decisions are taken.

INVOLVEMENT OF PEOPLE IN PLANNING

The Planning Council's own methods will depend in large part on the degree to which individual citizens wish to play a role in planning. The question of "participation" goes to the heart of New Zealand's commitment to the concept of a working democracy. The Council has assumed that greater efficiency will be achieved not by edict but by the greater **involvement** of citizens in the decisions which have to be taken. True, some see the planning function as an exercise similar to drawing up a railway timetable and then making sure that the trains run on time. The Council believes that there is more to it than that; many people have already indicated that they want to see the philosophical and constitutional issues facing New Zealand openly discussed along with the other options.

One such issue centres on the role of law in our society. Does it serve its purpose if it is widely viewed as something to be evaded—in some cases openly, in others by stealth? Perhaps we should be asking what in essence is the purpose of **legislation**? It is said that laws are made primarily to aid the smooth functioning of society. The Council sees merit, therefore, in avoiding the temptation to legislate in areas in which there is widespread disagreement. Otherwise people will tend to develop a disrespect for the law in general. This is a field in which there are grey areas at nearly all levels of New Zealand society. It is notable that those who enforce the law say they frequently get little help from the community. How many statutes are in effect more honoured in the breach than in the observance? This undermines the goal of having the whole community "get in behind" which is the essential counterpart to a process of consultative planning.

Implicit in the detailed discussion of diversity and flexibility was the idea of bringing out the unique contribution that any one person can make to public planning. As against this, the Council has noted the increasing tendency towards centralised administration and control in all walks of New Zealand life. Everybody is familiar with the impersonal (and inefficient) response which seems to be an inevitable by-product. Perhaps this is why we have seen the growth of a broad-based environmental movement,

reflecting a change in public values and a greater awareness of the vulnerability of the natural environment to human impact. The development of other concerned groups (for example the consumer movement) only adds to the impression that there is a growing distrust about the outcome of decisions left solely to those who have performed traditional leadership roles—and this includes political, business, and church leaders, together with "experts" of all kinds. Ideally, the planning process should help these "leaders" to act more sensitively towards those members of society who are on the receiving end.

The Council would not claim that it is possible to please everyone, but it does believe that, even in such a small country as ours, it is possible for public policies to accommodate different views without impinging on or threatening the legitimate rights of either majority or minority groups. New Zealand has a unique store of special experience and understanding just waiting to be properly utilised at all levels of society—and the consultations carried out by the Task Force in 1976 and the Council's own soundings in the course of 1977 are witness to this. We cannot afford to ignore this resource, for it can greatly assist the process of adaptation. Even on certain issues for which there was no consensus, the pattern in the past has been to resort to more legislation. The habit of compounding legislation may require radical reappraisal—even to the point of having a "Statutes Removal Committee" to work in the opposite direction and reduce the volume of statutes. The Council would welcome views on this and other issues such as the length of the parliamentary term, which has been raised in some submissions as an obstacle to coherent medium-term planning. It is some time since the possible extension of the 3-year term was put to the country by referendum; New Zealand now faces very different circumstances and it is an open question whether the necessary process of adaptation is assisted by the possibility of extensive policy shifts every three years.

Hitherto there has been no independent forum in which such issues could be aired. Since the Planning Council acts as a focus for a process of consultative planning about national and local issues, it could, how-

ever, create the avenue for the debate on this or other options. The final decision on the parliamentary term must still of course be taken by referendum.

The Council itself has relatively limited resources and it will rely on other arrangements to complement the attempt it is making to promote straight talking about the broader directions for New Zealand. Looking forward to the next phase, therefore, the Council has asked itself how consultation can be effectively carried out. In the first place, since it has filled the gap left by the National Development Council and since a number of the sector councils of the NDC are still in existence, it makes sense for the Council to seek responses from these groups about the propositions contained in this document. Furthermore, it can ask them to carry out their own consultations (as some have already done) and thus bring in a large number of interest groups with special points of view. This process could be furthered if Government departments were to produce their forward planning assumptions as a basis for discussion with both advisory bodies and the private sector in general.

The Council also hopes that with the benefit of input from a range of advisory bodies its observations on the medium-term priorities will be useful to Government when it faces the inevitable short-term pressures which are the stuff of politics. It has, like the NDC, brought departmental people together with the private sector and various other experts, in the belief that the advice given to ministers will benefit from these broader contacts. Through the Minister of National Development, the Council has also been able to convey its views direct to Cabinet.

This does not mean that the Council will take over the former functions of the NDC as a Government-based planning agency and parent body to all of the sector councils. Like the NDC, however, the Council will naturally turn to the many groups which can present a viewpoint based on detailed knowledge of some part of our national life—the Vocational Training Council, the New Zealand Maori Council, and the Municipal and Counties Associations are examples which spring to mind. The Council has already had preliminary contacts with such bodies and will now be seeking from them a considered response to the ideas in this document.

Another reason for distinguishing the Planning Council's position from the type of role carried out by the NDC is that it has been asked to absorb the functions which were carried out by the Monetary and Economic Council. Under its Act, the latter body was responsible for carrying out an independent review of significant trends in the economy. It reported periodically on these trends and on significant issues affecting the economy. (Its last report in December 1977 dealt, for example, with inflation—this was a joint venture with the Planning Council.) The tradition of providing a regular and objective audit on the economy will, therefore, now rest with the Planning Council (which will enlist the services of the New Zealand Institute of Economic Research to assist in this important task).

Much of the expertise which needs to be brought to bear on the country's problems is contained in the

professional associations or various expert guilds, and also in the various spheres of educational activity. The universities, specialised groups such as the Energy Research and Development Committee, and a handful of the professions have already responded to the Council's invitation to become involved in the planning exercise. It is hoped that with this document before them they will be able to contribute their special knowledge to the improvement of New Zealand's position.

The institutional lobbies and groups are, however, by nature a selected group. They have been formed to deal with a set of pressures and an administrative system which the Council suggests will undergo a period of change. For this reason, input is needed from many groups who may at present feel that nobody in Wellington is likely to care very much about their concerns. This includes "minority" viewpoints and those whose response to the present crisis has been to adopt an alternative lifestyle. It includes the youth of our country, who are going to have to live with the consequences of planning—good or bad, and the elderly who have the experience and wisdom to tell us when we go wrong, but whose advice has possibly been discounted to an unreasonable extent in our modern world.

The Council does not place the women of New Zealand in quite the same category. It agrees with the Task Force that they are in no sense a "minority group". But it does see a special role for women in following through the consultative process and it intends to invite the Committee on Women, the National Council of Women, and all other women's groups to take the initiative in deciding how they can best promote feedback on options. The Council's own work has benefited from the capacity which New Zealand women have to think sensitively about the future, and their relative freedom from many of the inhibitions and rigid patterns of thought which some observers have seen as the hallmark of the New Zealand male. Its members—male and female—are unanimous on the need to stop ignoring the potential of half of New Zealand's human resource. Finally, since planning is a question of how change is to be managed to improve the position of all members of society, the Council lays this document before the public. No institution or committee can do justice to the feelings which run through the minds of individuals as they consider those issues which they judge to be important. If the planning process is to take the real pulse of the nation then the Council itself must involve people. It must involve them seriously and involve them directly.

This would be a physical impossibility if the Council is to remain—as it wishes to—small in organisational terms and truly independent (in the sense of not becoming an avenue for lobbying purposes). There are, however, certain alternatives. The media in New Zealand have been accused of a tendency to ignore the issues facing society and to concentrate instead on sensation or trivia. Here undoubtedly is an important resource which can be used to foster feedback to a document of this type. The Council would welcome ideas from newspapers, radio, and

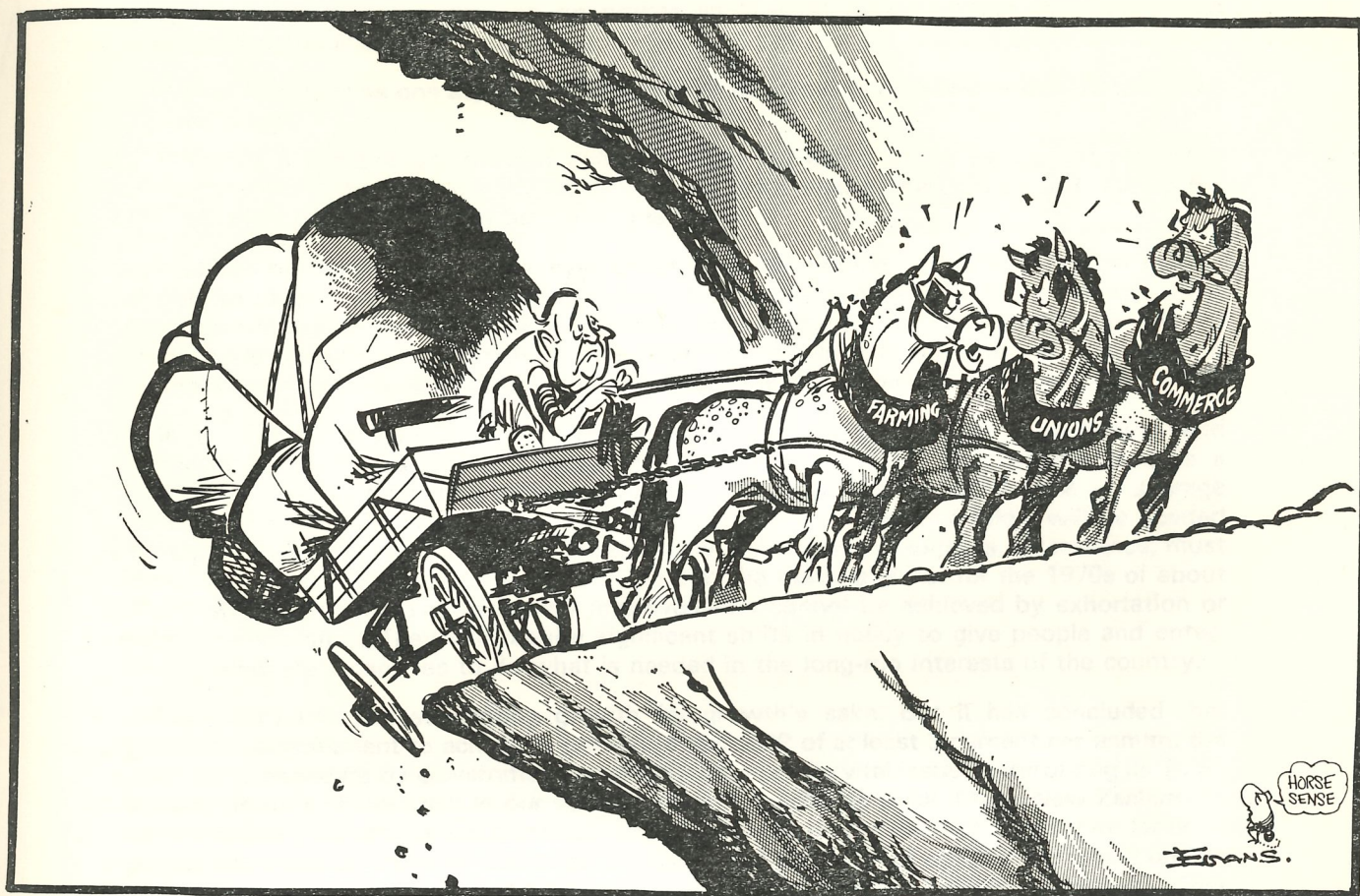
television about the techniques which each could use to gather the views of individuals as part of a national effort to arrive at greater clarity about our future.

There will be other ways in which the Council can delegate various stages of the consultative process without, however, losing valuable inputs for planning. The Council would like to use the series of supplementary papers referred to elsewhere (see page 6) as a means of focussing the response which it is seeking. There are also the specialised steering committees of the Council—in the areas of:

- economic efficiency;
- social and cultural development; and
- regional planning and development.

These committees will be able to assist the Council to narrow down the discussion of options.

This document should be read as something to be used and shaped by others. The blank spaces in the left hand column are for readers to record their views. The Council respects all shades of opinion—as the selection of quotations will demonstrate. When the time comes for the document to be revised, the Council would hope to benefit from thoughtful comment and input from a wide range of sources.



"And I say I'm pulling more than you" . . . "No, I am" . . . "No, I am."

By courtesy of the New Zealand Herald.

CHARTING THE COURSE AHEAD—A STRATEGY FOR DEVELOPMENT

The Council recognises that there is no one road to recovery from the crisis now confronting New Zealand. Nevertheless, it believes that it should make its own suggestions about which options should be chosen during the planning period.

New Zealand can and, in the Council's view, should, aim to reverse our recent record of negative growth, rising unemployment, and high inflation. In the short run, with the terms of trade lower than those likely to prevail on average, the continuation of substantial overseas borrowing and drawing on private investment from overseas is justified, but only on two conditions:

- that it is used as one aspect of a programme designed to earn and save more overseas exchange;
- that it is a major objective of policy to bring the deficit in our balance of payments down from about 6½ percent of GNP to no more than 2½ percent of GNP during the planning period, and even further thereafter.

It would be irresponsible in the eyes of future generations if we were to borrow heavily merely to indulge our desires for more consumer goods and better welfare services now. We must recognise the probability that increasing shortages of oil will make international trade more difficult in the 1980s, so we must use the next 5 years wisely to make our economy stronger, more adaptable, and less dependent on overseas borrowing.

In the Council's view, it is only through a programme to reshape the economy, and generally make it less wasteful and more efficient and flexible, that we can achieve a moderate growth of our real national product of about 3 percent per annum on average during the period. To achieve this goal, enterprise and co-operative effort will be needed to improve performance throughout the economy. The volume of exports, for instance, must grow by almost 5 percent per annum, instead of the average so far for the 1970s of about 3 percent per annum. The necessary improvements cannot be achieved by exhortation or without discomfort. They will require significant shifts in policy to give people and enterprises adequate incentives to do what is needed in the long-run interests of the country.

The Council is not advocating growth for growth's sake. But it has concluded that without a commitment to achieving growth of real GNP of at least 3 percent per annum, the room for manoeuvre by Government in taking action on the vital issues confronting us (e.g., by tax reform or innovation in our social services) would be small. Many New Zealanders would become frustrated and alienated. In such circumstances, leaders of different factions would find it harder to show tolerance. Hardship and the pains of adjustment would undermine efforts to improve relationships in workplaces and increase cohesion in society. This threat is already apparent.

Policies to deal with pressing short-term issues, such as unemployment, will be more successful if they fit clearly into a strategy for recovery with a horizon in the 1980s. Such a strategy should focus on the following aims:

- It must promote moderate growth in real GNP with proportionately less overseas borrowing, and strengthen New Zealand's long-run capacity to play a constructive political and economic role on the world stage.
- It must stimulate efficiency and reduce waste in the use of human and physical resources so that New Zealand comes closer than at present to achieving its full potential, while preserving a pleasant and stimulating environment for future generations to enjoy.
- It must strive to bring and keep increases in costs and prices down to rates no greater than those prevailing in the major countries with which we trade.
- It should contribute to improving personal and social relationships, which are not only important in their own right, but vital in securing support for necessary economic changes.
- It should encourage individuals and organisations to apply enterprise and energy to the achievement of national economic, social, and cultural goals, with less detailed intervention, control, and subsidy by the state.

An effective strategy would not pursue each of these aims in isolation, but bring them together as elements of an integrated programme for New Zealand's development.

RESHAPING THE ECONOMY

As we enter the planning period, we face the serious policy dilemma posed in chapter 2. We wish to boost economic activity and employment, and yet we cannot afford to aggravate our difficulties with inflation and the balance of overseas transactions. If policies to reflate the economy are to be consistent with the goals of our recommended medium-run strategy, the solution is not merely to spend more in New Zealand and prop up the old economic structure. A programme must be devised which will restore and preserve the momentum of our drive to earn overseas exchange, now flagging in the face of persistent domestic inflation and greater difficulties overseas. Such a strategy must also put more emphasis on economising in the use of overseas exchange and switching resources into activities which are efficient—particularly those which meet requirements which would otherwise come from overseas. Only in this way can we reconcile our desire to improve living standards and sustain employment with the need to live within our overseas means.

In formulating strategy, it is important to recognise the dependence of each sector of the New Zealand economy upon the others. It is not a question of farming versus manufacturing versus service industries. As appendix B shows, a substantial contribution is required from all of these sectors if the suggested goals for exports and national output are to be achieved. High cost and inefficiency within any sector are prejudicial to the health of other sectors and of the whole economy. So far as the export drive is concerned, the Government's role is essentially to stimulate and support private activity. Whether or not the goals are achieved will depend mainly upon whether owners, managers, and workers in private enterprises are able and willing to produce the goods and services required. **An essential requirement for success is confidence that efforts to sell overseas will provide returns that are adequate in relation to the risks involved, and to alternative opportunities.**

It has been difficult to restore the confidence of farmers in producing more for export after the experience of poor returns from increased investment in the late 1960s and early 1970s, when domestic inflation cut away the rewards which they had expected. The incentives offered have achieved some success in the past 2 years, but it is unlikely that the momentum will be maintained if farm income continues to be badly eroded by inflation. It is not enough to use stabilisation schemes to limit the extent to which the prices paid to producers for particular products may fall in the short run. Indeed, it would not be in the public interest for the Government to guarantee to cover the assessed costs of production of any particular product for long, because producers must adapt to changing market conditions overseas. Nevertheless, it is important that farmers be given some assurance, not only by the present Government, but also by those who could become the Government in the future, that it is a major objective of policy to sustain the profitability of farming for export generally at a level which is adequate to achieve the volume of production and sales required to fulfil planned goals. **This should be part of a more general assurance, extending to those in manufacturing and service industries, that policy will be directed to maintaining the relative profitability of exchange-earning and exchange-saving activities.**

Generating confidence in these assurances will require considerable political skill. The main condition for carrying conviction is demonstrated readiness to act when the economic indicators suggest that the achievement of national goals is coming under threat. Keeping inflation under better control than in the past, through an appropriate mixture of fiscal, monetary, and income stabilisation measures, as discussed later, is of fundamental importance. So, too, is the rate of exchange between New Zealand and overseas currencies. The price which is offered and charged in New Zealand dollars for overseas exchange has a big influence on how much incentive there is to try to earn overseas exchange or to seek out domestic substitutes for overseas goods and services, through its effect on the relative profitability of enterprises which engage in these activities.

Variation of the exchange rate has been an important element in the New Zealand economic policy in the past half century. Until recently, changes were infrequent and substantial. The price of overseas exchange was raised during the Depression in the face of a large and prolonged decline in export incomes. It was lowered substantially in 1948 when overseas prices were rising, overseas reserves were high, and substantial surpluses had accumulated in farm stabilisation accounts. It was raised appreciably again in 1967, concurrently with a large British devaluation, when our balance of payments was in substantial deficit, and stimulus was needed to broaden our export base. In the 1970s, the world economy has become more unstable, and this has been associated with more frequent changes in exchange rates, both among the major currencies and in New Zealand.

In all the circumstances, the Council considers that variation of the exchange rate should assume greater significance in Government's strategy in the next few years. It is important that changes in either direction should be made relatively frequently, rather than in large

jumps which can be destabilising to the domestic economy. As we have said in chapter 4, variation in the exchange rate is not a panacea for solving balance of payments problems. Any changes must be accompanied by other measures designed to ensure that the beneficial effects sought are not dissipated, for example, by an upward movement of domestic costs and prices if the price of overseas exchange is raised. But as part of a suitable policy package, variation of the exchange rate can be an important element in ensuring that Government strategy is implemented.

If the authorities do not consider it desirable to vary the exchange rate, other means must be used to give effect to Government assurances to exporters and exchange-savers. If stimulus is required, it is difficult to find a fully satisfactory substitute for exchange rate variation to give the greatest incentives to those who earn exchange with the lowest inputs of overseas resources. However, further improvements in tax incentives and subsidies, or Government support of farm stabilisation schemes, could be used to assist exchange-earners. On the other side, taxes on imports or overseas exchange purchases could be raised, generally or selectively, or import controls intensified.

In commenting on these alternatives, the Council is concerned at the administrative burdens and the complexities, anomalies, and distortions which have emerged, and will continue to develop, through the selective, case-by-case approaches which Governments have preferred to adopt to deal with balance of payments difficulties. **The Council recommends that Government seek, during the next 5 years, to move away from methods which create these problems and towards methods which operate generally through exchange rates, taxes, subsidies, and rules based on clear definitions and criteria.** These can be applied impersonally and with a minimum of discrimination between different individuals and groups, and make fewer demands on management in both Government and private enterprise.

ASPECTS OF TRADE STRATEGY

New Zealand is moving out of an era in which many of our products were sold on a bulk basis to a narrow range of traditional outlets to one where we are trying to sell a diversified range of goods and services to a wide variety of customers. Approaches to dealing with this transition are well summed up by the following comments about the meat industry made by one of the respondents to *A Moment of Truth*:

"The marketing problem confronting the New Zealand meat industry at the present time is essentially the problem of converting from a 'selling what we produce' approach to a 'producing what the customer requires' philosophy . . . the first step in any move towards the marketing of more sophisticated products must be the direction of increased resources and efforts towards identifying the specific markets and market segments which offer potential; and the identification of those products and product forms which might be used to exploit this potential. We need to know what our target market is, what product is required, and what price parameters are involved, before we start to consider how best to exploit the situation. In some instances, we may be able to prepare and package to consumer requirements in New Zealand, but in other cases we may be better to develop facilities in the markets we are hoping to supply. We may even need to encourage the growth and development of New Zealand-based multinationals!"

These comments apply not only to meat but also to New Zealand's export efforts generally, which will be given special attention during Export Year 1978. One important element for success is concentration on markets where the results of earlier efforts suggest the potential is greatest. This means concentration of sellers, not only through frequent visits but also, where practicable, stationing of representatives. It also means a concentration of promotion and Government support co-ordinated with the efforts of private enterprise. Building overseas trade along a few main trunk routes should help reduce a major exporting handicap—the high cost of freight to distant markets. It is important that we do not increase this handicap by inefficiencies and disruptions in our own transport system which result in additional loadings on an already heavy burden, and damage our reputation as a reliable supplier.

In considering external strategy, there is a tendency to concentrate on trade in goods and forget the importance of services. **In future, more attention must be given to how to reduce the large and growing deficit in our overseas transactions in services such as freight, travel, insurance, and finance.**

The Council sees considerable scope for continued increases in earnings and savings in the services sector, if the policies advocated in this chapter are applied. For example, the new Tourism Advisory Council has an opportunity to bring public and private initiatives to bear on a programme to reinvigorate the capacity of the tourist industry to attract

visitors. Planning for tourist development will be assisted by imaginative planning for cultural and recreational development which can enhance the natural beauty of the country with facilities and services which will be attractive to New Zealanders and foreign visitors alike. Indeed, the Council hopes that special attention will be given in Export Year to the role which artists, sportsmen, and other individuals of distinction may be able to play in promoting New Zealand's development generally.

While a strategy of promoting exchange earnings is the most positive way of overcoming our difficulties, opportunities to save exchange should by no means be neglected. A dollar of overseas exchange saved (net) is as valuable in reducing the deficit as a dollar of overseas exchange earned (net), but the domestic costs of achieving the gains are also important. Thus a policy of saving overseas exchange should not mean shutting out imported products which can be made in New Zealand, regardless of the cost or of the indirect requirements for overseas exchange which stem from domestic production of the goods concerned. **The objective should be to have New Zealanders buying in markets which give best value for exchange spent, being as economical as possible in the use of overseas exchange, and seeking out local substitutes for overseas goods and services which can be made here at prices which are reasonably competitive internationally.**

It is encouraging that the reliance of New Zealand manufacturers on imported materials and components seems to be declining. It is important that this trend should continue in all sectors.

A major avenue for saving exchange is to reduce our reliance on imported fuels. The prospect of global shortages of oil in the 1980s lends urgency to the need to do so. The coming to fruition of the Maui project will be of great assistance. Governments will doubtless pursue a vigorous programme of exploration and development of New Zealand's energy resources, especially renewable resources, and should adopt pricing and other policies which will encourage maximum conservation and appropriate long-term use of available supplies.

As the publication of a paper on energy "goals and guidelines" for public discussion is imminent, the strategic requirements will not be explored in detail here. However, it should be noted that in the medium to longer term there are several technologies available to produce liquid fuels from locally available raw materials including coal, wood and other plant materials, and from natural gas. Liquefied petroleum gas (LPG) is an excellent engine fuel and is already available from Kapuni gas. About 400 000 tonnes per annum (this represents about 10 percent of our oil imports) should eventually become available from the Maui gasfield. Other alternatives include the production of methanol for use as a gasoline extender (and the production of synthetic gasoline) and compressed natural gas (CNG) as a gasoline substitute. **The assessment of these alternatives is an important and urgent aspect of any strategy.**

The drive to reduce the overseas exchange constraint on our development must be accompanied by a continuing diplomatic effort to obtain access to overseas markets on terms as favourable as possible and by an importing strategy which will contribute to the achievement of our domestic and foreign policy objectives. The struggle to retain a significant foothold for New Zealand in the European Economic Community will remain an important element in our trading strategy; in the course of this struggle, New Zealand must align itself with those inside and outside the Community who are pressing for the Common Agricultural Policy to have more regard for the interests of consumers in the Community. High-price policies can retard consumption and encourage the production of substitutes. Similar considerations apply in a number of other markets.

The multilateral trade negotiations now in progress provide greater opportunities than usual to negotiate principles and arrangements which may reduce the severity of agricultural protection. An important reason for this is the apparent desire of the United States to achieve some progress on this front. At the same time, there will be pressure on New Zealand to play its part in continuing the reduction of barriers to trade generally. Similar pressures will continue in our bilateral negotiations with important trading partners, while the developing nations with which we have the closest associations, particularly our neighbours in the South Pacific and ASEAN, will undoubtedly emphasise the importance of better trading opportunities for their exporters in discussions of how the more affluent countries of the Pacific region can assist their development. Skilled diplomacy and enterprise in marketing are both required to take advantage of growing opportunities in the Middle East and Eastern Europe.

Australia is confronted by international pressures—political, strategic, and economic—similar to those facing New Zealand. **The Council has concluded that a central aim of external policy should be to give new impetus to trans-Tasman co-operation. This could**

extend beyond trade and defence to external marketing and tourist development, to social and cultural projects, and to programmes of overseas assistance. The two countries should work closely together to cope constructively with the pressures which they both face. Progress is now being made towards greater integration of defence effort, and there is a considerable interchange among Ministers and officials on policy issues of mutual interest. However, one must be concerned at the lack of progress towards the original aims of the New Zealand - Australia Free Trade Agreement (and in other areas such as rationalising the production of defence supplies).

The Council believes that further progress towards these aims would gradually widen the market available without restriction to producers in both countries. The consequent specialisation and exchange would provide a stronger base upon which to develop their capacity to compete in international trade generally. **Thus the Council recommends that serious consideration be given to the possibility of eliminating most barriers to trade between the two countries over a period of 10 or 15 years. A list of exceptions may be necessary to cope with cases of special difficulty on each side, but this should be small.**

Preferably against the background of a broader and strengthened relationship with Australia, the Government and private interests should continue to associate themselves with endeavours to strengthen co-operation in the Pacific Basin, and take a special interest in maintaining healthy two-way relationships with our South Pacific neighbours and with ASEAN. This implies not only the maintenance of aid to these countries, but also the development of joint ventures and other trade and communications links.

Freeing trade with Australia and responding to international pressures to moderate our own protection through import licensing and tariffs need not be inconsistent with our desire to promote efficient industrial development in New Zealand. **There is a strong case—and it is in our own interests—to look closely at enterprises and industries which seem likely to require very high protection for a long period to survive.** The major aim should be to diagnose the main reasons for their inability to compete and to improve their competitive capacity. Continued high protection may be justified in some cases; in others, it would be better to plan to deploy the workers and capital involved into avenues of greater social and economic benefit to the nation. It is assumed that, if Government embarks on a policy of reducing protection, it will also adopt fiscal, monetary, and exchange rate policies designed to foster growth and the rationalisation of industry so that it remains fully competitive. It is also important that funds be made available to assist workers to make the adjustments which are necessary if the more efficient industries are to obtain the staff they need.

ACHIEVING OUR FULL POTENTIAL

It is important to stress again that to avoid change is not an option if New Zealand is to surmount present difficulties. Pursuit of the kind of external strategy discussed in the previous section is a necessary basis for a resumption of economic growth and for the expansion of employment opportunities at a rate sufficient to cater for a potential labour force expected to grow by over 1.6 percent per annum in the medium term. On the other hand, successful pursuit of the external strategy is vitally dependent on the creation of the right domestic environment. In particular, measures designed to earn or save more overseas exchange can be undermined if inflation in New Zealand proceeds at a rate out of line with overseas trends.

The Council believes that if New Zealand is to restore vitality to its export sector, to reduce the potential for damaging factional conflicts, and to build a sound base for economic growth and employment opportunities internally, it is vital that inflation be reduced. The objective should be to reduce inflation quickly to no more than the average rate prevailing in our major trading partners (recently around 10 percent per annum and declining). It would greatly assist improvement in the balance of payments and be socially desirable if we could do better than this. While the accomplishment of this is squarely a Government responsibility, it will be less traumatic for everybody if the community accepts the need and acts accordingly.

FULL EMPLOYMENT WITH LESS INFLATION

If inflation is to be controlled and full employment achieved, spending and money incomes must be sufficient, but no more than sufficient, to call forth the output of which New Zealand is capable and cover the inflation which it is considered cannot be avoided. In assessing policy, all concerned should remember that, if the balance of payments deficit is to be reduced, domestic expenditure must grow rather more slowly than the value of domestic output. Only thus will resources be available for exports to grow in volume by

the 5 percent per annum which is needed to sustain growth in real GNP of 3 percent per annum. Given the need to provide for investment to sustain expansion in the future, it is probable that in these circumstances, resources available for consumption and public services together could grow by only about 2½ percent per annum on average.

An anti-inflationary fiscal policy would have to take account of this constraint. It would be for Government to decide the appropriate balance between public services and private consumption. But if it wished to increase public expenditure in real terms by more than 2½ percent, it would have to curb private consumption accordingly. An exception might be made to sustain activity if private investment were depressed, but this should be regarded as a temporary phase, in which care was taken to avoid commitments which were likely to frustrate the Government's goals in future years.

Government expenditure should be financed in a manner which contributes to stability in growth of money and credit at a rate consistent with the country's assessed capacity to increase output in the medium run. This requires the co-ordination of fiscal policy with measures to reduce the internal impact of external fluctuations (e.g., by measures to stabilise payouts to major export producers) and with monetary policy. The Council commends recent moves towards greater use of official operations in the money market to supplement variation of reserve requirements for financial institutions as a means of trying to keep the growth of domestic credit and the money supply on the desired path. If inflation is brought under control, interest rates could be expected to fluctuate around a much lower level than in the recent past.

Publication and open discussion of guidelines on the growth of money and credit which the authorities consider consistent with reasonable stability of prices would be a helpful development. It would especially assist those involved in reaching agreement on the limits for price and wage rises which must be observed if unemployment and depressed activity are to be avoided. If a policy of freer bargaining over pay and less control over prices is to be sustainable, the "social partners" must have some regard for the public interest, particularly in maintaining stability. If the implications of these guidelines were clearly explained, it could help create an appropriate climate. Government intervention could then be reserved for cases where the use of monopoly power (by either employers or unions) seriously threatened the balance within the programme for economic recovery.

TOWARDS GREATER EFFICIENCY AND FLEXIBILITY

What we can enjoy in consumption and public services depends basically on what we produce. To be constrained to a 2½ percent annual growth is disappointing by comparison not only with our aspirations and with our experience in the early 1970s but also with developments in many overseas countries. But we cannot improve the situation merely by paying ourselves higher money incomes. What is needed most is higher productivity in an economy which will respond flexibly to changing requirements here and overseas. There are many requirements for improving productivity, e.g., better management, improved organisational and financial structures, better use of capital, adequate reward systems for workers and managers, and more constructive industrial relations.

People and their relationships are most important. Excellence, innovation, and enterprise should be given greater encouragement, whether it be in business or art or any other field of endeavour. Successful enterprise rests heavily on good leadership, with modern management skills and techniques at all levels in industry, public sector organisations, and trade unions. Whether people will be prepared to take positions of leadership and responsibility, and to acquire, upgrade, or change their skills to meet current or prospective needs, depends upon the satisfactions—personal and material—which they can derive as a result. At present, the evidence suggests that rewards for skill and responsibility are inadequate. The Council sees increased margins for skill, effort, and responsibility as indispensable to the next phase of New Zealand's development. We must make it worthwhile to work hard, and people must be proud to participate in the great social experiment of planning by participation.

INCENTIVES FOR SKILL AND RESPONSIBILITY

Margins can be improved partly through negotiations about remuneration and partly through changes in the tax structure. The difficulties are obviously greater in a period of relatively slow growth than they would be in more favourable circumstances. It will require farsightedness by leaders and members of associations of workers and employers to negotiate the necessary changes in pay structures. However, the Council trusts that there will be wide recognition of the importance of retaining key people in New Zealand and of ensuring that the skills necessary to sustain employment and prosperity for all are developed.

Probably even more important is a lowering of marginal income tax rates. The Council is greatly concerned at the effect that the present tax structure has on incentives to produce and on inflation. The present tax structure bites hard into disposable income even at the level of the average wage. There are also grounds for concern about the equity of a system which taxes comparatively low earned incomes in this way while leaving so much scope for tax avoidance by people with greater capacity to spend. The Council believes that tax reform could assist in removing much of the present disincentive to initiative and effort while at the same time lessening pressures for higher gross incomes. For these reasons, the Council considers that progress on tax reform is needed urgently and should proceed in stages throughout the planning period.

In the absence of alternative sources of revenue, the Government's capacity to implement a programme of tax reform will be determined partly by prevailing economic conditions, but very largely by the Government's ability and willingness to contain growth in its own spending. As long as Government expenditure rises in step with or faster than GNP, there will be no scope for reducing the burden of tax overall (and with New Zealand's social structure, it is inevitable that practically everyone will feel its weight). Relief from high marginal rates of income tax can then come only from increased taxation in other forms. The Council has listed the major possibilities in chapter 4, and will present a more detailed report later. The options include a widening of the tax base by reducing the privileges which some groups enjoy under the present system, or the introduction of new taxes, or a shift from personal income taxes to some other form of tax. Whichever choice is made, the net result will be a redistribution of income. In the absence of safeguards, that could further undermine the position of low-income families. The Council believes that it is essential to ensure, through the establishment of a system of minimum floor incomes for families, that no member of the community is forced to live below an "acceptable standard of living".

Even with present unemployment, shortages of skilled people exist in many enterprises important to national development. Training techniques need to be developed on almost an emergency footing as one aspect of an active labour market policy designed to ensure that people displaced by change are assisted to move to expanding industries. The use of educational television, the redesign of the apprenticeship system, and the introduction of highly flexible work/training patterns could be part of the method. The latter in particular would assist the women of New Zealand to accelerate their entry or re-entry to the workforce as would more widespread acceptance of a shorter working day for some. The parallel need to involve men more in "community" work would also be achieved through adjustments to the "40 years at 40 hours a week" pattern of employment.

INVESTMENT AND DEVELOPMENT

The Council's suggested growth strategy involves substantial investment with emphasis on efficient exchange-earning and exchange-saving activities. The main requirement for this to happen in the private sector is confidence that the investment will produce a satisfactory profit over time. This confidence would be fostered by Government adoption of the strategy advocated by the Council. The reduction of interest rates as inflation is brought under control would assist, as would the improvement of industrial relations in key industries, through the methods discussed in chapter 4.

Objectives worthy of attention by Government in the planning period are as follows:

- Removal of unnecessary price controls where competition is reasonably effective.
- Seeking to ensure that the basis on which profits are assessed for price control and for tax purposes does not prejudice investment.
- When control is required, concentration on holding prices rather than profits (which may be improved through greater efficiency at a fixed price).
- Review of anomalies in company taxation which may not be conducive to the most efficient pattern of investment or financing of investment.

As indicated by the Task Force, most elements of the industrial strategy adopted by both major political parties remain appropriate. However, a review would now be timely in the light of the comments made by the Task Force and in this report, particularly as very slow progress indeed has been made with the industry studies foreseen in the strategy, and there is a lack of definition of the role which departments and the Industries Development Commission should play in its implementation.

The main requirements for an agricultural strategy were discussed earlier, and techniques to sustain production suggested. There is wasted potential in the present pattern of production from the land. The technology for greatly improved performance is available, and if farming confidence were restored the industry could do better than the 2 percent growth in the volume of agricultural exports envisaged under the Council's growth path. Diversification into crops and horticulture has already shown potential, and the more effective use of hill country could also lead to increased output. **The Council sees a need for the pattern of incentives and subsidies to be reviewed, so that there is a link with output rather than input.** Alternative means of taxing farm incomes, including the possibility of a factor tax which would encourage the efficient use of land, could be part of the overhaul of the tax structure. Land development by the State and private interests with more rapid settlement of young farmers should also be part of the strategy.

Maori land

The Council sees a need for a positive role in national development for the Maori people. In recent decades, much Maori land has moved into productive use, while the population itself has moved mainly to the cities. The incorporations and trusts will become increasingly anxious to repurchase land which was originally Maori-owned and a period of high unemployment could provide the labour inputs for expansion. The efforts of these groups to increase output will be directly influenced by the attitudes which they encounter, while those in the cities will also remain very sensitive to any further reduction of the area in Maori hands. Longer-term social goals would therefore be assisted through a commitment to make it less difficult than it has been for the Maori to expand co-operative production from the land.

The Council takes the view that repurchase of Maori land should therefore be made as easy as any other land transaction (e.g., through equal opportunity for access to finance by co-operative and other forms of collective ownership). Pressures for sale or lease of Maori land should not be encouraged by agencies of the Crown, and where public authorities wish to take land they should where possible offer "land for land". They should also avoid sites of special historical or spiritual significance in the earliest stages of planning. These latter suggestions apply to all land, whether owned by European or Maori, and there is a separate case for reducing regulations which affect land in multiple ownership.

Meat industry

The Council has begun a study on the meat industry based on replies to one of its discussion documents. This may seem superfluous, since there have been several studies before. However, notwithstanding these studies, the industry continues to face major impediments in taking advantage of the opportunities available overseas. Increased costs of transport and processing, and a poor record of industrial relations in certain plants, have made it difficult to satisfy consumer requirements while maintaining satisfactory returns to the farmer. **These problems, and the need to achieve better co-ordination of the links in the chain of production from the farm to the market, seem to the Council to offer scope for a case study of some strategic issues confronting the whole economy.**

Technology

Our present economic position demands that there should not only be increased production and productivity, but that our industries should be active in the development of new products and processes. This will place increased demands on science and technology, and a strategy in this area therefore becomes an important aspect of national development. Some priority areas for research are indicated in chapter 5.

The Council also considers that certain issues arise from the fact that New Zealand has no hope of generating all of the technology it requires to compete in world markets. While not underrating the need for "home-grown" technology, it is clear that much of our technology will have to be imported by means of "know-how" agreements, by consultancy agreements, and through joint ventures, etc. Aggressive use of imported technology will supplement New Zealand's relatively weak base of "in house" industrial research and development. It has been pointed out to the Council that there may be some areas in which patent law and the Copyright Act place New Zealand manufacturers at some disadvantage.

The Council therefore suggests that:

- Guidelines for the importation and export of technology should be drawn up and widely published for the benefit of manufacturers and others.
- That New Zealand re-examine its industrial property laws to ensure that they are designed to encourage and support a policy of technological development.
- That, in order to encourage a flow of ideas for new products and processes from people with creative minds, the question of compensating employees for inventions be examined to see if an equitable system of rewards can be devised, and carried into law in a way which could be made to work.

In general, adequate technology is available for the next phase of New Zealand's development. The main problem is to get it into the hands of those who can use it.

BETTER USE OF CAPITAL AND OTHER RESOURCES

It has been said with considerable truth that wasteful use of resources is the New Zealand disease. The Council believes much more attention must be paid during this planning period to the efficient use of new and existing capital, so that we can obtain more output (and higher living standards) from our investment. This applies to all sectors of the economy.

This is by no means solely an economic problem. There is great resistance—as seen in the debate on shopping hours—to changes in the “normal” Monday to Friday working week. The shut down of industry over the Christmas - New Year period is becoming more general and prolonged. However, in some areas we have seen the greater acceptance of shift work, glide time, more flexible hours of employment for women, and other practices which can contribute to fuller use of capital, and indirectly reduce pressure on public facilities. Reducing discrimination against older houses in policies on housing finance should enable more people to find their requirements through the existing stock of houses and reduce requirements for new ones. Multiple use of educational buildings and other public facilities is another promising avenue for improvement.

The Council would like to see a recognition that patterns of urban development will have to change considerably in the period ahead. There should be more emphasis on the conservation, rehabilitation and, where necessary, renewal of existing buildings. This will require changes in lending policies and flexibility in the allocation of finance to local authorities. The need to lower our dependence on imported energy will also need to be reflected in design and subdivision patterns. There is a related need for a much greater variety of housing types, and this trend should also be supported by institutional measures (such as concessionary or guaranteed mortgages). Given present population trends such policies should ease the pressures on land for urban development.

The central need is for more experimentation and the introduction of realistic performance standards to encourage varied and flexible designs and structures together with a redirection of financial resources to the new priorities in urban development and housing.

A basic part of any strategy must be the reduction of enforced dependence on the use of the private motor car; options which the Council supports are car-pooling, the expansion and integration of public transport systems—buses, taxis, rail—and the creation of cycleways and walkways. There is a parallel to this in the need to plan communities in a more comprehensive way, e.g., in order to reduce the distances which have to be travelled to work, to shops, etc.

As indicated in chapter 2, those interested in conservation will probably find greater acceptance of their views, not only by environmentalists, but also by those concerned for sustainable development of the economy. This should apply not only to energy, but also to a number of other scarce resources. Prices and fees charged for public facilities and services should be regularly adjusted to reflect the true long-run costs of the resources embodied in them. This will assist in encouraging economy in their use and the avoidance of unnecessary capital expenditure.

Promotion of a more competitive market

Throughout this chapter the Council has indicated, for example in its recommendations on external economic policy and on price control, that it advocates the promotion of a more competitive environment as a central feature of a strategy designed to make the economy more efficient and flexible.

To this end, the Council recommends that the authorities, central and local, should institute a comprehensive review of regulations, licences, and other administrative controls over the operations of private enterprise and the individual. The purpose would be to demonstrate clearly whether the benefits outweigh the costs involved for governments, enterprises, and the community. It is not suggested that this will automatically result in the removal of all such controls, many of which will be found well justified, but substantial reductions should certainly be possible during the planning period. Widespread restrictive practices by businesses, unions, and professional groups constitute an important obstacle to the removal of the elements of regulation in New Zealand life. Since many of these groups are leading advocates of greater freedom from control, it behoves them, as well as the Government, to explore more seriously the possibility of eliminating practices which are not in the public interest.

Towards a more effective public sector

Moderate growth, the need to restore better balance in overseas transactions, and the pressure for tax reforms point to the need for considerable restraint on the growth of public expenditures. This is another good reason for trying to reduce the burden of applying detailed and costly administrative regulations.

Despite what has already been done through the reduction of subsidies and of loan finance and the application of a "sinking lid" to staff numbers, Government will find it difficult, with existing commitments, to hold, let alone reduce, the proportion of Government expenditure to GNP. **Room should be left for innovative new policies, and all existing policies should be critically appraised at regular intervals and given a priority rating directly related to their effectiveness.**

To this end, further progress should be made in improving planning and the determination of priorities in the public sector along the lines recommended in chapter 7 of the Task Force report. The value of new techniques such as zero-based budgeting should be explored and an automatic time limit should apply to regulations and departmental functions. The life of advisory councils and committees, such as the Planning Council itself, could lapse after say 5 years unless their further value was confirmed.

The suggestions made earlier in this chapter about containing expenditure and reducing wasteful use of resources apply throughout the public sector. There will naturally be apprehension over any adverse effect on the achievement of goals to which New Zealanders have always given high priority such as good health and education for all, care of the disadvantaged, and the preservation of law and order. As it happens, there has been increasing awareness of the need to alter past methods of attempting to attain these goals. It is seen that too much reliance has been placed on increased expenditure on expensive buildings and equipment, and on the services of institutions and highly-qualified professionals. There is more recognition of the need to involve individuals, families, and communities in taking more responsibility for creating conditions which promote health and the constructive use of leisure. There is a similar switch towards preventing social problems from arising instead of trying to cure them after they have arisen.

A period of restraint may stimulate alternative approaches which could be superior, as well as less costly. **It may make us appreciate more the significance to the quality of our lives of the things produced and the services rendered outside the normal processes of the market and of Government. In times of difficulty, even greater reliance than usual must be placed on voluntary, "non-market" means of achieving important goals which are coming under threat.**

The attempt to reduce "overload" could also see a reversal of the trend towards a highly centralised administrative system. Greater reliance on working through market forces rather than administrative regulations and subsidies would relieve the Central Government of some responsibilities. More could be done to avoid duplication of facilities and services which can be supplied by the private sector, especially in building and construction and a range of consultant services. There is a counterpart need for firms to avoid excessive investment in boom periods which are likely to be short-lived. **The Council commends the concept of a greater partnership in development between Central Government and the private sector and believes that it would be assisted by greater interchange of personnel.**

The Council also sees considerable merit in the development of a closer partnership between Central Government and local authorities. Particular attention should be given to how to deliver services most effectively to citizens, while avoiding unnecessary duplication of facilities and staff and other inefficiencies which raise costs to the citizen. In some

cases, amalgamation of local, territorial, and ad hoc authorities will be desirable; in others, pooling resources, sharing staff and facilities, or drawing on the strength of branches of Central Government departments would provide economies. **The Council favours moving towards a common public service to ease this process, and envisages the development of a regional focus for much of the country's planning and administrative activity.**

Recent changes in the legislation governing town and country planning were designed to enable local people to become more effectively involved in determining local priorities through regional planning. This is a direct counterpart to the work already being done in some areas by Regional Development Councils. There has been increasing recognition that the growth points for development and increased employment in any region will not necessarily be found only in manufacturing. They will depend on a variety of factors, especially the resources with which the region is endowed. Thus Government assistance for regional development is now becoming more broadly based. Adoption of a strategy of export-led development, centred around the effective production, processing, and marketing of the produce of land, forest, and sea, should foster expansion outside the main centres. The role of the State in regional development should be mainly to seed and, where appropriate, to co-operate in potentially self-supporting developments. It should not be to sustain projects which show little prospect of viability in the long run.

Areas outside the "slow-growth" regions are also likely to find a regional focus useful for various aspects of new development, especially as new institutions of regional government are established. However, unless the regional option simplifies existing procedures, it could undermine the central objective, which is to streamline the administrative process and reduce "overload". New institutions of regional government may not be needed in all areas—some are already working effectively without either a "Regional Council" or a "United Council". The latest legislation requires, however, that regions make a choice between these two options. **Given this, the Council does not see "United Councils" as necessarily the most effective vehicle for development planning in the regions and would generally favour the "Regional Council" option.**

If Regional Councils are formed they will have the ability to link regional planning to certain management functions (e.g., in public transport, roading and works programmes, water supply, and possibly energy distribution). All these threads can be brought together effectively at the regional level. There has been a tendency for various aspects of Central Government's relations with regions to be developed in separate compartments. **The Council has participated in discussions with Ministers and officials about the possibilities of greater co-ordination. It trusts that these will result in a forward-looking and consistent regional policy and an improvement in co-ordinating machinery.**

The Council believes that this less centralised approach, working through the market and through local and regional channels, will be conducive to the innovation and flexibility which the country needs. It will leave Central Government freer to oversee the system as a whole, providing leadership and co-ordination, identifying priorities for national development, and ensuring that minimum standards are maintained and value obtained for expenditure of public money. In short, Central Government should be able to plan more effectively.

The Planning Council is the focus for a system of consultation and advice. The Government governs, and after considering advice must adopt its own strategy and decide how this should be implemented. This Council will help to monitor progress and continue to organise consultation on changes in plans and programmes which may be desirable in changing circumstances.

SECURING SUPPORT FOR NECESSARY CHANGE

As indicated, adequate incentives are vital factors in ensuring that support is secured for necessary changes. But several other considerations are also important. One is recognition and acceptance of diversity. For example, attempts to impose a "single model" solution on people who wish to live differently, but without harm to others, in our society, can only cause unnecessary division. The aim should be to draw strength from the different contributions which can come from diverse cultural backgrounds, and to ensure that those who differ from "the norm" are not denied opportunities to develop their talents. This is why the Council supports the need for a **special "multicultural bias" in all areas of public administration and more flexible approaches to housing policy.** It is not a question of "special favours" but rather an avenue through which New Zealand can prepare for a period in which all ethnic groups will be looking for more sensitive treatment from our public bodies and institutions.

Avoidance of the "single model" solution is also important in the support of rural communities, which have special development needs of which the urban administrator may often be unaware. An important case is the long-term housing needs of the farm worker who has found it much harder than his urban counterpart, under traditional housing policies, to find assistance to build up an equity in a home of his own. Again, recognition is growing that **special approaches are necessary to enable women to develop and utilise their talents to the full.** These include more acceptance of the principle that breadwinners can be female; more sharing of work and responsibility in the home; improved facilities for childcare; redefinition of criteria for selection and promotion to acknowledge the value of experience obtained outside the workforce; and changes in attitudes, work practices, and rules on leave and working hours which define and limit the positions to which women can aspire.

It is difficult to secure support for change in an atmosphere of insecurity; hence the Council's emphasis on the need for an active policy to assist those displaced by change to prepare for and move to new opportunities. One of the greatest challenges is how to **secure more active support in workplaces for changes which are needed to expand exports and improve productivity.** Recognition by workers and unions that future jobs and the real value of their pay are at stake will help. So, too, will better communication and a recognition by employers and management of the importance of involving workers and unions in decisions which they must make work, and on awareness by both sides that development is unlikely to be sustained unless both profits and wages are improved and fairly shared in the process. **The Government must aim to create the general economic, social, and cultural environment in which this improvement and equitable distribution can be secured.**

In this report, the Council has left much unsaid. It has tried to present the broad canvas on which our national destiny will be sketched. More details will be added later. It is important to emphasise that trend is not destiny. We can let the future just happen—in which case our fortunes could continue to deteriorate—or we can plan to make changes upon which better things can be based.

In times of difficulty, it is easy to conjure up a pessimistic view of the future. The Council is basically optimistic that New Zealand can overcome present difficulties, given its relatively generous endowment of climate and resources and the capacity of its people to develop the necessary skills. The key questions are whether we are willing to make the necessary changes in old institutions, methods, and practices and whether we can sink sectional differences sufficiently to work together with some sense of national pride and purpose.

In our search for security, we may have stifled innovation, flexibility, and the capacity to work together—these are qualities which are badly needed in the next phase of our development. It should now be evident that to lose these is to miss the road to real security. If we wish to preserve the best features of our way of life—social, cultural, and economic—we must be ready to alter institutions, policies, and attitudes which are no longer appropriate to the rapidly changing world in which we live. This must be the central focus of our strategy in the next few years.

SECURING SUPPORT FOR NECESSARY CHANGE

As indicated, adequate incentives are vital factors in ensuring that support is secured for necessary change. But several other considerations are also important. One is recognition and acceptance of diversity. For example, attempts to impose a "single model" solution on people who wish to live differently, but without harm to others in our society, can only cause unnecessary division. The Council is not a body to draw strength from the division of communities which can come from diverse cultural backgrounds, and to ensure that those who differ from the "mainstream" are not forced to develop their talents. This is why the Council advocates the use of a "multi-cultural" model in all areas of public administration and policy. It is not a matter of public administration or policy, but a matter of principle. New Zealand can prosper for a period in which it remains a "single model" society, but it is looking for more sensitive treatment from our world leaders and institutions.

ACKNOWLEDGMENTS

The New Zealand Planning Council acknowledges the valuable assistance it has received from members of its four steering committees, which worked in the following specific areas: Economic Efficiency and Flexibility, Economic Stability, Social and Cultural Development, Regional Planning and Development. It is also grateful to various working groups convened by the Council during the year whose members gave freely of their time and provided valuable advice and guidance. These groups included: Technical Group on Medium-term Prospects for the New Zealand Economy, Working Group on Population, Working Group on Income Maintenance, Working Group on Human Relations. The Council also appreciates the assistance received from numerous organisations and individuals around the country and the co-operation and response from Government departments, private bodies, and members of the public to requests for information, data, and comment. In particular it wishes to record its thanks to those who responded to the Council's request for comment on two discussion papers—*A Moment of Truth* and *Regional Options*. Without such support and co-operation the Planning Council would have found it impossible to initiate the task of consultative planning.

The issues presented in this document could not have been covered adequately without the viewpoints expressed in the left-hand column of the earlier chapters; the Council thanks those who gave permission to be quoted.

Cover

The front cover is a mosaic of pictures taken over a period of 4 years by the NASA earth resources satellites (LANDSAT I and LANDSAT II). The false colours result from "adding" three black and white pictures (two in the visible range of the spectrum and one in the infra-red range). The value of the colours lies in the fact that they can be used to identify resources and features of the environment, e.g., forests, crop types, water pollution, and soil moisture. The composite picture was made up by the Physics and Engineering Laboratory of the DSIR and was supplied by the Department of Lands and Survey. The Council is grateful for permission to publish the composite picture.

The back cover is a reproduction of a work by Gordon Walters, entitled *Painting* (1965) (original, black and white). Thanks are due to the artist for agreeing to publication of the design and the use of colours which blended with the requirements of the front cover.

FUNCTIONS AND POWERS OF THE NEW ZEALAND PLANNING COUNCIL

Functions and powers of Council—(1) The general functions of the Council shall be—

- (a) To advise the Government on planning for social, economic, and cultural development in New Zealand:
- (b) To assist the Government to co-ordinate such planning:
- (c) To comment to the Government on programmes for social, economic, and cultural development in New Zealand, and to recommend the priorities that should be accorded to them:
- (d) To act as focal point for a process of consultative planning about New Zealand's medium-term development:
- (e) To foster discussion among those agencies (Government and private) concerned with planning, particularly in the economic, environmental, social, and cultural fields:
- (f) To submit advice to the Government on links between planning at the national and regional levels:
- (g) To prepare reports on any matter affecting the economic, social, or cultural development of New Zealand:
- (h) To submit any report prepared by it to the Minister if it thinks fit:
- (i) To recommend that any report submitted to the Minister under paragraph (h) of this subsection be laid before Parliament:
- (j) To publish documents on planning topics which in the view of the Council merit wide consideration and public debate:
- (k) To consider any other matter which is referred to the Council by the Minister or which is relevant to the proper performance of the functions mentioned in paragraphs (a) to (j) of this subsection.

(2) The Council shall have such other functions, powers, and duties as are conferred or imposed on it by or under this Act or any other enactment.

(3) The Council shall have such other powers as may be reasonably necessary to enable it to carry out its functions.

Source: New Zealand Planning Act 1977.

APPENDIX B

THE MEDIUM-TERM PROJECTIONS

1. THE BALANCE OF PAYMENTS

The projections contained in chapter 3, pp. 27 to 33, use the Reserve Bank's overseas exchange transaction statistics (OET) for the year ended June 1977. The projections are based on a report for the New Zealand Planning Council by Mark A. Lumsden, Reserve Bank of New Zealand.

The major assumptions for the projections are:

- Income elasticity of demand for imports of goods of 1.0.
- Price elasticity of demand for imports of goods of -0.5.
- Two percent per annum growth rate in the volume of traditional exports.
- Ten percent growth rate in the volume of non-traditional exports (including forestry products).
- Eight percent per annum growth rate in import prices and domestic inflation in overseas countries.
- New Zealand domestic inflation proceeding at 12 percent in 1978, 10 percent in 1979, and the "world" average of 8 percent thereafter.
- OECD real GNP growth averaging 4.5 percent per annum.
- Terms of trade rising from 77 (base 1957 = 100) in 1977 to 80 by 1985 in the following pattern:

TABLE B1

Year Ended June	Import Prices	Export Prices	Terms of Trade
1977	330	255	77
1978	356	275	77
1979	385	304	79
1980	416	333	80
1981	449	359	80
1982	485	388	80
1983	524	419	80
1984	566	453	80
1985	611	489	80

No change in the exchange rate from its present trade-weighted level and no major increase in the relative price of oil.

The following sections give a brief description of the methodology used for each item in the projections.

IMPORTS OF GOODS

The OECD assumed an income elasticity of demand for imports of 1.1 at 1 percent real growth and 1.5 at 3 percent real growth. Reserve Bank (and other) econometric research suggests that these estimates are too high. In this set of projections, an income elasticity of demand of 1.0 has been assumed for both real growth rate alternatives since 3 percent real growth should not generate excessively high levels of capacity utilisation.

The continuing adverse trend in relative prices between imports and domestically produced goods contributes to an increased demand for imports in these projections.

The import projection assumes that non-traditional exports do not become significantly more import-intensive than they presently are.

EXPORTS OF GOODS

The projection here is a simple consequence of the assumed volume and price assumptions, each of which has been made in the light of likely market conditions over the projection horizon.

The base year figure for non-traditional exports in this projection has been adjusted downwards from the recorded figure of \$2,397 million to \$2,250 million to account for the surge in receipts in the base year due to liquidation of excess stocks of exportable primary products.

OTHER CURRENT OVERSEAS PAYMENTS

(Excluding Debt Service and Investment Income)

As an initial projection these payments were assumed to be basically demand-determined in New Zealand. Thus, an income elasticity of 1.2 was assumed and a price elasticity of -1.0. Individual items were then projected on an "ad hoc" basis. The final projection is a "compromise", therefore, which includes an adjustment to allow for the increased freight costs involved in an increasing real exports/GNP ratio.

OTHER CURRENT OVERSEAS RECEIPTS

This projection was based on an overseas demand function. Real receipts were projected to be influenced by the 4.5 percent real growth overseas combined with an income elasticity of demand of 1.5. Part of the reason for such a high elasticity is to capture the increasing domestic involvement in the international transport industry—which is a supply consideration rather than a demand one. Partly offsetting this influence is an assumed price elasticity of demand of -1.0 which operates on the projected worsening relative price position.

Receipts in real terms were then inflated by the projected domestic inflation rate to provide the final projection in nominal terms.

DEBT SERVICE

This projection is based on the estimated accumulated public and private overseas debt at the start of each June year. The debt at the start of June year 1977 was estimated at about \$4,000 million. Debt service (public and private) during the ensuing year was \$320 million on an OET basis, an implicit return to the foreign lender of 8 percent on average. This rate of return is assumed constant over the projection period.

Debt service includes interest, dividends, etc., but no amortisation since it is not likely that New Zealand will have difficulty in rolling-over and/or rescheduling debt under either of these scenarios.

TABLE B2
SUMMARY MEASURES

Year Ended June	Scenario 1: 1% Real Growth		Scenario 2: 3% Real Growth	
	Debt Service Ratio %	Real Exports to Real GNP Ratio %	Debt Service Ratio %	Real Exports to Real GNP Ratio %
1977	7.9	30.5	7.9	30.5
1978	8.2	30.3	8.2	29.7
1979	8.3	31.3	8.4	30.1
1980	8.1	32.6	8.5	30.7
1981	7.6	33.9	8.4	31.4
1982	6.9	35.3	8.2	32.1
1983	6.0	36.8	7.8	32.8
1984	4.8	38.5	7.3	33.6
1985	3.5	40.2	6.7	34.4

TABLE B3

BALANCE OF PAYMENTS SCENARIO 1: PROJECTIONS FOR 1 PERCENT ASSUMED REAL GROWTH

Year Ended June	\$ million							Debt at Start of Year
	Imports of Goods	Non-debt Invisible Payments	Debt Service	Traditional Exports	Non- Traditional Exports	Invisible Receipts	Current Account Balance	
1977	3,147	1,093	320	(2,250)	933	699	-531	4,000
1978	3,493	1,249	362	2,480	1,108	807	-709	4,531
1979	3,846	1,407	419	2,788	1,345	930	-609	5,240
1980	4,191	1,550	468	3,119	1,622	1,072	-396	5,849
1981	4,576	1,713	500	3,427	1,923	1,236	-203	6,245
1982	4,988	1,889	516	3,778	2,286	1,426	97	6,448
1983	5,447	2,085	508	4,163	2,716	1,648	487	6,351
1984	5,938	2,300	469	4,592	3,229	1,894	1,008	5,864
1985	6,477	2,538	388	5,058	3,836	2,184	1,675	4,856

TABLE B4

BALANCE OF PAYMENTS SCENARIO 2: PROJECTIONS FOR 3 PERCENT ASSUMED REAL GROWTH

Year Ended June	\$ million						Current Account Balance	Debt at Start of Year
	Imports of Goods	Non-debt Invisible Payments	Debt Service	Traditional Exports	Non- Traditional Exports	Invisible Receipts		
1977	3,147	1,093	320	(2,250)	933	699	-531	4,000
1978	3,562	1,271	362	2,480	1,108	807	-800	4,531
1979	4,000	1,453	426	2,788	1,345	930	-816	5,331
1980	4,447	1,630	492	3,119	1,622	1,072	-756	6,147
1981	4,950	1,830	552	3,427	1,923	1,236	-746	6,903
1982	5,504	2,053	612	3,778	2,286	1,426	-679	7,649
1983	6,124	2,298	666	4,163	2,716	1,648	-561	8,328
1984	6,813	2,585	711	4,592	3,229	1,894	-394	8,889
1985	7,581	2,903	743	5,058	3,836	2,184	-149	9,283

2. SENSITIVITY OF BALANCE OF PAYMENTS PROJECTIONS

In order to test the sensitivity of the balance of payments projections to changes in the basic assumptions, a simplified balance of payments model of the New Zealand economy was used. This model calculates the rate of growth required for non-traditional exports under the given assumptions, to reach a particular "target" of balance of payments as a percentage of GNP, by a given year.

The sensitivity of the required growth rate of non-traditional exports is then expressed in terms of a change in each of the basic parameters.

The model uses the year ended March 1977 as a basis. It is a balance of payments model and not overseas exchange transactions as is part 1 of this appendix: however, the two give consistent results, when allowance is made for their different bases.

The basic assumptions are:

1. Rate of growth of the volume of traditional exports: 2 percent per annum.
2. Initial-year balance of payments as a percentage of GNP: 7 percent.
3. Final-year balance of payments as a percentage of GNP: 2.5 percent.
4. Number of years to achieve the target balance of payments: 5.
5. Growth rate of GNP: 0 for year 1, 3 percent thereafter.
6. Terms of trade for traditional exports: rising from 77 to 80 over 5 years.
7. Terms of trade for non-traditional exports: constant at 80.

8. Income elasticity of demand for both visibles and invisibles: 1.0.
9. Price elasticity of demand for both visibles and invisibles: -0.5.
10. Inflation—(a) Overseas: 10 percent for year 1, 8 percent thereafter; (b) New Zealand: falling from 4 percent above the world rate for year 1, to the world rate by year 5.
11. No changes in the exchange rate are assumed.

Results: Under the above assumptions, to achieve a "balance" (i.e., the balance of payments deficit falls to 2½ percent of GNP) by year 5, non-traditional exports will have to grow at 10.1 percent per annum.

SENSITIVITY

The following percentage point changes in the annual growth rate of non-traditional exports (from 10.1 percent) will be required to achieve "balance" if the basic assumptions are changed by:

1. A 1 percent change in the annual growth rate of—

	Percent
(a) Volume of traditional exports	-1.74
(b) Real GNP	2.48
(c) Overall terms of trade	-2.85
(d) The exchange rate	-0.07
2. A 0.1 increase in—

(a) Income elasticity of imports	0.82
(b) Price elasticity of imports	0.62
3. A once and for all increase of 5 points in the terms of trade
 -3.50 |
4. A decrease in the adjustment period of 3 years
 14.9 |

As a result of the limitations in the above data, the 31 March 1976 population was estimated using the 1971 Census age-and-sex-specific population as base and applying appropriate vital and migration data for the period 24 March 1971 to 31 March 1976. The resultant age-and-sex-specific estimates were then scaled on to a more accurate (31 March 1976) estimate of the total population.

2. Basic Labour Force

To ensure comparability with population projections the base for each labour force projection was the estimated total New Zealand labour force by sex and single-year-of-age at 31 March 1976. The only up-to-date age-and-sex-specific labour force data available were the provisional estimates derived from the 10 percent sample of persons included from the 1976 Census. As in the case of the complementary population data these estimates contained various limitations—notably an apparent slight underestimation of the total male labour force and a significant overestimation of the total economically active female population.

To avoid giving too much weight to these provisional 1976 Census population and labour force data in the projection process, they were used—only in an indirect manner—in the form of age-and-sex-

APPENDIX C

POPULATION PROJECTIONS

The Department of Statistics prepared projections for the total population and labour force by sex and 5-year age groups for the period 1976 to 1985 for the Council's Working Group on Population, based on assumptions nominated by the group.

The following paragraphs describe the assumptions adopted. Much of the material on the projection methodology is taken directly from the technical appendix to the provisional population and labour force projections prepared by the Department of Statistics for the period 1976-2006.

ASSUMPTIONS EMPLOYED

1. Base Population

The base population for each alternative projection was the estimated total New Zealand population by sex and single-year-of-age at 31 March 1976. These projections have been termed "provisional" because the population estimates used as base will be subject to revision when final data from the 1976 Census of Population and Dwellings become available. Age-and-sex-specific population data, obtained from a 10 percent sample of personal questionnaires from the 1976 Census of Population and Dwellings, were not used because:

- (a) These were only derived for 5-year-age groups and for the "80 and over" age group;
- (b) Anomalies were evident in the sex-ratios for some age groups, derived from these data.

As a result of the limitations in the above data, the 31 March 1976 population was estimated using the 1971 Census age-and-sex-specific population as base and applying appropriate vitals and migration data for the period 24 March 1971 to 31 March 1976. The resultant age-and-sex-specific estimates were then scaled on to a more accurate (31 March 1976) estimate of the total population.

2. Base Labour Force

To ensure comparability with population projections the base for each labour force projection was the estimated total New Zealand labour force by sex and single-year-of-age at 31 March 1976. The only up-to-date age-and-sex-specific labour force data available were the provisional estimates derived from the 10 percent sample of personal schedules from the 1976 Census. As in the case of the complementary population data these estimates possessed various limitations—notably an apparent slight underestimation of the total male labour force and a significant overestimation of the total economically active female population.

To avoid giving too much weight to these provisional 1976 Census population and labour force data in the projection process, they were used—only in an indirect manner—in the form of age-and-sex-

specific labour force participation rates. Provisional 1976 Census labour force participation rates, together with the corresponding (final) rates for the previous four Censuses—covering the period 1956-71—were used in the derivation of linear regression trend lines for each sex and 5-year-age group. The base (31 March 1976) labour force participation rate values were then taken from these estimated trend lines.

From these rates, 31 March 1976 single-year-of-age-specific rates were derived—assuming the 1971 Census participation age structure within each 5-year-age group remains valid—and applied to the corresponding base total population to give the base labour force.

3. Mortality

Mortality experience (in terms of "life table survivorship rates") was assumed to remain constant over the projection period at the level of the latest New Zealand Life Tables (1970-72). Life table survivorship rates were also applied, in a suitable form, to births and to net numbers of migrants during each single-year projection period.

4. Migration

Three alternative levels of migration, a "low", "medium", and "high" level were incorporated into the population and labour force series.

The actual net migration alternatives selected were as follows:

TABLE C1

Year Ending 31 March	"Low"	"Medium"	"High"
1977 (actual)	-13 727	-13 727	-13 727
1978	-22 500	-20 000	-17 500
1979	-12 500	-10 000	-7 500
1980	-7 500	-5 000	-2 500
1981	-2 500	0	2 500
1982	2 500	5 000	7 500
1983	5 000	7 500	10 000
1984	5 000	7 500	10 000
1985	5 000	7 500	10 000

Minus sign denotes net emigration

5. Fertility

Three alternative fertility assumptions designated "high", "medium", and "low" have been adopted and the methodology for these is set out below.

Initially, 5-year-age-of-mother-specific total birth rates over the periods 1962-75 and 1971-75 were analysed using "least square" regression techniques and corresponding linear trends derived. Fertility variants in terms of alternative single-year-of-age total birth rates, were then derived by application of the above trends to the appropriate (1975) base single-year-of-age-specific total birth rates within each maternal 5-year age group.

Except for the two youngest maternal age-groups, alternative age-of-mother-specific birth rate projections were derived by extrapolating the 1962-75 trend lines to 31 March 1976 and later years to form the "low" assumption fertility rates. "Medium" and "high" assumptions were derived by a judgment decision about possible future variations above the projected trend, on the general ground that the more recent sharp decline may not continue unabated. Due to the more complex nature of historical trends in the two youngest maternal age groups, birth rates for these age groups were projected in a different manner.

For the 10-14 maternal age group, the 1962-75 trend line was extrapolated to 31 March 1976, after which time the "medium" variant birth rates follow the 1962-75 trend line, the "high" variant birth rates are an extrapolation of a shorter-term (1971-75) trend, and the "low" variant is symmetrically derived relative to the "medium" and "high" variants.

For the 15-19 maternal age group, the 1971-75 trend line was extrapolated to 31 March 1976, after which time the "low" variant birth rate was taken to follow this line to 31 March 1977 and then continue to decline but at a slower rate for a further 2 years, and at a still slower rate for the remaining 2 years ending 31 March 1981. The "medium" variant

is below it, and symmetrically extrapolated. In all fertility variants the projected birth rates are assumed to remain constant for the year ending 31 March 1981 onwards.

The Council's Working Group on Population considered that the "low" fertility variant was the most realistic alternative for the medium-term projection period.

6. Birth Masculinity

Projected total live births were divided into males and females in the ratio of 105 to 100, the long-term average masculinity ratio historically experienced in New Zealand.

7. Labour Force Participation

Changing age-and-sex-specific labour force participation rates were assumed, i.e., that 1956-76 trends in labour force participation will continue until 1985. (The Department of Statistics, for its long-term projections, assumes these trends will in fact continue till 1986 and then remain constant.) The major trends for the 1956-76 period were for increased participation by females at most ages and a declining participation by both males and females over the age of 60

