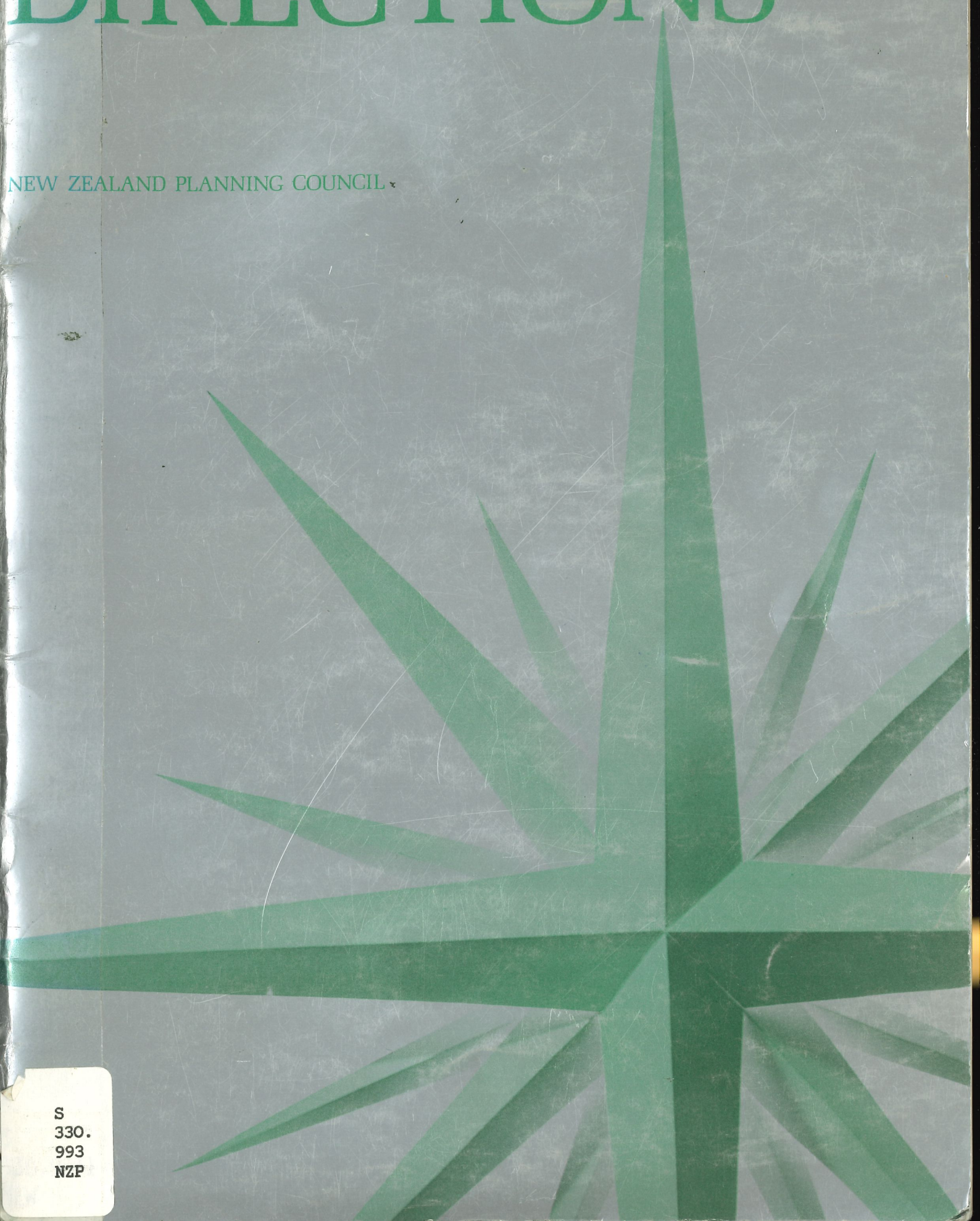


DIRECTIONS

NEW ZEALAND PLANNING COUNCIL



S
330.
993
NZP

72257

CONTENTS

Introduction

Chapter

DIRECTIONS

NZPC No. 18

April 1981

New Zealand Planning Council

P. O. Box 5066

Wellington.

50
51
52
53

2
12/11/81
y 6011

CONTENTS

	<i>Page</i>
Introduction and Overview	5
Chapter 1 Society in Change	8
Population Changes	9
Policy Implications of Population Changes	10
Freedom to Choose	11
Improving Living Standards	11
Opportunities for Cultural and Recreational Development	12
Equality of Opportunity	12
Tu Tangata	12
Children, Youth, and Education	13
Women in the Workforce	15
Women in Decision-making Positions	16
Work Opportunities	17
Opportunities for Involvement	18
Fair Shares	19
Welfare State to Welfare Society?	20
Chapter 2 Economy in Change	23
Introduction	23
New Zealand and the World	24
The Capacity for Growth	25
Exports	28
Saving Foreign Exchange	28
Prospects to 1985	28
The Sectors	29
Competition for Resources	32
General	32
Capital Investment	33
Manpower	34
Energy	35
Development and the Environment	35
Conclusion	37
Chapter 3 Making the Transition	38
The Choices for Economic Management	38
The Case for a Co-ordinated Strategy	38
Policies to Increase Employment	39
Job Creation	40
Other Employment Measures	41
Labour Costs	41
Policies to Reduce Inflation	42
Indexation	43
Monetary and Fiscal Policies	43
A Social Partnership	44
Industrial Relations	46
Public Expenditure	48
Taxation	50
Structural Change	51
A More Open Economy	51
A More Competitive Economy	53
Priorities in the Transition	53

	<i>Page</i>
Chapter 4 Planning, Initiative, and Responsibility	56
Why Plan?	56
How Well Are We Planning?	56
The Private Sector	56
Government Departments and Agencies	57
Government Expenditure and Manpower Planning	57
Local and Regional Planning	57
Government Planning and the Private Sector	58
The Limits of Government	58
Co-ordination of Planning	59
Appendix I Some Medium-term Projections	61
Appendix II Planning Council Publications	63

INTRODUCTION AND OVERVIEW

The most crucial task for New Zealanders in the 1980s is to break out of the economic stagnation and social malaise which has beset the country since the mid 1970s. The Planning Council believes we can, and must, plan to overcome the causes of the recent high unemployment and net loss of able people.

The Government has made important policy changes along the lines recommended in previous Council publications, such as *Planning Perspectives, Economic Strategy 1979, The Welfare State?* and *Employment*.^{*} The Council believes that some are beginning to show beneficial results, especially in increased exports. But much remains to be done.

Getting the economy moving forward at a more satisfactory pace is the main way to ensure enough jobs and further social progress. We believe that New Zealand can plan to restore full employment in the 1980s through co-operative efforts by the Government, management, and labour—"the social partners". Together they must devise solutions which will promote expansion and a fair sharing of its fruits.

The Council has begun to review plans being made in different sectors of the economy. It has also reassessed the assumptions made by the Council itself in *Planning Perspectives 1978-83*. Our studies so far indicate that, even in a more slowly growing world, New Zealand should have the resources and the market opportunities to enable growth of at least 2 percent per annum on average in the early 1980s, and 4 percent per annum on average in the latter part of the decade.

There is debate about how quickly we can build up to these growth rates. Their early achievement depends on whether the apparent revival of confidence in our primary industries, and in their capacity to expand investment and increase exports, is

sustained. It also depends on manufacturers continuing their successful efforts to expand the proportion of output exported; and on service industries increasing their contribution to earning overseas exchange. Exports should be able to build up to about 5 percent growth in volume per annum. But saving exchange through production of effective substitutes for imports is important too. Energy projects to reduce dependence on imported oil provide the main opportunities, but they will widen the deficit in overseas transactions in the short run and pay back their overseas cost quickly later in the decade. What is needed is balanced expansion over a wide front. This will require more investment in a range of industries that are able to satisfy the needs of consumers, here and overseas, at competitive prices, and to reduce the shortages of overseas exchange which have constrained growth in recent years.

To realise our potential, we must encourage and assist the expansion of those industries and services in which we should be able to do better than other countries. This may sometimes be because we have natural advantages over those countries (for example in climate, availability of suitable land, or in energy resources), or because there is scope for building on our existing management and labour skills, as in farming, forestry, pulp and paper manufacturing, and a variety of consultant services.

Some of the development expenditure required can be financed from overseas if emphasis is placed on projects to improve productivity and earn or save overseas exchange so that the debt does not become too burdensome. A balance of payments deficit averaging about 5 percent of gross domestic product in the next few years would not be imprudent. But domestic savings will be the main source and must be fostered, for example by tax reform. The need to restrain domestic consumption and public services will be lessened if we can improve on our past

^{*}A full list of publications is given in Appendix II.

record of high construction costs and relatively poor use of capital. Improving productivity through more effective use of all resources should be a basic aim in the 1980s.

Thus in the 1980s New Zealand must become both more competitive and more co-operative. These qualities need not be in conflict with one another. They can be mutually reinforcing.

To be competitive we need to develop, attract, and retain enterprising, skilled, and responsible people. Co-operation between the Government, employers, and unions is needed to improve margins for skill and responsibility, and to improve education and training systems. It will also help to permit needed reform in the tax system. The Government presently relies very heavily on personal income tax as a source of revenue. Changes in the tax structure are needed to help retain people, improve incentives, and curb inflation. If tax reform were easy there would have been an earlier response to the pressures for it: shifting tax burdens means lightening the load for some, at the expense of others. Nonetheless, it must be tackled and the Council has "an agenda" for tax reform high on its 1981 work programme.

The "social partners" should also take joint responsibility for a new approach to dealing with unemployment. The Council believes that the unemployment benefit should be replaced by a short-term job search allowance for those temporarily unemployed. The employment services should be greatly improved to assist those who are unemployed to find available jobs. If this is impossible within a short period, the services should help place them in a suitable training programme, or on a publicly financed or subsidised project. Improvements in our education and training system should continue, with special attention given to programmes which will help those most at risk of unemployment. This new approach will be particularly important if unemployment remains high during the build-up to a more satisfactory rate of economic growth.

More co-operation in employment policy and in individual workplaces is needed to permit the introduction of technological improvements, and to cope

with the adjustments which will be required because of changes in market demands or the new approaches to industrial policy which our circumstances require.

The new approaches to industrial policy which the Council recommends put more emphasis on positive assistance to industries with good growth prospects; for instance, through a more active use of the exchange rate to keep the earning and saving of overseas exchange profitable, and through more assistance with research and development and with training. These new approaches will be more critical of continued high protection or subsidies to industries unless there is substantial justification on social and strategic grounds. They will continue to critically appraise the need for Government regulations on enterprise. They will positively promote competition in the domestic market and try to ensure that consumers are not disadvantaged by monopolies and by private restrictive practices. The gradual changes in the structure of our industry which will occur as a result of these new approaches will not be difficult to cope with, given co-operation between the Government, management, and unions.

New Zealand's high inflation is damaging our prospects for recovery. How to bring it under control while restoring full employment through economic expansion is a major challenge. This cannot be solved by the Government alone. The Council recommends that the Government involve the representatives of unions and employers much more actively in helping it to make appropriate decisions on economic and social policy. This should not be confined to trying to secure more consensus on the limits within which bargaining about pay should be conducted. The Council regards such a social contract as of considerable importance. But in addition, unions and employers should be involved in discussion of guidelines for the growth of money and credit needed to promote increased employment without excessive inflation. They should also be consulted on the general outlines of a responsible policy on the growth of Government spending and its financing.

Both economic and political conditions are likely to constrain the growth of Government spending in the 1980s, although special measures to sustain employment may be needed in the earlier years. The Council believes that the basic elements of the Welfare State should be retained, but that the conditions ahead are likely to require more selective approaches directed to more specific aims. With the limits of Government support made clear, the State could then encourage and assist others to assume responsibilities which they are better fitted than central government to bear and which may achieve wider social objectives better.

In the provision of social services the Council envisages progress coming in greater measure from people and organisations trying to deal with social issues themselves, using assistance now available, if necessary, rather than looking to the Government for more. The Tu Tangata programme is a good example of a fruitful new approach. The family, voluntary societies, unions, employers, local bodies, and neighbourhood groups would assume more relative importance than in the past.

Benefits would continue to be financed and administered by the central government. There would be no diminution in the assistance granted to those in need. Indeed, such assistance could be improved, not only through the extra resources which would become available with economic growth but also through reappraisal of the allocation of funds devoted to social welfare among the different benefits and services, so that the criterion of need was given greater weight than at present.

We envisage central government having relatively less detailed responsibility for the delivery of services. However, it would retain the leading role in setting the aims, standards, and broad directions of social policies; in providing for income maintenance; and in determining the appropriate level and pattern of central government expenditure on social services, after widespread consultation with others on their related roles and responsibilities. In short, the essence of the Welfare State would remain, but

future improvements would come less from Wellington and more from individual and collective effort of New Zealanders concerned for the well-being of their families and their fellow citizens.

CHAPTER 1 SOCIETY IN CHANGE

Planning is for people. It aims to help us improve the quality of our lives. Our plans must be based on analysis of the opportunities and constraints which will affect the ability of New Zealanders to achieve our major objectives.

Some of these are:

- freedom to choose;
- improved standards of living;
- access to meaningful work;
- opportunities to develop our talents through education, recreation and cultural activity;
- security of person and of property;
- stable economic and social conditions;
- adequate social security against hazards;
- fair sharing of the fruits of production;
- fostering of family and community bonds;
- involvement in decisions with important effects on our lives;
- stewardship of resources and the environment;
- and friendly and peaceful relations with other countries.

The precise interpretation and the relative importance of these objectives will vary from person to person, and from time to time. There are limitations on our ability to achieve all our goals, and pursuit of any one may result in conflict with others. Choices must therefore be made. Our priorities are reflected partly in the way individuals and enterprises use their time and money, and partly in the decisions made by central and local government agencies.*

Chapters 1 and 2 examine some of the issues likely to affect New Zealanders in the 1980s. Many have been touched on only briefly, especially when elaboration can be found in other Council publications. Some could not be pursued as far as the Council would have wished because of a lack of data. For

convenience, social and economic topics are separated, though in reality they are closely intertwined. An unstable and divided society provides no satisfactory basis for economic progress. A stagnant or declining economy undermines opportunities to improve social conditions and heightens industrial and social tension.

New Zealand needs to be both more competitive and more co-operative. Some people see these qualities as incompatible. Given the right conditions, a more competitive society should mean more emphasis on serving the requirements of customers, here and overseas, as effectively as possible. What is needed is more freedom and incentive to apply enterprise, innovation, and energy to providing goods and services which people want at reasonable prices. Competition from others who are striving to do better is one spur to more widely adopting these characteristics, which are needed to get New Zealand on the road to economic and social progress again.

But these characteristics are not enough. In addition, we need co-operation—in the factories, in the wider community, and between Government and those whom Government serves. Such co-operation demands more involvement of workers in decisions affecting their work and income, better communication among politicians and the electorate, more effective consultation by public servants with the public they are paid to serve, more active concern by all for the needs of others. The co-operation cannot be token. If we are to succeed, we need more commitment to the principles of open government and social partnership so that all New Zealanders can have a sense of belonging.

The discussion which follows is based on three major assumptions:

- The quality of life is mainly dependent on our personal endeavours, individually and collectively, and the relationships which we develop at home, at work, and in our communities.

*For a further discussion see Report of Task Force on Economic and Social Planning, Government Printer, 1976. ch. 2 (What Sort of Society?) and *Planning Perspectives 1978-83*, pp. 51-53.

- The State has responsibilities for: protecting dependent children; providing basic income for those disadvantaged by sickness, disability, unemployment, or old age; and ensuring more equitable access to health, education and social services, and more equitable distribution of income than the market system alone would provide. There are, nevertheless, limits to the State's ability to enhance social well-being.
- Central government, while still providing protection for the disadvantaged, should intervene less. Individual citizens should be encouraged, not frustrated, in being more self-reliant. Organisations, communities, and regions should be able to take new initiatives and thus play a bigger part in helping people care for each other. This is the notion of the Welfare Society.

Population Changes

Important changes have been occurring in our population. These have been fully described in *The Population of New Zealand*.^{*} Six aspects are particularly noteworthy.

The long-term decline in birth rates: This generally implies slower population growth through natural increase though there are geographic and ethnic variations. This will lead to changes in demand for various services such as health and education.

Continued rapid growth of the labour force: Although an increased ratio of the labour force to population means that each worker could have fewer dependants to support, it will be a big challenge to find some quarter of a million jobs during the decade. The number of new jobs needed for full employment will depend on a variety of factors, but particularly on

^{*}R. J. W. Neville and C. J. O'Neill (eds), *The Population of New Zealand*, Longman Paul, Auckland, 1979.

participation rates and net migration. While participation rates for the very young and for older workers have been declining, rates for women have been increasing;[†] however they would undoubtedly be higher if employment were more readily available.

The recent high external migration: The number of New Zealanders leaving permanently and for extended periods has shown a long-term upward trend. At the same time, fewer people have been attracted or allowed to come here. The Council's survey *Migrants and their Motives*[‡] noted the higher than average level of skills and qualifications among emigrants. This gives grounds for concern about the effects on our labour force if a net outflow continues.

The changing racial composition of the population: Although in 1979 Maoris made up only 9 percent of the total population, they comprised 13 percent of the population under 15. People from the Pacific Islands, account for about 2 percent of the population. During the 1980s, Maori and Pacific Islanders, mainly because of higher than average fertility rates, will form a larger proportion of the total population. The proportions are, and will be, much higher in some areas such as Auckland. These trends will obviously affect New Zealand's cultural and national identity.

The changing family and household structure: There is a smaller proportion of "traditional" families of working father, dependent mother and children. There are more one-parent families and one-person households; fewer children per household;[§] and with the increase in married women working, more households with two incomes. These changes call for a reappraisal of present

[†]For a more extended discussion on employment trends and implications see New Zealand Planning Council: *Employment: Towards an Active Employment Policy*, The Council, Wellington, October 1980.

[‡]Rosemary Barrington and Judith Davey, *Migrants and their Motives: A Study of Migration from New Zealand*, New Zealand Planning Council, Wellington, July 1980.

[§]See New Zealand Censuses of Population and Dwellings, 1971 and 1976.

approaches to income distribution, taxation, and benefit policies as well as housing and community attitudes.*

The changing population distribution: Though internal migration patterns have traditionally shown distinct shifts from south to north and from rural to urban areas, there is some evidence that these movements are slowing down and in some cases even reversing.† The process is very complex. Like those leaving New Zealand, internal migrants tend to be young and highly skilled. They therefore have the capacity to reinforce growth rates in urban areas at the expense of smaller towns and rural centres.

Policy Implications of Population Change

What are the implications for policy of these changes; what especially is the role of central government?

Good planning and policy-making require the systematic monitoring of population trends. Some trends, such as declining fertility rates, reflect deep-seated changes in personal attitudes and social behaviour. While the decline may be arrested, or even reversed, it is not likely to be altered by Government intervention—even if a Government wished to intervene. Overseas experience in fact indicates a singular lack of success among those governments which have attempted to encourage fertility increases longer term.‡ Indirectly, governments may, however, influence natural increase through public education and public health programmes.

Whether people, here and overseas, see New Zealand as a relatively attractive place to live will be the main determinant

of net migration. Pursuit of the policies suggested in this report would, the Council believes, help to keep and attract people here. New Zealand would be seen as a country with political stability and good economic and social prospects. The main direct approach available to the Government is control of immigration. The rules were tightened in the mid-1970s. More recently, they have been somewhat relaxed, both in respect of the range of skills sought and sources of migrants. Although the Council believes that improved training for a growing labour force is the best means of ensuring that we will have the skills needed for development in the 1980s, it recommends that the liberalised approach to immigration should continue and promotion be stepped up. Erratic changes of policy should be avoided.

Attempts by Governments to influence the distribution of population and income through regional development policy have not been as successful as they had hoped. This is partly because there was too much emphasis on support to manufacturing in the early stages of the policy. In fact, the best stimulus for growth and employment will vary from region to region, and may be found in agricultural, forestry, or service sectors, as well as in manufacturing. National strategies rather than selective intervention are the most effective ways of encouraging development.§

There is some evidence that since 1976 growth in the main urban areas and the net loss of population from rural areas has slowed down considerably. This may be reinforced in the 1980s by a continuation of the policy to revive pastoral output, and by continuing to expand horticulture, fishing, and forestry and processing of new products. New energy developments will also contribute to growth in Taranaki, Northland, and the south of the South Island, for example. These influences are

*See *The Welfare State?* Part IIID, and pp. 18–22 of this report.

†A detailed analysis of internal migration is in preparation in the Department of Statistics and should be published later in the year.

‡See, for example O'Neill, C. J. "Fertility: Past, Present and Future" in *The Population of New Zealand*, op. cit.

§For a further discussion, see New Zealand Planning Council, *Planning and the Regions*, The Council, Wellington, April 1980, and Claudia D. Scott, *Regional Development Objectives and Policies: An Appraisal*, New Zealand Planning Council, Wellington, April 1980.

likely to be stronger, and more lasting, than those likely to come from specific grants for regional development. The regional planning process provides a framework for a positive search for opportunities for economic and social development as part of the new approach to regional planning.*

The policy implications of some of the other demographic trends will be discussed later. The following sections briefly survey the progress made towards some of the important social goals, and suggest policy directions which might aid further progress in the 1980s.

Freedom to Choose

New Zealand's democratic system, despite its faults, provides for individuals to have their voices heard and for policies to be modified to deal with many of their personal and social concerns. For reasons relating to protection of citizens, health, and welfare—but also often in response to democratic pressures—Governments and local authorities have created sets of regulations which many people regard as unnecessarily restrictive. It is important to distinguish between those regulations which are still needed, and those which have outlived their usefulness. Many people are concerned at the extent of restrictions, the concentration of power in the executive of the central government, and the recent tendency to concentrate power and monopoly in some areas of business.

The Council has from its inception advocated that central government, and local and regional authorities, should review restrictions they administer to ascertain whether they should continue, be modified, or abolished. The more critical approach now being taken by both the Government and opposition parties to such restrictions is welcomed and the Council recommends that the removal of unnecessary constraints should continue.

*See *Planning and the Regions and Regional Development Objectives and Policies*.

The Council also favours the continued devolution of power, and decentralisation from Wellington. It also believes the current policies on mergers, combinations, and restrictive practices in business should be reviewed to ensure that they are in the general public interest. Large-scale operations are necessary for efficiency in some businesses, such as pulp and paper manufacturing. However, especially in a relatively small country, the power inherent in business must be used responsibly and without adverse effects on consumers and workers. The same considerations apply to the use of the considerable power in the hands of some unions. They must be mindful of the effects of their actions on other citizens, and on the nation's long-term social and economic progress.

Improving Living Standards

The Council believes that most New Zealanders wish to improve their living standards. The economic policies suggested in chapters 2 and 3 have growth and improved living standards as important aims. However, growth can have costs as well as benefits.

In the first place, growth will involve change; some people may temporarily lose jobs or suffer loss of income. The employment policies the Council has advocated aim to reduce the adverse effects on individuals. Special attention should be paid in policy to communities which are particularly vulnerable.

Second, growth may have adverse effects on the environment, although it also increases the resources available to ensure that these effects are minimised and other aspects of the environment are improved. Procedures to resolve potential conflicts between development and the environment have been considerably developed in the past decade. There is still room for improvement, notably in earlier consultation among developers, local bodies, and the Commission for the Environment, as proposals are developed. The Council recommends that central government and local bodies, through the

regional planning process, should give priority to promoting streamlined procedures for considering proposals and reconciling conflicts which can be frustrating and costly to both developers and environmentalists alike. Collectively, smaller projects are important to our development, and it is not enough merely to provide "fast-track" treatment for a few large projects.

Third, growth increases the range of goods and services available, but the benefits fall unevenly and affluence does not necessarily make individuals happier, or society more cohesive. Governments can exert some influence on our lifestyles*, but generally these must be a matter of personal responsibility.

Opportunities for Cultural and Recreational Development

Despite our recent economic difficulties, the range of choice of leisure-time activities grew during the 1970s. New Zealanders seem to be extending their participatory sporting and hobby interests. Even very small towns have a surprising variety of clubs and community groups. Our towns and cities have become much livelier places. Eating out has become an accepted part of our way of life, and the range and style of restaurants, cafes, and pubs are perhaps an expression of our growing enjoyment of diversity.

Entertainment has become more diverse. Television has helped give these developments impetus by providing opportunities for New Zealand performers—from light entertainment to opera—to develop their talents. It has also provided opportunities for New Zealand writers, composers, and designers. Television, rather than detracting from live entertainment, seems to have encouraged it. A number of professional and semi-professional dance, music, and

theatre groups are now well-established; some of them specialising in producing original works. Maori people continue to make a distinctive contribution through development of their traditional culture, through mastery of other forms of entertainment, and through the festivals which bring together talented people from our own country and the Pacific Islands.

We have a small but lively film industry. Publishing has blossomed: in 1980 the National Bibliography received a 25 percent increase in New Zealand publications. Community galleries and craft shops have increased the awareness of the work of New Zealand artists and craftspeople.

The Government has played a small, but important, part in seeding some of these cultural and recreational developments. The Council believes that the Government should continue to play such a part in the 1980s. However, with the general growth of public expenditure constrained, it would be timely for Government to confer with the appropriate people outside the administration on how best to share responsibility for sustaining the impetus of recent years, and devise an appropriate strategy for the decade ahead.

Equality of Opportunity

Tu Tangata

The proportion of people of Maori descent is increasing. Many have had to move to the cities in search of employment. Rapid urbanisation has meant that a generation has emerged removed from the traditional forms of social control. No longer are the elders readily available to perform their disciplinary and supportive functions.

The transition for the Maori is a difficult one. Social and economic change has been positive for some; for others it has created frustration, tension, and bitterness. This has surfaced in violence and the rise of activist groups. These developments have also been difficult for the Pakeha who increasingly must acknowledge difference and diversity instead of the more comfortable view that New Zealand is a homogeneous society.

*See, for example, recommendations on health policy in Part IIIA of *The Welfare State*?

In 1977 the Department of Maori Affairs reappraised its policies and adopted the concept *Tu Tangata*—stand tall. The words are simple but they captured a mood in Maoridom. The concept recognises that human communities contain inherent strengths, resources, and capacities to generate solutions to their own problems and to make decisions affecting their lives.

This requires a shift away from institutional dependence and a change of role on the part of social agencies. Their function becomes one of monitoring, co-ordinating, and supporting community-generated activity. A guiding principle is that self-generated solutions are much more palatable than paternalistic solutions imposed from a distance. This principle is obviously applicable generally.

Some have been concerned that the new approach is aimed at, or will contribute to, racial separatism. The Council sees it as a recognition of the cultural diversity which will characterise New Zealand's future, and as an imaginative effort to enable Maori people to participate in the mainstream of New Zealand society, while retaining such elements of their culture as they wish.

The Council supports further development of the *Tu Tangata* programme. There is already evidence of desirable diversification of activity, with more Maoris assuming leadership roles, as they move into new occupations in the public and private sectors. The establishment of marae-based enterprises has fostered some exciting approaches to development of small-scale business and the expansion of rural employment.

Maori leaders have always emphasised the importance of their language as a key to understanding their culture. There has been a spectacular increase of interest in learning Maori; in 1979, nearly 15 000 secondary school children of all races and about 50 000 primary school children were learning Maori.* Although it does not suggest that Maori language should be compulsory the Council believes

familiarity with both the language and Maori life is a feature to be encouraged in our educational system. There is some evidence that Maori children's academic achievement is higher where a strong Maori language programme is available.

The tribe is an important focus of language and custom, but some urban Maoris have lost contact with these. Consideration should therefore be given to proposals for establishing a Commission for Maori Language.

There is room for only one law, but there is room for flexibility in the way it is administered. For example, if Children's Boards, as provided for in the Children's and Young Persons' Act, were convened on marae where appropriate, this would provide an opportunity to bring in traditional social patterns of obligation to the marae, and possibly enhance chances of rehabilitation in a more imaginative way.

Children, Youth, and Education

Involving parents and others in the community is especially important in the field of education. Some important educational issues were discussed in *The Welfare State?* The Council emphasised the importance of co-operative efforts designed to detect both children's potential and their difficulties early, and to plan appropriate action. Decreasing school rolls should make it possible to continue to give effect to recommendations made in *The Welfare State?* to strengthen the ability of schools and supporting services to help those with special needs. It is important that these wider needs are recognised and declining rolls are not seen purely as an opportunity to cut costs.

Although developments of recent years have brought about marked improvements in our education system, so that it serves most children well, there are still many who are "turned off" by existing programmes, especially at secondary school. The efforts being made to devise courses which not only extend those of academic ability, but also cater more adequately for those whose main talents lie in other directions should be extended. This would not mean less emphasis on the

*See Report of the Department of Education for the year ended 31 March 1980, p. 29.

development of the basic skills of thinking, reading, writing, and calculation. Rather it would mean developing these skills along with other important qualities such as initiative, reliability, consideration for others, and an understanding of human relationships, through methods and disciplines more suited to the differing interests and aptitudes of pupils.*

The extent to which criminal statistics are dominated by young people is an indication of malaise in our society. This has contributed to more concern than in the past about the security of persons and property, especially in towns and cities.

The Council believes that further action on the recommendations it has made on changed curricula in the schools; development of work experience, work exploration, and vocational educational schemes; improvements in technical training and apprenticeship training (both on and off the job); and improvement of our employment and counselling services in the context of a full employment policy would contribute a great deal to reducing the problem.

However, although the Government can help reduce the problem through its educational institutions and social welfare agencies, the main contribution must come from families, young people themselves, and community organisations. There is a strong need for places of entertainment (not associated with alcohol) for young people, and for youth organisations, with wider appeal than those now available.† A few schools are providing after-hours programmes, and the increasing number of school holiday programmes is an encouraging sign of awareness of this problem, with both local authorities and voluntary organisations taking initiatives. However, there is much more to be done.

The Council believes that child care (not only for those of school age but also for younger children) requires urgent

attention. Although the total number of children aged 2 to 4 years has been decreasing an increasing proportion have been using pre-school facilities (43 percent in 1979 compared with 28 percent in 1971). The relative emphasis on different pre-school patterns has changed. The numbers at playcentre, where parental involvement is emphasised, have been declining markedly since the mid-1970s. Kindergarten rolls and attendances at day-care centres and factory creches have increased slowly in the same period. But places at day-care centres, in spite of doubling between 1971 and 1979, still total less than 5000. The 1976 Census recorded nearly 30 000 women with pre-school children working full-time, and an additional 19 000 worked part-time.

Apart from limited studies‡ there is little known about what other forms of child care are used. We don't know, for example, how many small children are left on their own when their parents work, or how many are in the hands of "back-yard minders". But if participation rates of women continue to increase, questions of responsibility for child care, parental sharing, and income support will become increasingly important issues.

The pattern of provision for, and of State assistance to, the different types of facility may not be changing fast enough to meet the changing needs of parents, and the educational and social needs of pre-school children. The Council is particularly concerned at the lack of facilities for full-day child care, which will help parents reconcile their desire to work with their desire to have children and ensure good quality care for them.

The Government has received reports on various aspects of early childhood education and has taken some action based on them. Nevertheless, the Council believes there is a need for:

- a systematic review of the present arrangements to identify the areas of

*See *The Welfare State?* pp. 57-58 and *Employment* pp. 26-28.

†The recent study of youth services by the National Youth Council, *Youth in Perspective*, 1980, included a stock-taking of youth services and indicated areas where greater co-ordination or more explicit youth policies were needed.

‡See for example Society for Research on Women in New Zealand, *Urban Women*, The Society, Wellington, 1972, and Rae Julian, *Brought to Mind: a Study of Informal Family Day Care in Four Geographical Areas of New Zealand*, NZ Council for Educational Research, Wellington, 1977.

greatest need for better facilities and training opportunities;

- a clearer definition of the relative responsibilities of parents, employers, unions, private and voluntary organisations, local bodies and central government to provide and finance the facilities and staff;
- a redefinition of priorities in allocating the funds provided by central government to subsidise early childhood education, having regard to the need for recognised educational content in day-care programmes;
- a closer examination of how far school facilities and people within the local community can be used to improve child care and early childhood education; and
- decisions on whether the responsibilities at present divided between the Department of Education and the Department of Social Welfare provide a satisfactory basis for development in the 1980s.

Women in the Workforce

In the last two decades, more women have sought and found an independent role outside the home. In the early 1960s most women over 16 years of age in paid employment were single (54.3 percent in 1961), married women now comprise the majority of the female workforce (56.8 percent in 1976). Women are having fewer children and completing their child-bearing earlier so that most women by their mid-thirties have all their children at school. Thus the increase has been greatest in the 35-54 age group; participation has grown from 25.4 percent in 1966 to 42.5 percent in 1976.

This development has implications for women, their families, and for society at large. For instance, some are concerned that many women are disadvantaged because acceptance of greater responsibilities outside the home is not balanced by relief from responsibilities within it. Others are concerned about voluntary services. It appears that women's participation in voluntary organisations is declining and some established voluntary agencies have had to go into recess. At the same time new types of organisations are being set up along

with the social worker volunteer system associated with the Department of Social Welfare. Others worry about the effects of change on children. The Council believes that participation of women in the workforce is a fact; that it will continue to increase; and that it should be accepted. Economic pressures on one-income families are clearly a factor; but so too are considerations of self-esteem and a reluctance to be dependent.

There are strong arguments in equity and logic to remove the remaining impediments to full and equal participation by women in the workforce. In *Employment* (p. 41) the Council proposed tentative steps to remove distinctions in the payment of income maintenance related to unemployment and training between people who have a spouse whose weekly income is above a certain minimum (mainly married women) and others. (In our view the relevant considerations are ones of cost, practicality, and relative priorities.)

Equal pay and greater equality of opportunity to enter the workforce are not the end of the matter. Changes in legislation on human rights, equal pay, and matrimonial property have been helpful, but further changes in attitudes are needed to allow women who wish to combine family and career responsibilities to develop their potential and secure advancement on merit. For example, there is a need for employers to be generous in recognising experience which may not always be specifically job related, and to take account of proven potential as well as seniority and experience on the job in deciding who should receive promotion on merit.

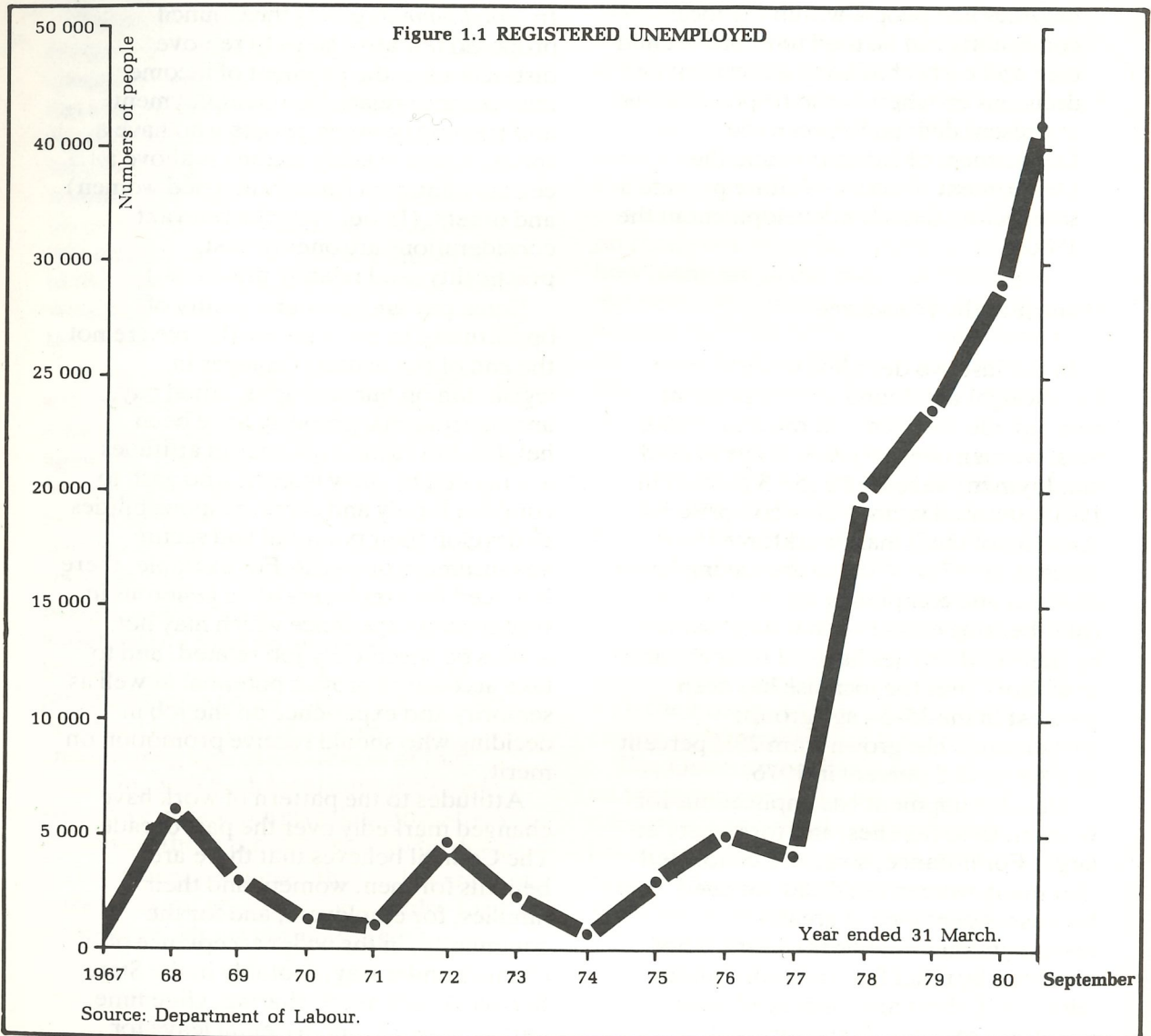
Attitudes to the pattern of work have changed markedly over the past decade. The Council believes that there are benefits for men, women, and their families, for employers, and for the community, in the wider acceptance of changes under way, (notably in the State Services) such as job sharing, glide time, part-time work, and parental leave for special circumstances affecting children.

Women in Decision-making Positions

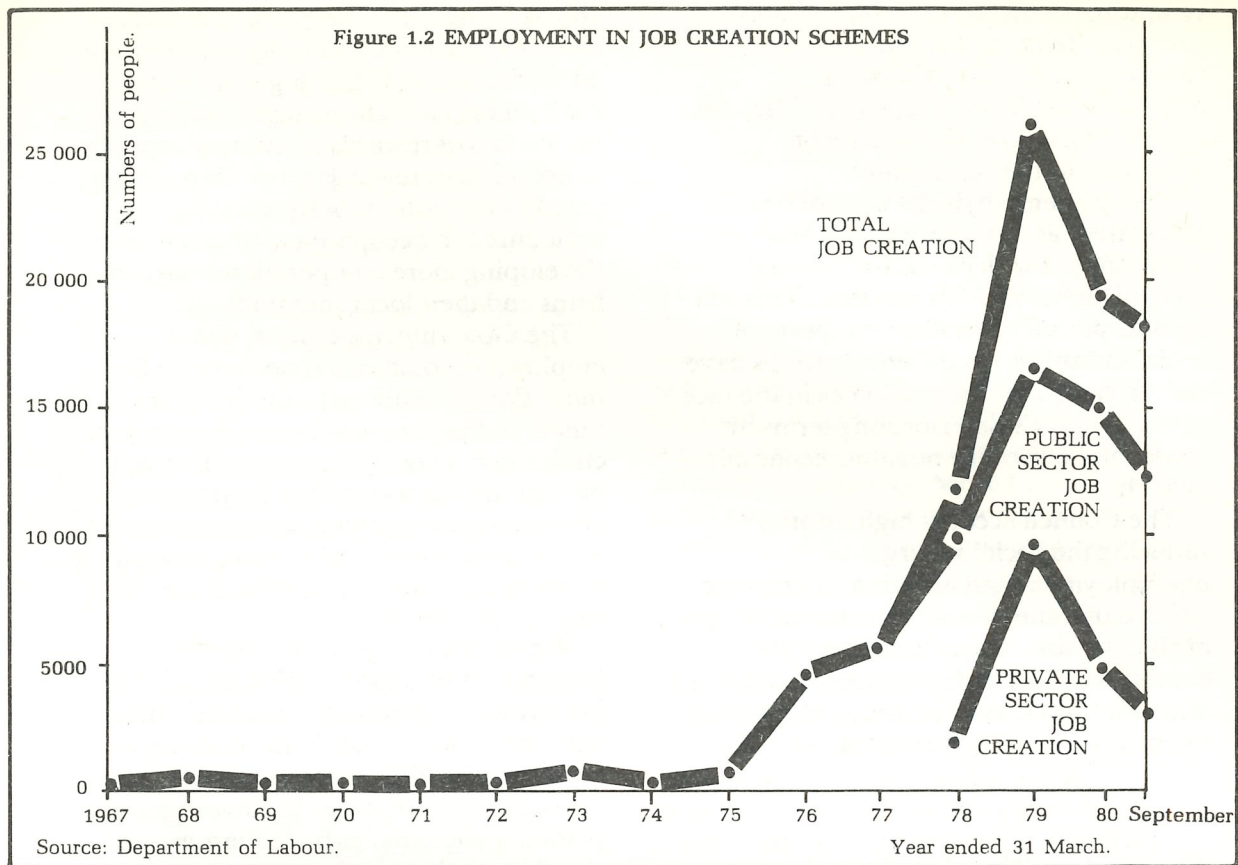
Women's participation in decision-making positions has not increased as rapidly as has their participation in the workforce. For instance at the end of the 1970s only 4 of our 92 MPs, about 16 percent of local-body members, and about 20 percent of members of other statutory bodies were women. Trade unions, with 30 percent of their members women, had only 5 percent female executive secretaries

in 1979. Women's own attitudes and preferences will be an important factor in changing this balance, but the desirability of change deserves more attention by those (mainly men) now in positions of responsibility.

Recently, deliberate action was taken to increase the number of female Justices of the Peace. In spite of a concerted move by the Minister and women's groups, this has not brought about equal numbers of men and women in new appointments.



*The September 1980 figures are the most recent available not distorted by seasonal factors.



The report of the Select Committee on the Role of Women in New Zealand Society recommended, in 1975, that the Government make a positive effort to involve more women in high-level management and policy-making posts of the public and quasi-public sector.

Women have implemented the second part of this recommendation by going beyond submitting the names of women "thought to be suitable for public office". The Women's Appointment file, operated on a co-operative basis by major women's organisations, can provide not only the names, qualifications, and experience of women throughout New Zealand, but also their interest areas, and has machinery for making agreed nominations, up-dating information, and obtaining the consent of nominees. Despite this initiative, which attracted admiration from delegates from other countries at the 1980 World Conference of the United Nations Decade for Women in Copenhagen, nominations made from the file have not yet resulted in many appointments.

Work Opportunities

The increasing unemployment of the late 1970s is probably the most serious social issue with which policy must contend in the early 1980s. The statistics from which figs. 1.1 and 1.2 were compiled do not show the full story of women, young people, older people, the disabled, and others who would like paid work but are not registered as unemployed or have returned to school, for example.

The pain of unemployment is not spread evenly. There are wide geographical disparities. Three-quarters of the registered unemployed are under 30, and nearly half under 20. The numbers of Maori and other Polynesians is disproportionately high. The inexperienced and unskilled make up a large proportion of those registered. A perpetuation of this pattern would have serious implications for the stability of society. Already there are discernible links between high unemployment and

symptoms of social stress such as crime and racial tension. People who want, but cannot find, jobs feel financial, psychological, and social stress. They lose a sense of purpose and a sense of belonging to the community.

Rising unemployment has not been associated, as it once was, with less inflation, but with prices fluctuating around higher rates of increase. This can be interpreted as another symptom of social instability, as different groups have striven to sustain their incomes in the face of the country's deteriorating terms of trade, and of slow or negative economic growth.

The Council accords high priority to reducing the social scourges of unemployment and inflation. It does not believe that the standard economic recipes of the past are adequate on their own; a combined effort by Government, unions, and employers' associations is essential if the problems are to be solved.

Opportunities for Involvement

Although many people prefer to confine their attention to their jobs and their personal and family interests, in the 1970s increasing numbers have sought greater involvement in community decisions which they see as important. This trend will, and should, continue in the 1980s.

It is significant that the Employers' Federation has appointed a senior officer concerned with developing more involvement of workers and unions in decisions affecting the enterprises in which they work. More action along these lines could, the Council feels, greatly improve industrial relationships and thereby help productivity which is necessary to raise living standards. It will be a challenge to marry workers' demands for new forms of work organisation with the need in the 1980s for the greater flexibility in the productive sector which will arise from the adoption of new technology, adaptation to international competition, and the need for further structural changes. In addition to giving workers more say, and developing new patterns of working hours

and working life, changes required are likely to include: organising work in a less authoritarian way; making work more challenging and interesting; reorganising the system of rewards to acknowledge the importance of rewards other than money; paying more attention to reducing accidents and occupational diseases; and developing more co-operation between firms and their local communities.

The Government, unions, and employers should continue to strive for more flexible work patterns and work times, so that employees may have greater choice in managing their time. This is particularly important for those caring for young children, or wishing to be involved in community or social service, or wanting to make a gradual phased transition from work to retirement.

We have already mentioned the importance of opportunities for involvement of parents and other citizens with the professionals in the delivery of education, health, and other social services. Opportunities for involvement in planning and policies by Governments should be helped by improvements in environmental procedures, and local and regional planning.*

Effective involvement requires access to relevant information, and the Council welcomes current initiatives designed to make timely information as freely available as possible to concerned citizens. The Council set out its views on open government in its submission of 27 October 1978 to the Committee on Official Information (the Danks Committee).

The Council believes greater freedom of information is necessary because:

- it gives the opportunity for a broader range of interests and values to be accommodated;
- discussion and public involvement in planning choices often lead to a greater public responsibility and commitment to lines of action;
- there is the need in a democracy for the public to be able to evaluate the

*A discussion of the opportunities of the regional planning process is contained in *Planning and the Regions*, p. 13.

- competence of government, or of the public agencies;
- an adequate flow of information is essential to co-ordinate actions by different groups in our society;
- knowledge that information will be published often leads to a more professional and objective approach to those involved;
- greater freedom of information makes it easier for all groups and individuals in our society to be involved.

The Danks Committee report has just been published. We hope it will lead to significant reforms in present legislation and practice; and that the Government will move quickly towards greater liberalisation.*

Fair Shares

There will always be disagreement about what are "fair shares". The Council has attempted to address some of the issues in various of its reports.† Unfortunately, rational and informed discussion is inhibited by a lack of factual information on which to base an analysis of trends.

The issues of fair shares are debated in several contexts. Some are concerned about the appropriate shares of national income among wage and salary earners, farmers, and other business enterprises. Others focus on the distribution of income (and wealth) among individuals. Government modifies the distribution in several ways, notably by taxes, benefits, and subsidies.

Chapter 3 explores the means of keeping conflict between employers and employees within bounds consistent with the country's longer-term interests. This requires co-ordinated monetary, fiscal,

and incomes policies which the social partners (Government, employers, and union organisations) have helped devise, even if they do not always fully agree with the outcome.

The attitudes of the social partners, and Government, are vital to fulfil another aim to which the Council attaches importance for the 1980s: namely, to achieve greater flexibility in wage and salary structures so that more can be paid to workers with skills in short supply. The past emphasis on maintaining relativities has made it almost impossible to do this without raising pay generally. More flexible pay rates may also be desirable for young workers in difficulty finding employment.

Providing adequate margins of take-home pay would be assisted by further reform of our tax system. At present, there is too much emphasis on personal income tax as a source of revenue. The tax rates rise steeply even for quite modest levels of income; for example, tax rates rise from 35 to 48 percent on earnings above \$12,600. This provokes claims for big pay increases to compensate for higher taxes as well as higher prices. This in turn aggravates already serious inflationary pressures, and adds to the problems of businesses in coping with inflation, especially when the profits on which they are taxed are based on historical costs.

Some companies, especially exporters, can greatly reduce these problems because of tax incentives and deductions. However, the fact that some large companies are paying so little tax has increased concern about the equity of the present system. The inequities do not arise only between exporting companies and others. There is also concern about the distribution of tax burdens among individuals, with so many available ways to reduce or avoid taxation, for example, through family trusts, "tax-loss" ventures, or untaxed fringe benefits, and capital gains.

The extent to which reform will be possible will depend on:

- the extent to which the growth of Government expenditure can be curbed;

*The report, *Towards Open Government*, was released too late for the Planning Council to take into account in this document.

†For example, in *Planning Perspectives, The Welfare State?, Income Maintenance and Taxation, Tax Reform, and Working Together*.

- the possibilities of switching the sources of revenue from income tax to other taxes; or of widening the base of income tax by reviewing deductions and reducing the possibilities of avoidance and evasion of tax.

Neither course will be easy. However, in the Council's view, progress is possible in the 1980s, along with further improvement in the lot of the disadvantaged and of those with dependent children, as important elements of preserving "fair shares".

The Council sees no inconsistency in advocating increased margins for skill and tax reform, as well as better provision for those most in need. The former can, by stimulating increased production and productivity, provide more scope for better welfare throughout the social system. In fact, much of the Council's concern for growth in production and incomes has stemmed from its view that distribution issues will be resolved more readily in a growing economy than in one in which redistribution will mean less for some people, if others' needs are to be adequately provided for.

Moreover, there is room within the total expenditure on social benefits and services for the reallocation towards those most in need if this is one of the Government's priorities. Present tax incentives, rebates, and subsidies, which some commentators have dubbed "the business welfare state" should also be reviewed. As indicated later, for example, greater use of the exchange rate could help achieve some of the objectives now being pursued through budgetary measures.

Some switching from personal income tax to indirect taxes is another possibility. However, to be effective, this needs collaboration from unions, and employers organisations to ensure that the switch does not provoke unjustifiable and undesirable pay and price increases.

The Council cannot provide easy answers on how to reconcile fair shares with economic progress, especially if the priority problem of sustaining full employment requires extra public expenditure on works, services, and benefits while private activity is depressed in the early part of the 1980s.

Nevertheless, given a co-operative approach, there is room for manoeuvre,

and it is in the interests of all New Zealanders that this approach be taken.

There are trade-offs to be made. Restraint on consumption is inevitable, if production is growing slowly, while the investment and exports needed as a basis for a stronger economy are developed. When this basis is provided, and production expands, there will be more to share, and the trade-offs will be less severe.

The Council is not suggesting any reduction of Government support to those in need; indeed, we recommend that priority be given in social policy to a closer examination of which people are in greatest need of support in our society, and how that support might be best extended. However, while we believe that our society should provide a basic income below which individual and family income should not fall, we also consider that New Zealanders should accept that we shall need to recognise in pay scales, and in the tax structure, the need to reward those who can provide the skills, the enterprise, and the organisational abilities which we need in the next phase of our development.

Welfare State to Welfare Society?

Full employment was one of the achievements of the 1950s and 1960s which has come under challenge in the last decade, and new approaches are obviously necessary now to achieve this important goal. Another important achievement was the creation of the Welfare State through a set of Government policies designed: first, to assist those in need, and provide individuals with security against hardship arising from sickness, old age, death of the breadwinner and so on; and second, to ensure that all citizens had access to good health care and education regardless of their ability to pay.

The Council believes that the objectives of the Welfare State remain fundamentally important, and that the basic elements should be retained. Nevertheless, as

elsewhere in the world, it is time to reappraise old approaches. People are questioning the role of governments in social change and the extent to which the State is able to deal with increasingly complex social issues. The boundaries of Government responsibility may need to be more clearly defined.

There are social and democratic reasons for spreading the responsibility for community well-being outward from central government. There are other reasons also. First there is greater resistance to increase taxation, indeed an increasing desire for tax reductions. This must constrain the growth of Government spending on social services and benefits which are such a high proportion of the Government budget. Second, the effectiveness of the old approaches is in doubt, especially in health care. Third, the more recent tendencies to make some benefits available on generous terms regardless of need—notably superannuation—are being questioned.

These limits have become more evident with slower growth. There is more concern than in the past that some of the money spent on welfare might make a greater social contribution if it were used for productive investment, thus promoting growth and reducing unemployment.

Having regard to these limits, the Secretary-General of the OECD recently suggested that governments might need to move from the Welfare State to the Welfare Society. This would involve recognition of the excessive expectations in the past of what central governments can do to promote social welfare. This should not mean a reduction in central government's interest in social welfare. Indeed, as the previous discussion in this report has indicated, it is vital that social considerations be taken more explicitly into account in all elements of policy. The State would remain the main guarantor against social risk. But it must systematically review the scope of its social programmes to test their effectiveness in relation to the costs, and the appropriateness of central government, as opposed to other sections of the community, retaining the primary responsibility for promotion of welfare.

The conditions of the 1980s are likely to

dictate more selective approaches directed to more specific aims. With the limits of Government support made clear, the State could then encourage and assist others to assume responsibilities which they are better fitted than central government to bear and which may better achieve wider social objectives. The Council supports this general approach to improving social welfare. We believe that it would have merit even if economic and financial constraints were unnecessary. Real welfare cannot be produced just through tax-financed benefits and institutions.

With a stagnant economy, governments have been facing very hard choices in health, education, and other social services, and in their policies on benefits. The approaches the Council favours for the 1980s are set out in *The Welfare State?* The Council notes that many New Zealanders have shown their willingness to take up social issues and to try and solve them themselves, using assistance now available if necessary, rather than looking to the Government for more. The Tu Tangata programme, and community action leading to the establishment of play groups, women's refuge centres, work co-operatives (such as The People of the Land Trust) offer alternative models to a centralised policy response.

These developments are in tune with the "bottom up" approach which we believe should assume relatively more importance in the 1980s. Benefits would continue to be financed and administered by the central government. There would be no diminution in the assistance granted to those in need. Indeed, such assistance could be improved, not only through the extra resources which would become available with economic growth but also through reappraisal of the allocation of funds devoted to social welfare among the different benefits and services, so that the criterion of need was given greater weight than at present.

In improving social well-being, we envisage a shift of emphasis back to informality, with the family, workplaces, voluntary societies, unions, employers, and neighbourhood groups assuming more relative importance than in the past. With a higher proportion of women at work, the responsibilities for voluntary service and

part-time paid service will have to be more widely spread. We are encouraged by some evidence that, given leadership and opportunity, many young people and people in retirement are glad to contribute time and effort to the service of their communities. Their contributions, together with those which always come from concerned men and women who work full- or part-time, will help supplement those traditionally available from women who are not in paid employment.

More work needs to be done on the merits of different methods of delivery of social services. For example, to what extent can schools be better used as centres for community activities, or to bring teachers, parents, children, social workers, and others together more effectively to help with potential personal and social problems? How cost effective are preventive community-based health services compared with institutional hospital services?

In general we would expect New Zealand in the 1980s to react to the limits of the old approaches by less reliance on central government and on institutions, and wider public involvement in the provision of social services as is already happening with the Department of Social Welfare's volunteer scheme. Government would decentralise several of its own social programmes, and devolve more responsibility to regional and local agencies.

Local or regional administration is probably appropriate, for example, for casework, counselling, and employment placement. A regional focus seems desirable for the broader approach to the health services now being examined for Northland and Wellington—an approach which also has applications in education and is being pursued by the Department of Education, for example, in Nelson and Taranaki.

Firms and unions have responsibilities for aspects of social policy (accident compensation, leave provisions, etc.) which are not always recognised. In view of the critical importance employment issues will assume in the 1980s, firms, employer organisations, and unions will need to reassess their role in social policy.

Whatever the form of administration, support not intervention should be the rule. Intervention can easily diminish the capacity of people to cope. Important aims of the new approaches must be more emphasis on the promotion of well-being, early detection of, and attention to, potential problems, and flexibility in the delivery of services so that they are less remote from needs as perceived by those who seek help. The process of community development as an enriching activity has an important part to play in these new approaches.

Thus we envisage central government having relatively less detailed responsibility for the delivery of services. However, it would retain the leading role in setting the aims, standards, and broad directions of social policies; in provision for income maintenance; and in determining the appropriate level and pattern of central government expenditure on social services, after widespread consultation with others on their related roles and responsibilities. In short, the essence of the Welfare State would remain, but future improvements would come less from Wellington and more from the individual and collective efforts of New Zealanders concerned for the well-being of their families and their fellow citizens.

CHAPTER 2 ECONOMY IN CHANGE

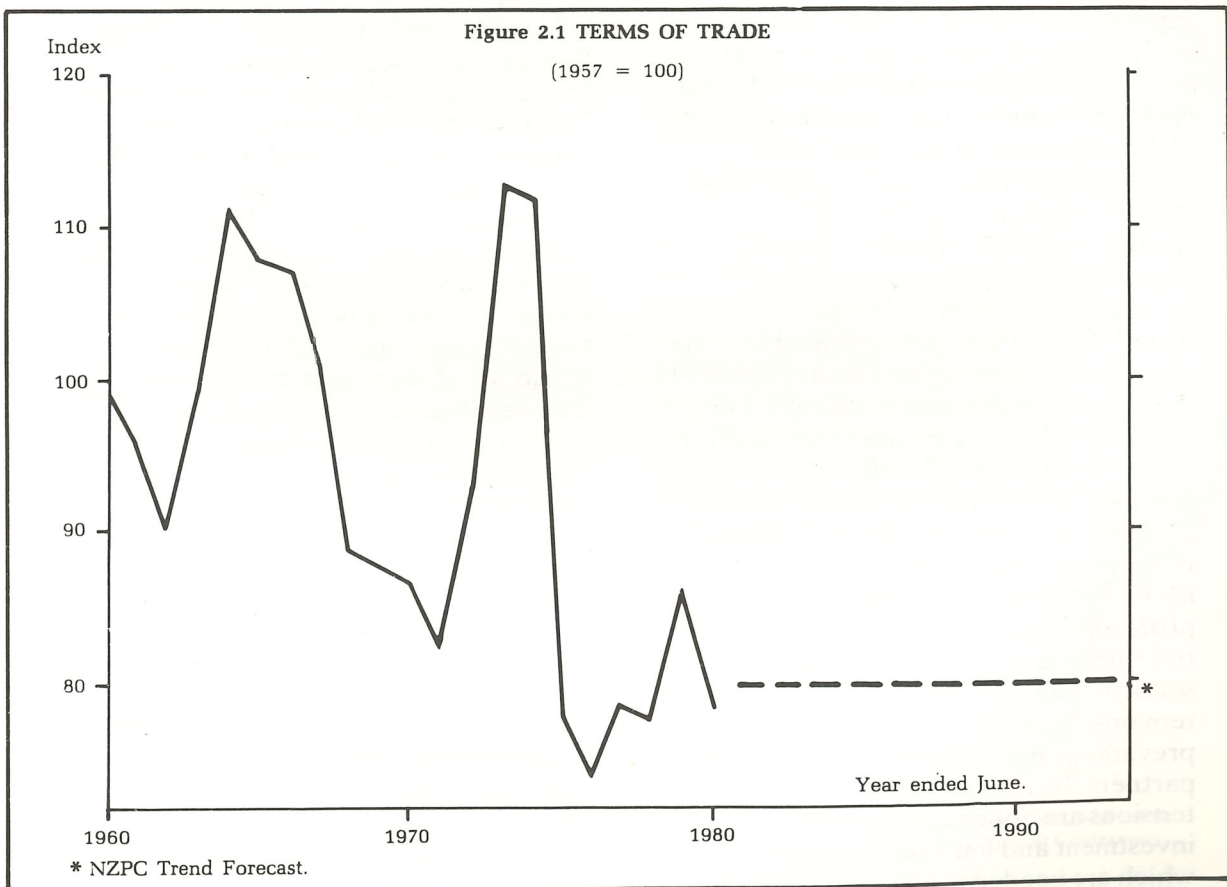
Introduction

A major aim of policy in the 1980s must be to overcome the economic stagnation which has beset the country since the mid-1970s. A stagnant or declining economy undermines opportunities for constructive work and the improvement of social conditions, and heightens social and industrial tension.

Factors overseas have been responsible in part for the length and depth of the recession. New Zealand's oil bill for example rose from \$77 million in 1972-73

to \$944 million in 1979-80, and seems likely to be about \$1,300 million in 1980-81. This could account for up to 25 percent of goods imports compared with 6 percent in 1972-73.

More generally, our terms of trade declined markedly from 1973 to 1975, as import prices escalated after the first big rise in oil prices. Low growth and high inflation overseas, and continued agricultural protectionism, compounded our trading difficulties. Although there has been some improvement, the ratio of export prices to import prices remains well below those of the 1960s and early 1970s (see fig 2.1).



But, even during the 1960s and early 1970s, the growth of the New Zealand economy was disappointing compared with most other OECD countries. People, enterprises, and the Government were reluctant to face up to changes necessary for economic expansion. Developments after the oil shock made change inevitable. A combination of depressed domestic conditions and changing economic policies has in fact led to considerable changes in the pattern of production and employment.

In publications like *Planning Perspectives* and *Economic Strategy 1979* the Planning Council outlined the elements of an integrated strategy it believed would help New Zealanders adjust to the new conditions. On the economic front, a major recommendation was for the Government to commit itself to keep the earning and saving of overseas exchange profitable, and to adjust the exchange rate and other incentives to honour this commitment.

Some important changes the Government has made to encourage exporting are now beginning to pay off. If export growth based on New Zealand's resources can be sustained, and the energy programme implemented effectively, it is likely the economy will continue to lift out of the stagnation of the recent past.

But stimulating exports is not enough. Other elements of the Council's strategy—designed to curb inflation, improve productivity, and make the economy more competitive and flexible—must also be implemented if the progress in exporting and improvements in the balance of overseas transactions are to be sustained, and a sounder basis laid for improving living standards and public services. Again, some important changes of policy have been made; for example, through less rigid control of enterprises, a more critical review of past policies of protection, and some improvements in training programmes and employment services. But inflation in New Zealand remains disturbingly higher than that prevailing on average among our trading partners. Its associated uncertainties and tensions are not conducive to the investment and improvements in efficiency which are needed if we are to take

advantage of opportunities open to us in the 1980s. Unless we solve this and our productivity problems, New Zealand could be left with a growth rate well below that warranted by an improved balance of payments.

Chapter 3 outlines a strategy to help make the transition from stagnation to moderate expansion. This chapter summarises the Council's views on some of the opportunities and constraints which lie ahead, and updates some of the projections and forecasts made in previous Council publications.

New Zealand and the World

The international situation at the end of 1980 emphasised New Zealand's vulnerability. The appropriate response must be a determination to strengthen New Zealand's ability to make its own way by reacting positively to the changing opportunities and threats posed by a world from which we cannot isolate ourselves.

New Zealand's trade with the Middle East increased rapidly during a period of heightening political and military tension. This illustrates only too clearly a new dimension in our external relations. We have greatly reduced our past reliance on assured access to the British market for a narrow range of pastoral products, though this remains vital for butter and lamb. The commercial risk is now spread but this has to be balanced against the political instability of many regions with which New Zealand trades. We need to diversify our sources of imports too: importers should buy from the cheapest reliable source. The possibilities of competitive domestic sources must not be ignored. Strategic considerations suggest that if necessary it is worth paying some premium to reduce dependence on important commodities likely to be in uncertain supply from overseas—notably liquid fuels. Diversification needs to be matched by flexibility in our diplomacy, and a tough-minded analysis of our national interests.

There are considerable opportunities in New Zealand's close association with the

dynamic economies of the Pacific Basin. Within a slowly growing world economy, the Pacific Basin countries are still expected to grow much faster than the average. This contrasts with the earlier post-war period when our trade was largely with the United Kingdom—the slowest growing of the major economies. The markets of the Eastern bloc are also becoming important for particular trades—notably wool and mutton to the Soviet Union. China also offers exciting possibilities.

Australia occupies a special place in New Zealand's commercial policy. The Council believes that a closer economic relationship can make an important contribution not only to trade but to the development of an efficient New Zealand economy.*

Underpinning the network of commercial relationships is New Zealand's stake in maintaining as open as possible a world trade and payments system, and in resuming steady growth in world trade. International trade is heavily influenced by the rate of growth in the domestic economies of the major Western countries; this seems unlikely to exceed 3 percent in the foreseeable future. The current forecasts suggest the growth of real GDP for OECD countries will average 1–1½ percent in 1981, and 2–3 percent in 1982. Inflation is expected to remain high.

The world economy has a very important influence on the price New Zealand gets for major exports such as wool and forest products. There are continuing problems about the terms of access to the markets of the European Community, Japan, and the United States. But despite the chequered pattern of international trade, New Zealand has found buyers for all that it can produce; and the long-term prospects are good.†

*One member of the Council, Mr R. D. Guthrie, is concerned that the terms of the agreement apparently under consideration would not bring these benefits to New Zealand.

†See, for example, E. M. Ojala, *New Zealand and the Future World Food Economy*, Agricultural Policy Paper No. 4, Department of Agricultural Economics and Farm Management, Massey University, Palmerston North, 1980. (Published in co-operation with the Commission for the Future.)

With the newer exports of both goods and services New Zealand as a small supplier is less dependent, although still affected, by the overall level of world trade and economic activity.

The Council believes that the main challenge is not one of disposal, but of effectively marketing products that overseas consumers want. Diplomacy has a role to play—for instance, in the continuing negotiations with the European Community, and in exploring new opportunities through trade missions such as the recent one to Mexico. But much will depend on the quality, presentation, delivery, and reliable supply of goods. Despite the good progress in these areas, there is still a need for a co-operative effort by all New Zealanders. Higher productivity in the domestic economy, and competitive and reliable transport and distribution will make the exporters' task that much easier. But the responsibility goes much wider. For example, the education system through appropriate language and social studies courses at all levels can help New Zealanders relate to the changing world.‡

The Capacity for Growth

In *Planning Perspectives* the Council concluded "that without a commitment to achieving growth of real GDP of at least 3 percent per annum, the room for manoeuvre by Government in taking action on the vital issues confronting us . . . would be small." Chapter 1 described how a lack of growth in the economy has caused some social problems and constrained society's capacity to reduce others. Economic growth is not an end in itself; it widens our choices.

In *Planning Perspectives* the Council believed that a 3 percent average growth rate for GDP over the 5 years to 1983 was

‡See W. L. Renwick, *Language in Our Lives*, address to New Zealand Language Teachers Annual Conference, Dunedin, 12 May 1980.

attainable. In *The Welfare State?* it said that "New Zealand can still achieve an average of 3 percent growth over the next decade . . . provided the appropriate policies are adopted even though in the short term a rate of 3 percent may not be attainable."

An increase of almost 3 percent in real GDP was in fact achieved in 1978-79 but, although more recent estimates vary, it is clear that the trend of growth is still well below 3 percent.

The Council's earlier assessments of the possibilities for growth were based on certain assumptions about export volumes* and the terms of trade.

The volume of total exports was expected to grow by 4.8 percent on average for the 5 years to June 1983. About 2 percent growth per annum was expected for "traditional" exports (meat, wool, and dairy products which make up about 70 percent of total exports), reflecting an expected 2 percent increase in livestock numbers. "Non-traditional" exports (largely manufactured goods and forest products) were expected to grow at 10 percent per annum.

There was high growth in export volume in 1978-79 (9 percent) after a fall in the previous year. Further growth has occurred since, on the basis of increases especially in sheep numbers. Nevertheless, the latest estimates of the New Zealand Institute of Economic Research are for an average annual increase of only 2.5 percent for the 3 years to March 1982. While all such estimates are obviously subject to revision, they serve to emphasise that continued export encouragement is essential if the long-term growth rate is to increase.

The Council in *Planning Perspectives* assumed that the terms of trade would fluctuate around 80 until 1985. There has been some variation around this trend—an

improvement to 86 in the year to June 1980, and a subsequent drop to 72 during the succeeding months with the impact of higher oil prices. The Council continues to believe that its earlier assumption still provides a good base for planning purposes.

Is it sensible against this background, and in the face of continuing world instability and low growth, to project any marked improvement in the 1980s? The Council believes that big increases in production, employment, and real incomes can be made.

Dr Eric Haywood, of the Council's secretariat, suggests in *Forecasting the Economy in the Eighties* that the economy could eventually sustain a growth rate of about 4 percent per annum. But such an improvement could not take place overnight. Haywood estimates that growth will remain around 2 percent until 1985. Other forecasters believe that a higher rate can be attained—and maintained—sooner. Haywood's forecasts for 1980-90 are summarised in Appendix I.

Such forecasts depend on assumptions not only about productive capacity and overseas developments but also about labour force participation rates, real wage levels, and other uncertain factors. They must be treated cautiously. Equally, they are concerned with trends; actual performance from year to year will inevitably diverge from the trend line. Nonetheless, Haywood's forecasts confirm that there is no inherent reason why the New Zealand economy cannot grow again at a satisfactory rate. Whether it does will depend on the policies adopted and the economic decisions of the Government, enterprises, unions, and farmers and many other individuals.

The balance of payments remains a major constraint on growth; without improved ability to earn and save foreign exchange New Zealand will be unable to expand domestic demand, or to provide enough jobs, or to increase real income per head. The ability to earn and save foreign exchange, and to secure output and employment growth, itself depends on effective use of our resources. In this sense our balance-of-payments problems are more a symptom than a cause of our difficulties with growth.

* Although this brief discussion is confined to exports of goods, the export of services provides about 20 percent of overseas exchange earnings. Equally, payments for such "invisibles" are an important rising item in the overseas exchange transactions.

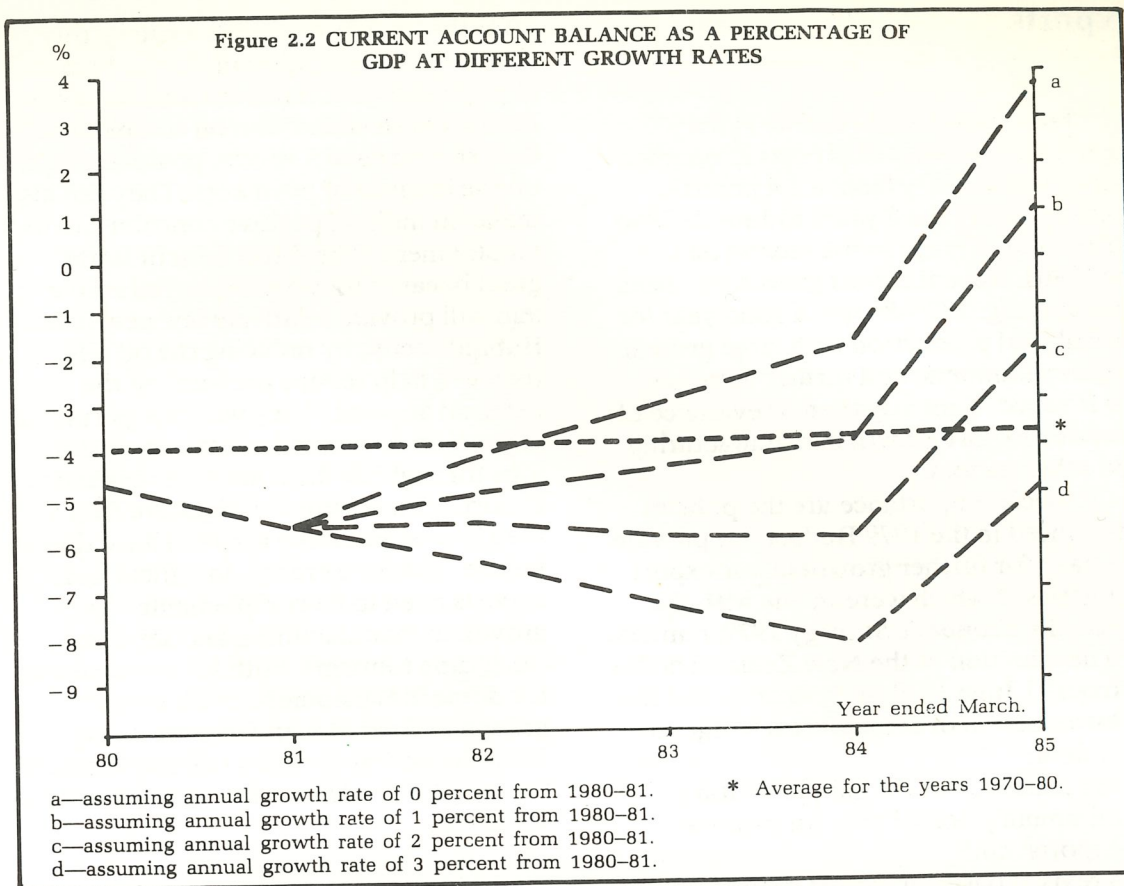


Fig. 2.2 shows projected current account balances (as a percentage of money GDP) at different rates of growth in GDP over the 5 years to March 1985. If productivity could be improved more rapidly than these projections assume, the severity of the balance-of-payments constraint on growth would be diminished. However, the extent to which the Government believes that the current account can prudently be permitted to go into deficit will limit the permitted expansion of activity within New Zealand, even though an upturn may be expected from 1984–85.

In 1974–75 the deficit reached 14 percent of GDP. This was clearly unsustainable. In *Planning Perspectives* the Council set a return to the historic average of about 2½ percent of GDP by 1983 as a desirable objective. At present, with the terms of trade low, the deficit is running at around 4 percent.

Several large energy projects and other projects designed to save or earn overseas

funds will be constructed in the next few years. They will have a very high import content and it will be some time before they yield a positive net annual contribution to our overseas exchange, but they should repay their import costs fairly quickly once they are operative.* In the circumstances, a higher deficit than 2½ percent of GDP—perhaps more of the order of 5 percent—is probably both inevitable and justifiable in the early part of the decade. But the borrowing must be part of a programme of well-judged investment to strengthen the New Zealand economy, not the basis for an unjustified and unsustainable boost in consumption.

*For further discussion see *Implications of New Energy Developments*, New Zealand Planning Council, Wellington, 1979.

Exports

In *Forecasting the Economy in the Eighties* the volume of exports is assumed to increase steadily from a 2.4 percent average during the 8 years to June 1978 to a 5 percent average in the second half of the 1980s. Recent export growth has been encouraging. 1979–80 was a good year for agricultural production with large growth in sheep numbers, and further increases are forecast. Similarly there is evidence of renewed export growth in manufacturing and other sectors.

Of special importance are the policies announced in the 1979 Budget “to provide the basis for further growth in our export industries”* which were in line with the Council’s *Economic Strategy 1979*, namely:

- a devaluation of the New Zealand dollar from 21 June 1979 by 5 percent, and the introduction of a flexible exchange rate system;
- the extension of the supplementary minimum price scheme for pastoral exports; and
- a revised basis for export incentives, and their extension to the export of services such as tourism.

Failure to maintain the current improvement in export performance would have serious consequences for employment and for living standards. If exports increase by only 2½ per cent a year through the 1980s it is doubtful if growth in GDP of more than 2 percent per annum can be sustained.

Saving Foreign Exchange

The Council has always believed that “saving overseas exchange should be an important element of the strategy”.† The energy projects discussed in *The Implications of New Energy Developments*

*Budget 1979, Government Printing Office, Wellington, 1979

†*Economic Strategy 1979*, New Zealand Planning Council, Wellington, 1979, p. 13.

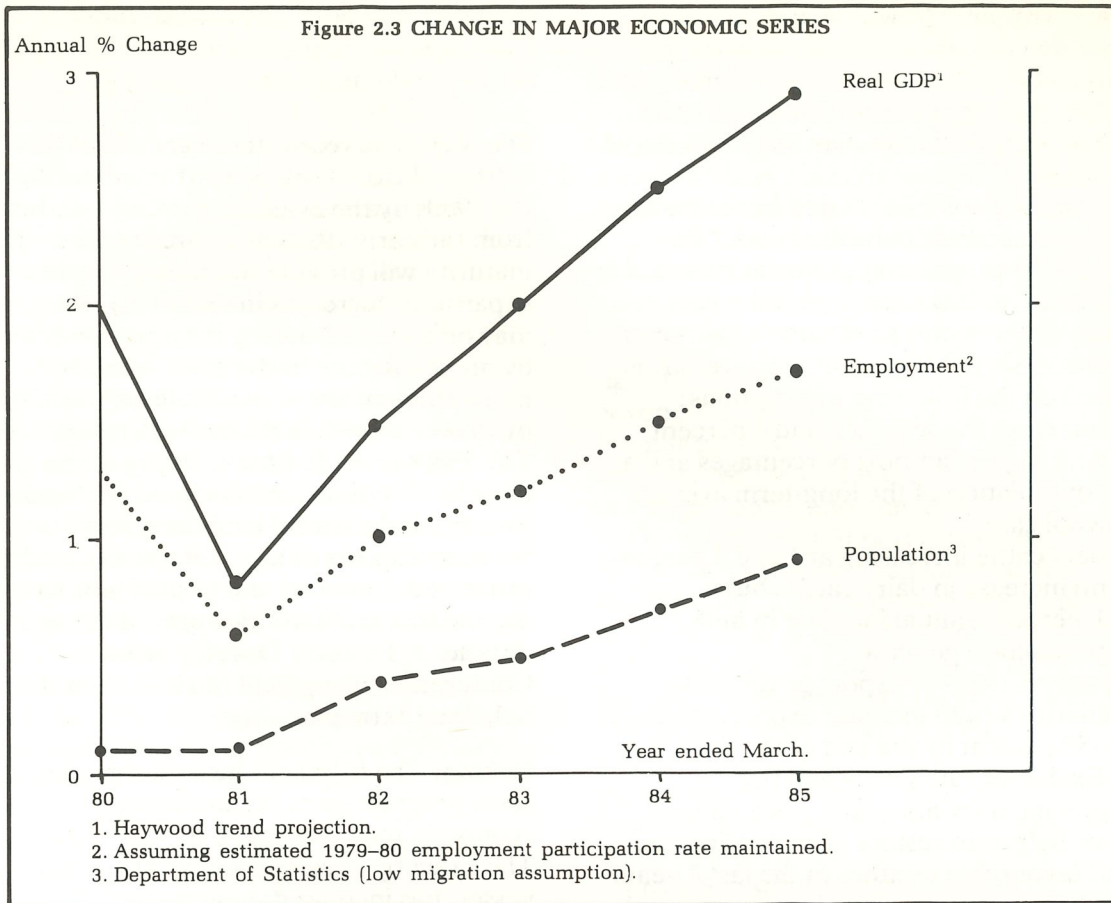
offer the main prospects to achieve this. They will add substantially to the balance of payments deficit (on current account) during construction, but on completion they should have a strong, positive effect on the balance of payments. They can also make an indirect positive contribution to employment. The direct benefit is not great because they are capital intensive and will provide relatively few new jobs. But indirectly, by reducing the oil bill, they will help reduce pressure on the external account. They will thus permit an expansion of demand which can create jobs throughout the country, as indeed exports from pastoral agriculture (not a very labour-intensive activity) have done before. Future increases in agricultural exports need to be complemented by growth in manufacturing and services (including tourism), both for overseas and for domestic customers. With export growth at 5 percent and import saving from the energy projects full employment for the growing labour force could well be achieved.

Prospects to 1985

The Council believes that a current account deficit rather larger than was previously considered sustainable can now be accepted. Haywood judges that a deficit of around 5 percent (or higher in some years) would allow a rate of growth of around 2 percent, on a rising trend through to 1984–85. (See fig. 2.3.) Others, with more optimistic export assumptions, would raise this estimate.

These estimates imply a considerably faster expansion during the next 5 years than in the last 5 years.

Growth in GDP of 2 percent would provide new jobs (although registered unemployment will still be too high). It would allow investment to increase, and total consumption (private and public) to grow at about 1–2 percent. (Because the total population is likely to be growing at less than 1 percent, consumption per head could still rise appreciably.)



To restore full employment would require growth substantially above 2 percent annually over the next few years. If the apparent recovery in export volumes is maintained and the terms of trade recover, it may be possible to allow expansion at above 2 percent. But the risks would be so much greater if other policies, to be discussed in chapter 3, are not in place.

The Sectors

The extent to which the macro-economic projections and forecasts are borne out will depend largely on what happens in the main production sectors. In general there has been a renewed and welcome commitment to sectoral planning. The Council will be consulting closely with the individual sectors to test the consistency of the plans within the

overall limits of the economy. The following paragraphs provide a brief sketch of the work going on.

Because sectors are not mentioned does not of course indicate that they are not important. For example, transport (in which important decisions are expected soon) is a key sector. The retail industry (affected by recent changes in shopping hours) is also considering its strategy for the 1980s.

Pastoral agriculture: Even under optimistic scenarios for growth in other sectors, pastoral agriculture will be producing half New Zealand's export income at the beginning of the 1990s compared with over two-thirds now. Technically, there is scope for much higher production. A year ago the Ministry of Agriculture and Fisheries listed improvements in production and processing which it estimated would increase export earnings by 66 percent. There is more optimism about markets than in the 1970s. Increased energy and

grain costs give New Zealand's low-energy grass-fed production a competitive edge; and rising incomes in the oil-exporting and industrialising middle-income countries are being reflected in demand for livestock products.

The producer boards and Federated Farmers recently published under the AGROW programme, *Growth Potential in Agriculture*. It is not a comprehensive study of the sector's resource requirements in the 1980s but it presents two scenarios based on the following assumptions:

- increases in sheep at 2 and 4 percent, with higher lambing percentages and a continuation of the long-term average wool clip;
- beef cattle increasing at 1 and 2 percent;
- no increase in dairy cattle, but a 1 percent annual increase in milk production per cow.

Based on 1979-80 export prices these scenarios would increase export income by 30-50 percent by the end of the decade.

Exchange rate policy and the supplementary minimum price scheme have helped to restore farm confidence, and favourable weather in the last 2 years has brought an encouraging resurgence in production—notably in sheep numbers which have increased at about 4 percent a year since a low in 1975. Cattle numbers however have been falling and growth in total stock numbers has been just over 1 percent per annum in the same period. Fundamental to continued growth in this key sector is the maintenance of adequate returns to farmers: the major constraint to growth may now lie in the rapid rise in costs on the farm and in off-farm processing and transportation.

Horticulture: Horticulture at present earns about 3 percent of export income; products range from the traditional apples and pears to exotic fruits, vegetables, flowers, shrubs, seeds, and honey. There is scope for expansion. About 10 percent of our total land area is regarded as suitable for horticulture. The AGROW report estimates that, on the basis of known plantings, export earnings could increase more than four-fold by 1990.

Marketing will be the key to successful development in this sector: there can be no assurance of a large or stable overseas

demand. The potential contribution, especially for employment and rural development in some areas, is good.

Forestry: The recent rapid growth of the forest industries will be restrained during the 1980s by the availability of wood. But from the early 1990s new forests reaching maturity will provide supplies for rapid expansion. Increases in export income may be achieved during the next few years by processing, by better marketing, by more efficient use of available supplies, or by slower growth in domestic demand. The 1980s provide time to improve the basis for decisions on allocation (between forestry and pastoral land uses, and between exports of logs, clearwood, and processed products) and to plan how to use the increased wood supply in the next decade. A Forestry Development Conference, being held in 1981, should help long-term planning.

Fishing: The fishing industry has made good progress since the exclusive economic zone was set up in April 1978. The catch by domestic and joint venture vessels has increased, new markets have been opened up, and exports now earn over \$100 million a year. But this still represents only about half the catch from our zone: the rest is taken by foreign vessels and the benefits in export earnings, employment, and so on are largely lost to us. Until our industry develops the capacity to fish the whole zone we are obliged to allocate the surplus to other nations.

The Fishing Industry Board is discussing with industry groups a plan for assuming full responsibility for the exclusive economic zone by the mid-1980s. Sizable capital investment will be required; special efforts will be needed to attract and train skilled manpower; determining and managing sustainable levels of use will present particular challenges. But it offers great benefits for the economy generally, and for coastal communities in the South Island in particular.

Manufacturing: Manufacturing has great potential for growth given suitable conditions. At present it produces some 23 percent of GDP, and provides about a quarter of all employment.

The Manufacturers' Export Research Programme (MERP) has combined a version of Victoria University's Project on Economic Planning (PEP) model with a survey of the expansion plans of manufacturers to produce a set of plans for the best allocation of resources in the 1980s. The study indicates that under ideal conditions, manufactured exports (including forestry) could grow at 11.5 percent a year and account for up to 16 percent of total manufacturing output by 1984. Even with less optimistic assumptions the model shows exports from this sector growing at 10.3 percent per annum. As with the AGROW projections these figures are indicative only, and do not necessarily take into account the competition for resources over the period. Nonetheless, the volume of manufactured goods exported grew at an average annual compound rate of 14 percent in the 5 years to June 1979. A rate of around 10 percent has been assumed in the projection work done for the Planning Council.

The emphasis placed by the Manufacturers' Federation on increasing exports, and their willingness to enter into a closer economic relationship with Australia on suitable terms, are a welcome recognition of the need for all our industries to become more competitive in the 1980s. Manufacturers will gain from the faster growth which this will make possible. Uncertainties about protection and the conditions of future trade with Australia are naturally matters of concern at present. Early decisions by the Government on these issues would improve the basis for decisions by enterprises on their investment programmes.

Tourism: New Zealand has considerable potential to develop tourism. Continued development of accommodation and recreational facilities; greater flexibility in aviation policies, shopping hours, licensing laws, and in the provision of entertainment generally; and a resumption of internationally competitive economic growth should help make this country a more attractive holiday place for both overseas visitors and New Zealanders who would otherwise travel overseas. The Tourism Advisory Council, in its report of

November 1978, presented a general overview of the industry with some targets for improved performance and recommendations for action. Progress since then has been mixed and growth in earnings has not met expectations. An updated review commissioned by the National Travel Association for completion next year provides a welcome opportunity for reassessment.

Energy: The 1980 Energy Plan has significant implications for planning beyond the energy sector. It covers a 15-year planning horizon and brings together for the first time all components of energy supply and demand.

The single most important policy objective is to reduce dependence on imported oil. The policy is to use supplies of gas to achieve about 50 percent self-sufficiency in liquid fuels by 1987, through the production of synthetic petrol, compressed natural gas, and liquid petroleum gas. It was decided not to export large quantities of liquid natural gas because this would reduce the supplies of gas for the domestic market. A faster approach to self-sufficiency was not adopted because of the uncertainties of the energy future and the dangers of reliance on a single source of supply. However, examination continues of promising possibilities based on other energy sources (such as coal, wood, and plants) which could result in greater self-sufficiency at a reasonable cost in the future. The extension of the Whangarei refinery to produce diesel is a key element in the plan.

Planning to cope with interruptions in the supply of OPEC oil is under way. A rationing scheme has been prepared and will be put into effect if necessary. In the short-term, stockpiling is possible, and will be done with diesel. In the longer-term, more indigenous production provides the answer. Whatever the circumstances, conservation must be an important element of the strategy, and should be vigorously pursued through an appropriate pricing policy, efforts to make vehicles and other sources of demand more economical in their use of fuel, and so on.

The other critical area of energy planning is electricity which provides 23 percent of consumer energy. At present we have the ability to generate more

electricity than we need. The Government invited proposals for electricity-intensive industries, not only to use the assessed surplus of 2000 gigawatt hours likely to be available into the 1990s but also a further 3000 gigawatt hours to be derived from speeding up the power construction programme. This decision has become highly controversial. Economists have taken opposite sides in the current debate over the second aluminium smelter. Similar debates can be expected on other projects involving substantial use of our natural resources: they are an entirely healthy sign of the community's concern for its future.

There is agreement that in principle one test of the desirability of a big project of this kind should be the rate of return to the nation from it compared with possible alternative uses of resources. But major projects must be reconciled with other objectives, particularly environmental and social ones. They have a special role, as "directed" investments, in an overall strategy for bringing the economy back to sustainable growth and the ability to provide jobs for those who need them. They fulfil this role in different ways. The smelter will provide net exports to relieve the balance of payments constraint but in the production of aluminium there is not the same case as with substitutes for liquid fuel for paying a premium for the domestic production of a vital commodity.

The main points of the dispute relate to:

- the appropriate price to be charged for electricity and provisions for adjusting the price;
- the prices for aluminium likely to apply on world markets in the future;
- the "real" value of the net foreign exchange to be earned from the projects, and how this contribution should be recognised;
- the contribution to employment and income which the development will make through "downstream" processing which would not otherwise occur;
- the special concessions which are justifiable because the project will be sited in a location in the South Island with special employment and development problems, and the forms in which these concessions should be given.

There is obviously room for differences of judgment about all these factors.

The Government has chosen to embody in the power price to the smelter, not only the normal concession to South Island industries, but also a concession reflecting the value of its net contribution to earnings of overseas exchange since it is not to be eligible for tax incentives accorded to other exporters. Another contentious provision is the intention to move power prices from this base with the world price of aluminium. This could involve additional subsidy if, as some fear, aluminium prices lag behind the long-run marginal cost of electricity. On the other hand there would be extra benefits if aluminium prices increased faster, as some informed sources believe they will.

The issues involved are obviously complex. No project of this size can be free of risk, and both the consortium (on the basis of terms negotiated) and the Government (after considering all the factors) have decided that the risks are worth taking. The Council has some concern about the pricing arrangements for electricity. If the project proceeds, the Council believes the agreement should include adequate provision for review of the pricing arrangement to ensure that it remains equitable to both the producers and the nation. The reviews should have regard particularly to major developments which actually occur in the relationship between electricity costs and aluminium prices, and to any changes in the means used to give incentives to exporters. We consider in a more general context in the next section the implications of these and other developments for the demand, supply, and marginal cost of energy, and for the environment.

Competition for Resources

General

The sectoral plans just discussed have been developed largely in isolation from each other although most have had some regard to the likely growth of real GDP in total. There is a real need to test their

consistency within the limits of total available resources and to compare their benefits in terms of contributions to the balance of payments, employment, and so on, so that if conflicts occur which cannot be satisfactorily resolved by market mechanisms there is a sound base for public policy decisions. A foundation for this work has been laid in co-operation between Victoria University's Project on Economic Planning and the Council's secretariat: this will be extended in consultation with planners in the sectors themselves and the results published in due course.

Competition for resources may arise because of conflicts between the desire for development and the desire to conserve resources, and protect and enhance the physical and social environment. These aims are not of course always in conflict. Many forms of conservation are fully consistent with the nation's interests in sustained development—obvious examples are the conservation of liquid fuel through more efficient and lighter cars, and some recycling of steel and paper. Similarly, some of the resources arising from development can or should be applied to protecting and enhancing the environment; for example, by beautifying our cities and highways, and by creating recreational assets such as on the Waikato River.

Capital Investment

The sectoral plans suggest a marked increase in investment after a steady decline since 1975. For many years before that New Zealand invested about 20–25 percent of its GDP each year. Despite this relatively high investment by international standards, New Zealand grew rather slowly. *Investment Issues* discussed some of the reasons for this. Investment in activities which earn foreign exchange or provide effective substitutes for imported goods and services was inadequate. Investment spending for directly productive purposes—such as private sector plant and machinery and agricultural land development—was relatively low (on average less than 20 percent of total fixed investment). But

investment in “social capital” (including housing) was relatively high.

The way investment was used is probably even more important. Established practices and regulations have resulted in less intensive and productive use of plant in many industries and services (including those in the public sector) than in many other advanced countries. Inefficiencies and delays in construction also probably increased costs and reduced returns on investment.

For 1980–81 the NZIER estimate of investment spending is around 18 percent of GDP (although an upturn is expected in 1981–82). This is very low historically but is not surprising when most businesses are operating below capacity and there appears to have been little confidence that the economy could sustain even modest growth. Housing investment is also exceptionally low by standards of the past.*

The latest estimates by the NZIER indicate that private investment is beginning to recover. Provided that it is in activities that can be sustained in a more competitive environment a build-up of investment from now on is highly desirable if bunching in the mid 1980s is to be avoided. Whether the recovery of investment will be sustained will depend largely on confidence that it will be profitable. For suppliers of the home market, this requires sustained growth of demand and adequate control of costs. Exporters will also have to be confident that Government's exchange rate policies and other policies will help keep their overseas sales profitable. There will be heavy investment in major energy and energy-intensive projects. The latest estimates put the cost of the new major projects, which are either committed or likely to proceed in the 1980s, at about \$5 billion. These include power development

*Housing construction has fallen dramatically (from 30 000 units in 1974 to around 15 000 in 1980) in response to changed demographic and economic factors. Some upturn in the industry could be associated with the forecast improvement in the economy and recovery in investment. If this does not take place there may be a case for some selective stimulation particularly to meet new patterns of demand (notably for rental accommodation).

(\$1.7 billion), the second smelter (\$650 million) NZ Steel expansion (\$600 million), Maui B platform (on which no decision has been taken), synthetic gasoline (\$500 million), methanol (\$150 million), refinery expansion (\$400 million), and the third pot line at the Bluff smelter (\$150 million). (About \$3 billion could be spent before 1985.)

While not all of this investment can be regarded as additional to normal investment in energy, forestry, and industry it could lift the investment ratio to around 23–24 percent of GDP in some years. The impact of investment at this level upon the economy will in turn be affected by the import content and by financing arrangements. One estimate is that the import content of the large projects could be over 60 percent. It seems very likely that at least this proportion of the funds required will be provided by overseas capital (borrowed or in the form of direct investment).

The extent of overseas financing of major projects will reduce the pressures on capital—the “crowding out” concern. The resource requirements of investment in export earning and import saving will also be offset by reduced requirements in some areas of public investment notably those affected by population growth, which is expected to be low in the early 1980s.

Real consumption per head will have to be restrained for a time but, in the Council’s judgment, need not fall back because investment is going ahead. Indeed, there ought to be room for increased consumption per head of at least 1 percent if the economy grows by about 2 percent per annum, and more when the pace of growth rises above this level, which the Council believes it can. The more effectively that existing capital and new investment are used, and the more efficient the construction industries are in carrying out the development programme, the more room there will be for personal consumption and public services to increase.

Investment Issues discusses fully what is needed to promote an adequate level of investment and more effective use of capital. If New Zealand’s potential is to be realised, it is vital that more be done to curb the inflation and uncertainty which

have inhibited investment recently. Monetary, fiscal, incomes, and exchange rate policies aimed at more stable expansion, as outlined in the next chapter, are the main requirement, along with an early clarification of trade policy.

Such policies producing less inflation and better control over the deficit between Government revenue and expenditure would help reduce nominal interest rates. They would make more politically practicable the continuation of the policy of allowing interest rates to reflect conditions in the market for loanable funds. This is important to give an adequate reward for domestic saving, and to help decide through market forces which projects should proceed, given the domestic and overseas funds available.

As indicated in *Implications of New Energy Developments*, the Government can help to avoid bunching investment projects (both nationally and in particular areas) through its own work programmes, through its influence on those proposing major projects, and through the processes of regional and national development planning. Along with wise planning to preserve good industrial relationships on the projects, this should help overcome the difficulties and delays which can so easily drive the costs of projects well above those initially estimated.

Investment is often the means by which new technology is applied to production. To make and keep our economy competitive, we must encourage producers to adopt methods which will improve their productivity. During the coming year, the Council will be publishing a report on strategy for research and development which will discuss policies to help this happen. More generally, there is a danger that fear of technological change in current conditions could lead to industrial action which would greatly inhibit productivity and national progress. The Council hopes that Government, employers, and unions will work together (for example, through active employment policies) to overcome this potential obstacle to development.

Manpower

The labour force seems likely to grow faster than population during the 1980s

(see page 9). The availability of labour in general will therefore not be a constraint on growth in the period ahead. Indeed the challenge is to make the best use of this valuable resource in productive employment. We have commented extensively on this in *Employment*.

Already, despite high unemployment, the Labour Department's occupation vacancy surveys have revealed consistent shortages of key skills. These could well have restricted growth in the past. The problem is increasing as the needs of an economy going through structural and technological change become more obvious. The needs of the major projects are often highlighted and the competition from Australia to acquire skilled employees is already apparent. But throughout the economy—in horticulture and forestry as much as in manufacturing and in the service sectors—the need and opportunity will be for a highly skilled labour force. In addition to skilled tradesmen, two skills which will be in high demand and of vital significance will be management and marketing.

Manpower forecasting and planning can be improved and should be translated into action.* Given the potential growth of the labour force over the next decade the Council prefers more emphasis on improving the skills of New Zealand workers by training than relying on immigration to solve skill shortages. But the Council realises that for some highly specialist skills, training in New Zealand may not be economic. This could be overcome by helping New Zealanders to train overseas and by selective immigration.

Very difficult issues are raised by the need for New Zealand to compete in the international market for skilled people. This applies both to recruitment and retention. One element must be a recognition that traditional relativities may have to change; and that special rates either for a skill or a location cannot be allowed to spark off a generalised wage movement.

*See *Employment*, pp. 24–25.

Energy

The rate and timing of the increase of the demand for electricity will depend partly on when energy-intensive projects go ahead and partly on the rate of growth of the economy as a whole. It is evident that the *1980 Energy Plan* will have to be reviewed regularly in the light of the decisions taken on industrial development and on reassessments of the likely rate of economic development. If the strategy outlined in the Council's report is implemented and successful, the growth of real GDP in the latter part of the decade will be greater than was assumed in earlier official estimates, and this must have an effect on the demand for energy.

Some concern about the tight supply of electricity in 1986 and 1987 has already led to Government action to ensure adequate margins to meet contingencies; for example, the continued use of Meremere. It should be an important aim of policy to avoid real increases in the cost of production of electric power as far as possible. For example, by trying to improve the efficiency of construction by comparison with some recent projects, and to reduce the need for extra power by making effective use of the capacity now available, and by continuing to encourage conservation in the use of energy.

Energy development is an important factor in overall development. The interchange which is developing between the Planning Council's secretariat and the energy planners should help improve forecasting and planning of both energy and general economic and social development.

Development and the Environment

In the past two decades, much attention has been given to how to resolve the inevitable conflicts which arise because of the effect of development projects on the environment. Environmental controls are imposed under a number of Acts; mainly the Water and Soil Conservation Act, the Town and Country Planning Act, and the Clean Air Act. These statutes are

implemented in different ways. Applications for planning permission under the Town and Country Planning Act may be heard initially by local authorities and on appeal by the Planning Tribunal, which also has functions of reporting and making recommendations on applications lodged separately under the National Development Act 1979. For many projects it is now a requirement to file an environmental impact statement for audit by the Commission for the Environment. There is no question of the importance which New Zealanders attach to stewardship of their natural environment. But the costs of several years without economic growth are now only too obvious. The challenge is now to resolve, with equity, the specific conflicts as they arise.

Increasing recognition has been given to the role which regional planning can play in bringing together the various elements of public and private decision-making in each region. Whilst regional planning schemes—the statutory documents—are only a part of regional planning they may deal with a wide range of economic, physical, and social planning matters.

Central government and other public bodies can and should use regional planning as an important instrument of policy. It can provide a forum for open exchange of information and public debate of issues arising from development policies and from specific projects.

Despite the advantages of openness and of rationality which the town and country planning process offers it allegedly often causes delays, wastes time, and should be abbreviated—presumably by cutting out some of the steps in the process. But public policy-making is a complex business. Safeguards are built into it: to protect the principles of open government and freedom of information; to protect the legal rights of the individual; and to prevent the misuse of political power. So how can the apparent dilemma between the need for timely, responsive decision-making and the need for public participation be resolved? Recent experience suggests that discussion among those affected *before* formal procedures are set in train can avoid delays and should ensure better decision-making. The

opportunity for participation provided by the planning process is greatly assisted by the provision of information from the private sector proponents of development proposals as well as public authorities.*

If, on the assumption that it is well presented, a proposal gains little public acceptance because of its potential characteristics, then the appropriate decision may be to withhold consent. But there is often a vast grey area between the black of “decline consent” and the white of “grant consent” where compromise can be achieved.

It should be seen as an element of good management of a project to seek to remove or to reduce obstacles which may delay, or otherwise impede its implementation. This may require modification of the proposal to make its effects on others more acceptable. Even when an intending developer has undertaken early and conscientious public consultation, there may still be opposition. Nevertheless, in a formal public hearing the evidence of an open and flexible attitude can only count favourably. When opportunities for information and consultation are limited, efforts to frustrate projects through the use of all possible legal procedures may result.

While the developer can thus be expected to take a positive attitude to consultation on the effect of the scheme, so too must the environmentalists, public authorities, and others, recognise the costs of unnecessary delays for both the developer and those the project is designed to serve. Governments and local and regional authorities should, individually and together, review their planning processes to keep such delays to a minimum consistent with reasonable opportunity for informed debate on the merits of projects.

There is currently some controversy about how far the Commission for the Environment should be concerned with the social and economic effect of projects.

*See reports of Commission for the Environment on methanol and NZ Steel projects.

Regardless of the outcome of the debate on where the responsibility for assessment of social and economic effects lies, the Council believes that more systematic assessment is necessary, especially for larger projects, so that planning tribunals and the Government can be fully informed on the consequences of proposals being made.

For projects to be treated under the National Development Act, the Council trusts that the Government through its Cabinet and officials committee structures will always supplement the assessment made by the developer with a thorough and open appraisal of why the project is thought to be in the nation's economic and social interest. For most other large projects, we would expect the new united and regional councils to make an economic and social impact assessment. To do so, they will need the co-operation of central and local government agencies.

The Council sees merit in seeking as much economy as possible in the use of public sector staff and management resources. For instance, reporting by the Commission for the Environment could advantageously be linked with the policy preparation and implementation of the local and regional planning authorities. This could enable the investigative and evaluative functions of the Commission and local government to be integrated and not duplicated. This could bring with it at least two other advantages.

First, the Commission's reporting could be drawn upon in the resolution of planning policies and the processing of development applications. Second, it should be possible to provide environmental information sooner for the preparation of planning policies. Moreover, planning schemes could set out procedures so that the environmental effects of development proposals would be exposed as early as possible to provide the greatest opportunity for public debate.

Conclusion

New Zealand *can* resume a rate of growth which will provide employment

and living standards that are satisfactory. The balance of payments remains a major constraint. But the export achievement of the last few years (if it can be sustained) and the energy programme give grounds for believing that the balance of payments need not shackle the economy throughout the 1980s.

The Government now has available in the flexible exchange rate, the minimum support prices, and export incentives, policies to maintain confidence in exporting. It must be prepared to use these and other policies to promote and sustain the earning and saving of foreign exchange.

It would, however, be misleading to believe that when the balance of payments deficit is reduced to an acceptable level growth is assured. Easing the balance of payments is a necessary, but not the only, condition for achieving growth. Whether New Zealand achieves the sustained expansion the Council believes is possible will depend on increasing the output of goods and services per head—higher productivity; and that in turn will depend upon the effectiveness with which all the available resources* are used. Low productivity in some sectors of the economy, and the costs this has imposed on those competing in international markets, has in the past compounded our balance of payments problems. Better use of resources is thus a central issue, both for the balance of payments and the prospects for growth.

*A major factor in increasing productivity is the use New Zealand makes of innovation in science and technology. The Council has begun work on a review of the priorities in the public and private sector, within the outward looking development strategy which it has proposed.

CHAPTER 3 MAKING THE TRANSITION

New Zealand has considerable potential for economic and social development in the 1980s. But progress is not assured. This chapter tries to answer the question—"How do we get from here to there."

The Choices for Economic Management

In the present circumstances there are three main objectives for economic policy:

- **A return to full employment:** The long-term social consequences of unemployment are damaging to any society. The corrosive effect of protracted unemployment on particular groups is already evident in New Zealand.
- **Growth in living standards:** Whichever way increased consumption is divided between private spending and public goods and services, higher living standards are still the goal for most New Zealanders.
- **Reducing and controlling inflation:** The investment needed for growth and full employment is inhibited by the uncertainties caused by changes in the rate of increase of costs and prices. Inflation also heightens industrial and social tension. High interest rates compound these problems. The economic and accounting information on which business decisions and the management of the economy are based become distorted. There is unintended redistribution of wealth, some of this resulting from defects in the tax system.

As discussed in chapter 2, the balance of payments sets a limit to growth in the New Zealand economy—and thus limits progress towards the objectives listed above. Within this limit, economic policy makers are continually having to make choices among the three objectives. Measures to promote employment by encouraging spending may push up costs

and prices. Real pay increases, without real gains in productivity, may prejudice the jobs of others. Managing the economy is a matter of balance—both among the objectives of policy and among groups in society. Good management requires the short-term objectives to be consistent with the longer-term goals. In its management of the short term the Government has to convince the country that it will persist with policies designed to achieve growth, full employment, and greater stability. These policies will need to be cohesive and understandable.

The Case for a Co-ordinated Strategy

In *Economic Strategy 1979* the Council made recommendations on a co-ordinated set of policies which it believed would promote recovery in the 1980s. Since then, the Government has made some important changes of policy in directions suggested by the Council; for example, in the new exchange rate regime, in the energy programme, in new approaches to industrial policy, and in the principles laid down for developing a closer economic relationship with Australia. In the 1980 Budget the approach which the Government intended to take to management of the economy was stated more comprehensively than in the past. Nevertheless serious problems remain, and an integrated package of measures is needed to deal with them.

In the next few pages the Council sets out the directions in which it believes policy should move in key areas.

We discuss the following areas of policy:

- employment;
- inflation;
- money and public finance;
- a social partnership;
- industrial relations;
- public expenditure;
- taxation;
- structural change.

Policies to Increase Employment

Rising unemployment and the loss of able people are critical issues that must be resolved. The Council assigns very high priority to achieving and sustaining full employment. In *Employment: Towards an Active Employment Policy* (October 1980) we stated our belief that "there is no inherent reason why the achievement of full employment as defined* within the 1980s should be beyond our grasp."

Three essential elements in an effective strategy for reaching that goal are: a return to levels of economic activity sufficient to generate the employment needed; special programmes to create extra jobs in the meantime; and improvements in employment services and training programmes so that people displaced by change may find available jobs more readily, not only while the total numbers unemployed are unusually high, but also over the longer term.

The prime cause of New Zealand's recent difficulties has been the lack of economic growth. The New Zealand economy has hardly grown for 5 years: the registered unemployed and those in job creation programmes totalled some 60 000 at the end of September. This figure illustrates only part of the problem: more people need jobs now and more will be entering the workforce each year. About a quarter of a million new jobs will be required in the 1980s.

The only fundamental answer to the challenge of providing rewarding work for a growing labour force is to return to higher levels of sustainable economic growth. This will require a hard-headed

determination to pursue the economic strategy set out by the Council and others. The success of this strategy depends on better fiscal and monetary management; co-operation in incomes policy and in sustained increases in production and productivity in our industries and services; and an extra boost in the latter half of the 1980s from the programme of major investments designed to relieve the balance of payments constraint and reduce our vulnerability to oil price increases.

The Council believes some borrowing from the future benefits of this strategy is justifiable in order to maintain the level of economic activity in the early 1980s. There are compelling employment reasons for holding the economy on a growth path of around 2 percent a year, and certainly for not allowing it to fall below that. Measures announced in November 1980 are, the Council judges, designed to keep the economy on that path. On the basis of the forecasting work done for the Council, this course implies a trend in the deficit on current account of about 5 percent of GDP in the first half of the decade, close to the limits of what is sustainable.

It must be emphasised that these figures represent trends: actual figures will fluctuate around this level. Short-term improvements in our economic situation must not be used as a justification for expansionary policies unless there is clear evidence of a favourable change in our fortunes. Attempts to improve the employment situation by unjustified stimulation of the economy would be dangerous; they would entail unsustainable deficits, delay or destroy the benefits of longer-term growth, and create in the end higher levels of unemployment. Maintaining growth at an average of 2 percent over the next 5 years will itself require good management and a fair measure of good luck. By itself this will be barely sufficient to maintain the present employment situation.

But the Council has said that a continuation of the present level and pattern of unemployment will have serious effects on the stability of society. Special measures are therefore needed and will probably be needed for the next 5 years to create more jobs and to improve the workings of the labour market.

*In *Employment* (p. 18) the Council suggested that, considering both the likely impact of structural and technological change and the changing role of women full employment could in future be defined as:

"a situation where there is an approximate balance between those who want paid employment and the jobs available such that those who want paid employment can obtain it or training leading to it within a reasonable period after commencing a job search."

Job Creation

New approaches need to be explored for stimulating the level of employment within the limits of sustainable economic activity.

Immunising inefficient enterprises from change in order to preserve jobs is not acceptable: such enterprises have done enough damage already to our ability to sustain employment in the longer term. But it is not enough to remove protection from the inefficient: there must be a positive and sustained effort to stimulate efficient growth where it will bring employment benefits quickly. Some benefits will come from the construction phase of large-scale projects: more must come from traditional sectors, notably agriculture, where the infrastructure for growth already exists.

The survey of the sectors in chapter 2 indicates that there are ample opportunities for growth. Caution about forecasting more output from individual sectors and generating more employment from total output stems not from lack of opportunities or scarcity of resources but from the past record of New Zealand's ability to use them effectively. There must be an improvement on that record if economic growth is to meet its social objectives.

Apart from measures discussed elsewhere to improve the general efficiency of the economy, attention needs to be given to measures designed more specifically to raise the level of employment:

- by ensuring that the market transmits the right signals about the price of labour; for example, by using tax reform to help contain growth in the nominal cost of labour to employers without reducing net disposable incomes, and by ensuring that accounting methods produce accurate information about the comparative prices of labour and capital;
- by giving priority in the allocation of resources for the growth strategy to development options which offer the largest and earliest employment benefits; and
- by allocating more resources to expanding and improving job creation

programmes targeted to the areas and groups most vulnerable to unemployment.

Government job creation programmes (in the public sector and through subsidies to the private sector) for which \$138 million was voted in 1980–81, will remain important throughout the early 1980s. More attention is needed, through collaboration between central government, the local and regional authorities most affected, and the private sector to improve their effectiveness.

Employment suggested changes in the current programmes to ensure that they serve the best interests of the country and the individuals concerned. Some modifications were made in the November 1980 measures, and the Government is at present reviewing its employment policy. Two aspects need rapid attention:

- **Programme design:** The Council favours the provision of jobs through finite projects rather than in continuing duties. Job creation, whether in the public or private sector, should focus on creating assets and services of national worth, contain the highest possible training content, and have a relatively low import content. As the numbers of unemployed have increased, more effort has been needed to find useful work within the rules of the job creation programmes. The expenditure that is eligible for central government subsidy, and the appropriateness of present incentives and associated support for employers should be examined in relation to the effectiveness of job creation policies. The Council would be prepared to accept that such schemes, when identified, could justifiably be carried out at costs that would be in excess of market cost if significant employment and training opportunities are provided in the project to be undertaken. In the Council's opinion one of the keys to successful job creation is to ensure competent management and close supervision. This will give the opportunity for hitherto unemployed people to experience normal work procedures and disciplines. Use of private sector management on a contract basis is a possibility.

- **Administration:** The growth in the numbers of people registering with the Department of Labour is straining its resources. The effectiveness of job creation programmes may be impaired if the department is unable adequately to administer them and provide the necessary support to both those who provide and those who fill jobs under the programmes. There is also a need for sensitive administration to take account of the different circumstances of different groups and different communities. There is therefore scope for initiative and co-operation at the regional and community level as the Council urged in *Employment* (p. 53). Job creation is not a cheap option. It warrants, however, high priority in the claims on public expenditure and when fixing those high priorities the existing cost of paying people for little or no production should be borne in mind.

Other Employment Measures

An active employment policy cannot of itself guarantee jobs for all. It aims to improve the way in which jobs are matched with those seeking them and thus to contribute to economic efficiency in its widest sense. People and institutions must be able to respond more quickly to changing demands for skills and to shifts in the location and nature of employment. The relatively unaided workings of the labour market will not be adequate to ensure this. Improved placement and counselling services are one element. Manpower forecasting and planning by employers can also help.

An active employment policy is not concerned solely with work. The Council has made recommendations about changes of emphasis in the school systems; about helping the transition from school to work; and for training both on the job and at institutions. It has suggested that the unemployment benefit should be replaced by a job search allowance which would provide short-term (normally 10 weeks) support until a person who is registered as unemployed has either:

- found a job;
- been placed on a job creation scheme;
- enrolled in a specific or general training scheme.

Training and retraining is of high priority. The council's emphasis on an expanded and reshaped training programme is not simply to "find something to do with the unemployed". If this were the motivation it would be both wrong and unlikely to be fruitful. Rather, the Council sees well-directed training at all levels—and throughout working life—as an integral part of any strategy to take New Zealand through the transition on to a higher growth track.

New Zealand is already short of skills for crucial and committed development projects. There is a need to offer opportunities and financial support to people to train in skills that are, or are likely to be, in short supply. Sometimes these skills may be beyond the capabilities of many of those unemployed. For this reason the training schemes need to be designed to attract employed as well as unemployed people. Job vacancies resulting from employed people moving into training schemes may provide more suitable opportunities for unemployed people than training courses. There are, however, many unemployed people inadequately equipped with the basic educational, technical, and social skills required for employment. Appropriate training courses should continue to be provided for them.

The Council believes that the importance it attached in *Employment* to both expanded and reorganised training is justified. This is not a matter for the Government and the education community alone; employers and unions obviously have much to contribute and to gain. Expenditure on training is a necessary investment to take advantage of the opportunities ahead.

Labour Costs

Adequate investment is one of the vital requirements for growth and improved living standards for workers. Growth of demand in the domestic market is one of

the major requirements for growth of investment. Wages and salaries are among the major sources of demand, and if real pay does not keep pace with the capacity of the economy to increase output, some plant will remain idle and new investment will be deterred. On the other hand, retained earnings available for investment will be curtailed if wages and salaries and other costs of employing labour (such as levies for accident compensation and improvements in working conditions) increase faster than the value of output. Unless productivity improves, there will be less capacity to improve the real purchasing power of wages, salaries, and benefits for the future. Too rapid an increase in labour costs is bound to cause some unemployment, and perhaps undue emphasis on a labour-saving type of investment.

Thus there is a balance to be struck at all times in determining the "right" level of pay in the longer-term interest. The issue is complicated by New Zealand's great reliance on personal income tax to finance Government expenditure. The purchasing power of the pay packet is affected not only by inflation, but also by tax payable and benefits received from the Government. Thus, any discussion of the "right" balance between pay and profits cannot avoid consideration of taxes and benefits.

These issues must figure in the comprehensive discussions the Council believes are necessary among the Government, employers, and unions (see p. 44). Also, better consultation is needed at the industry, firm, and plant level about the ways in which production can be organised to maintain employment while keeping firms efficient and profitable.

Policies to Reduce Inflation

The Consumer Price Index has increased by 15.3 percent, 10.1 percent, 16.5 percent, and 16.1 percent in the past 4 calendar years. Many have by now come to see much increases in costs for consumers—and producers—as inevitable

and continuing. The expectation of continued double digit inflation, and the actions taken to protect individuals and groups from the expected effects have serious implications for the use of resources in the community. Investment, for example, is influenced towards the short term. The distribution of income and wealth is also affected (notably from saver to borrower). It is vital that the rate of cost and price increase be reduced. It is especially important that the policies take effect in the next transitional phase of New Zealand's development when major projects are being undertaken; new production must be encouraged, and costs have to be kept down.

It would be unrealistic to suggest that New Zealand could quickly reduce the present rate of inflation to say the 4 or 5 percent of Switzerland or West Germany—or even to the OECD average. But the last—or more accurately the rates prevailing on average in the main countries with which New Zealand trades—is a realistic and sensible objective. But to achieve it would mean a reduction to around 11–12 percent.

The exchange rate regime was modified in 1979 to maintain the competitiveness of New Zealand exports—in effect to counteract the impact of higher inflation in New Zealand than among its trading partners. Maintaining the competitiveness of exports is a vital element in the Government's (and the Council's) strategy and the present regime is well suited to its purpose. But over time a depreciating New Zealand dollar has the incidental effect of adding to the pressures on costs. The international value of the New Zealand dollar has depreciated by about 0.5 percent a month or about 6 percent a year since the introduction of the new system. Our import and export prices are rising (in terms of the New Zealand dollar) faster than the world rate. This trend will not be reversed until there is better control of costs originating in New Zealand. Only then can New Zealand hope to achieve the "virtuous circle" of lower domestic costs, leading to a stronger dollar, leading to lower imported costs, and so on.

New Zealand over the past decade has tried most of the conventional techniques to slow down the rate of price increase.

Controls on pay or prices (and other forms of income) applied for most of the period from 1970 to 1977; and tight monetary and fiscal policies have been held for periods (as in 1976–77 and 1979). As a broad generalisation the fight against inflation over the past decade has been characterised by a lack of integration and an unwillingness to persist for long enough with appropriate macro-economic policies.

The Council believes that to achieve a reduction in inflation, action is needed on three fronts:

- stable monetary and fiscal policies;
- a comprehensive approach to income determination (see p. 45);
- active employment and structural policies (see p. 39).

Some governments are relying mostly on monetary and fiscal policies. There is no doubt that other policies are likely to be ineffective unless supported by control over the Government's finances and the money supply. But to rely on them alone would place unacceptable pressures on employment and business.

Similarly policies which (whether voluntarily or by statute) place the major weight on the restraint of incomes will not succeed unless demand is held—through stable fiscal and monetary policies—close to the capacity of the economy to produce.

It is possible to reduce inflation but the withdrawal symptoms cannot be painless. The choices discussed at the beginning of this chapter will have to be made.

Indexation

In the meantime, as pointed out by the Reserve Bank in its 1980 Annual Report, the distorting effects of inflation are so harmful that some should be treated (while recognising that they are symptoms and not the disease). The erosion of the traditional function of money—as a store of value and as a unit of account—causes inequity and inefficiency. One method of living with these problems is “indexation”—the adjustment for inflation so that the real value of purchasing power is maintained.

Indexation already applies to benefits, effectively to most rates of pay, to some forms of monetary asset, and indirectly through the exchange rate to exporters' incomes. Indeed the extensive “mutual indexation” in the New Zealand economy has been identified by some observers as one of the features of our system which hinder adjustment and change.*

The Governor of the Reserve Bank has developed a proposal to take account of the distorting effects of inflation on monetary instruments such as mortgages.† The Council believes this deserves further attention in concert with proposals on taxation.

Monetary and Fiscal Policies

In a study commissioned by the Council, *The Stabilisation Role of Fiscal Policy*‡, the authors argue the case for more stable monetary and fiscal policies.

The evidence is that in managing the money supply and the Government's own income and expenditure through the 1970s the authorities did not always assist the achievement of their stated objectives: to lift production and maintain employment; to counter price rises; or to retain the balance of payments deficit within tolerable limits. Periods of rapid growth in the money supply and in credit led to strong and unsustainable demand and accelerated price rises.

The relationships are complex and the picture is clouded further by the lapse of time between decisions and their effect on spending. Monetary conditions are also directly affected by changes in the balance of payments and these are notoriously difficult to forecast. Moreover, there are political difficulties for any Government in spending less, or taxing or charging more,

*Economic Survey of New Zealand, OECD, March 1980, p. 40.

†See Reserve Bank of New Zealand's Annual Report, 1980, Wellington, and “Bulletin”, May 1980.

‡By R. S. Deane and Richard Smith.

and thus reducing the deficit. The Government's deficit before borrowing was reduced in 1979-80 to 4.9 percent of GDP by comparison with 8.2 percent in 1978-79. In 1980-81 it seems likely to be approaching 6 percent. A higher deficit than would otherwise be desirable is to be expected when the economy is in recession. We would be concerned if over the next year or so the deficit were to return to the higher figures of some previous years, notably the election years of 1975-76 and 1978-79. All the indications are that GDP growth of around 2 percent per annum can be sustained by a lift in private sector activity and by some recovery in the external account without further stimulus beyond the measures announced in November 1980.

How the Government finances its deficit is as important as the size of the deficit. It will have to keep a tight rein on the money supply to ensure that it does not fuel an expansion of activity which the balance of payments cannot sustain, and an even higher rate of inflation. Over the last few years the Government has been borrowing on the market from the non-bank private sector to a much greater extent than in the past. This is a trend which the Council welcomes. It has to be accepted however that more active competition from the Government on the capital markets can affect the supply and cost of private sector credit. This is a further reason for bringing the Government's income and expenditure more into line over the next year or two. But it must also be accepted that the present level of interest rates is unlikely to reduce significantly for any length of time unless the rate of inflation also falls substantially.

The Council recommended in *Planning Perspectives and Economic Strategy 1979* that the Government and Reserve Bank "should publish guidelines which indicate the rate of growth of money and credit they consider to be consistent with the aims of fostering production and curbing inflation . . .".* The aim of such guidelines is to make it plain to those who

determine pay and other incomes that they cannot assume that they will necessarily be able to recover higher costs from the market or by borrowing. A guideline for the growth of private sector credit was set for the year to March 1980; it was exceeded by a significant margin, in part at least to accommodate the higher than expected level of prices and working capital. The experiment has not been repeated. We continue to believe that as an element in a co-ordinated economic strategy public indications of the likelihood of credit being available can influence economic behaviour, including an element of restraint upon Government management of the public accounts.

A Social Partnership

The causes of New Zealand's inflation are complex. There is no single cause, and consequently no single remedy.

"Excessive" wages and salary increases are however often singled out as a primary cause and the answer sought in the exercise of restraint—voluntarily or through controls—on pay settlements.

Wages and salaries are:

- before tax a significant element in the cost of production and therefore in profitability and prices and investment; and
- incomes for employees—after tax they are the most important factor in the standard of living (although the goods, services, and benefits provided by Government from taxation are also highly significant).

From the latter standpoint it is not surprising that unions should seek to negotiate wage settlements above the level at which the Consumer Price Index is moving. At present this means pay increases running at 17 percent or more. In turn increases of this size lift the wage earners into higher tax brackets so that, unless action is taken by the Government, the benefits flow to neither workers nor companies but to the Government. For a while profits can be squeezed and in individual firms higher productivity (lowering unit costs) may moderate price

**Economic Strategy 1979*, page 13.

increases. There is however no way without substantial price increases in which enterprises can absorb increased wage and salary bills at the level we foresee over the next year or so, if the present way of determining incomes continues.

The Council believes that the wage-price cycle is now so entrenched, and the effects of inflation so serious, that a new approach is essential. Such an approach must be developed in consultation with employees and employers. Without their co-operation, any measures, however well conceived, can be frustrated. The Council has therefore welcomed the willingness of the parties to enter into continuing discussions.

An agreement is needed among the Federation of Labour, the Employers Federation, and the Government on a level of increase in pay which "the country can afford" in the next wage round. Such discussions can proceed effectively only in the context of a wider consideration of the economic situation and prospects. A prerequisite is that the Government should be forthcoming about the directions of its own policies; the priorities it attaches to various policy objectives; and its own analysis of trends in the economic aggregates.

New Zealand Governments have traditionally been reluctant to do this. In other countries which have been more successful in curbing inflation there has been more open discussion of the linkages between the various objectives of economic policy. There is also a need for close consultation among the social partners about employment, benefits and taxation, industrial policy, and technology. Indeed the habit of consultation may be as important as the progress made on specific issues.

Consensus on wage issues must be sought at the national level so that individual negotiations take place in an agreed framework. Without this, the union representatives will naturally pursue the interests of their own members without much concern for the wider consequences. Similarly, employers will be more concerned to avoid costly disruption of the production process than with the impact of

their settlement on others. There must be enough scope within award negotiations to allow for acceptable compromises on wages and conditions to be made. But the interests of others in the community—consumers, other producers, and others wanting jobs—must also be recognised.

Some would argue that in New Zealand's present situation direct controls are the only means of ensuring that employers and unions act consistently with the public interest. The Council would be reluctant to see a return to detailed wage and price controls, even temporarily. It believes that controls generally distort economic decisions, and often cause more problems than they solve. The only alternative is some form of "social partnership" involving the national organisations and the Government.

The considerable effort required to mount such a co-operative approach is in the Council's view worthy of the wholehearted support of all the major interest groups and the Government. It would require:

- **By the Government:** A willingness to discuss economic prospects and policies frankly with the leaders of the Federation of Labour, the Employers and Manufacturers Federations, and other significant groups in the community; to consider—and indeed make room for—reductions in personal taxation which will allow take-home pay at least to be preserved while reducing the rate of nominal pay increases; to consider the special impact of public sector pricing decisions; to consider the relationship of public and private pay fixing procedures*; to give due attention to representations on ways in which the welfare system might deal with cases of special need; and to implement active employment measures.

*Despite two Royal Commissions (1968 and 1972) and a new Act in 1977 there is still concern expressed to the Council about public sector pay fixing.

- **By employers:** Commitments to exercise restraint in pricing—for example to avoid anticipatory price increases; to enter into discussions on a national redundancy policy and to approach individual redundancy decisions in the most sympathetic manner feasible; to discuss in advance technological change; to participate fully in training schemes; and to exercise all possible influence on individual employers to negotiate settlements on wages and conditions within guidelines agreed at the national level.
- **By the union movement:** To refuse support to individual unions which do not abide by agreed procedures for disputes and negotiations; to exercise all possible influence on individual unions to negotiate within guidelines agreed at the national level; to facilitate, consistently with the maintenance of standards, training schemes designed to reduce the possibility of skill shortages; and to accept that rewards for skill cannot be allowed to act as a ratchet for claims elsewhere based on historical relativities.

There can be no guarantee that such an approach would work. It implies a “guideline” for pay and that has many difficulties not least in application to “special cases”. There will be scepticism about the “best endeavours” nature of such arrangements; and the inability of the central organisations to ensure compliance by their members will be highlighted. There will be those who say that the risk is too high with pay and prices at their present level. And there will be those who believe that such an approach—although New Zealand has come close to it in the past—is an abdication of the Government’s duty to govern and a move to the “corporate state”.

The Council believes nonetheless that such an approach should be tried, and as a matter of national urgency. While specific proposals could best be developed by the main participants, on the basis of their knowledge and experience of what is feasible, the Council considers that four main principles should be recognised:

- The need is for a long-term arrangement, not for another short-term policy which will be succeeded by a

return to unfettered “free collective bargaining”. The support of the major political parties is therefore essential.

- The proposals should envisage a reduction in personal taxation which will enable real after-tax incomes to grow as output expands while allowing a reduction in the rate of increase in nominal pay. But it would have to be acknowledged that public expenditure—including “tax expenditure” (the revenue forgone by tax concessions)—would need to be constrained accordingly; such an exercise will, in turn, have to be related to the desired impact of fiscal policy on the growth of activity.
- The Government should stand ready to intervene in key wage settlements, or pricing decisions, which threaten “to rock the boat” if the central organisations are unable or unwilling to exercise discipline.
- Government should continue to promote increasing competition and remove rigidities in the economy (see pp. 51–3) which increase costs and reduce productivity.

The present tripartite talks could, the Council hopes, be broadened to encompass the much wider range of issues envisaged as forming a social partnership. Groups besides the Federation of Labour and Employers’ Federation should be directly involved as talks progress.

The environment for such negotiations depends considerably on the attitudes and understanding of the public at large. In this context the media have an important role to play in providing fair and balanced commentary on what are among the most critical domestic issues we face in this transition period.

Industrial Relations

Not all industrial disputes are about pay although there is undoubtedly a link between high rates of inflation and the number of stoppages. But from the late 1960s there has been concern about increasing difficulties New Zealand has had in resolving industrial conflict.

Measured by the number of man-days per 1000 workers lost through strike action, New Zealand's record is considerably better than many OECD countries. Days lost through strikes are dominated by one or two industries. (Stoppages in meatworks in 1979 accounted for 37 percent of days lost, and 49 percent of the number of workers involved.) These figures, however, do not reveal the full impact on production of industrial action by a small number of people in key positions.

Countries such as Austria, Norway, Sweden, and West Germany seem to have been more successful than New Zealand in adjusting to the new challenges. We are sceptical of the efficacy of transferring procedures from other countries. There is evidence in some of these countries that their systems are now under strain. The tradition is, in any event, very different. Where the participants in New Zealand's industrial relations tend quickly to look to the Government for a lead, conflict procedures in these other countries are predicated on a minimum of state involvement. The central organisations of unions and employers are powerful. There is not our nineteenth century legacy of numerous, small, craft-based, often regional unions. There would seem to be room for improvement in both New Zealand's institutional framework and in attitudes.

In *Employment* the Council made suggestions to encourage the reorganisation of unions into large—preferably industry-based—organisations. We also emphasised the importance of developing the strength of personnel management in enterprises. The capacity of unions and management is already being tested by two sets of issues ranging much wider than wages and wage-related problems:

- **Redundancy** is an inescapable corollary to the change which the New Zealand economy is experiencing. There is an urgent need for universal ground rules—rather than the present unhappy *ad hoc* arrangements in which each case becomes a battle ground. Responsibility lies primarily with the national organisations.
- **Technology:** New Zealand is well placed to gain from the application of new technologies.* In the short run and in some sectors employment will be reduced or its nature changed (although it should not be assumed that in the absence of new technology jobs would have remained). Workers and unions must be closely involved. Ground rules agreed between the central organisations would help, but there is a heavy responsibility also on individual employers and unions.

The case can be strongly argued for New Zealand's industrial relations legislation to be redrawn so that it emphasises collaboration rather than confrontation. But whatever changes are made in legislation, or practices which are now convention, "good faith" is the essence of good industrial relations. This involves not only the acceptance of established procedures but also an attitude of mind: a mutual respect marked by "willingness to meet the other party with an open mind and at reasonable times; willingness to study the other parties' arguments and to admit merit in them where it exists; willingness to disclose all relevant information; willingness to safeguard confidentiality; willingness to accept 'give and take' in order to reach a solution fair to both sides; *and* willingness to honour agreements reached and to accept a referee on points of interpretation and applications."† In short, it must be accepted that the relationship extends beyond the immediate issues; and that the parties have a joint interest in coping better with conflict.

We would urge that political leadership as well as the national organisations give urgent attention to the basis on which the legislative and institutional framework of New Zealand industrial relations could be developed to meet the needs of a rapidly changing economy and society.

* *Employment*, p. 62.

† F. J. L. Young, "Has the Next Bus Left Yet?", address to N.Z. Institute of Engineers, Waikato-Bay of Plenty Branch, 15 July 1980.

Public Expenditure

The goods and services provided by the public sector—by central and local government, or by private organisations financed by the State—are as much an element in the standard of living of New Zealanders as those goods and services for which they pay from their after tax incomes. Public expenditure in aggregate is also one of the instruments available to Governments in influencing the level of demand in the economy. On another level there are important political questions about the share of public expenditure in relation to gross domestic product.

In *The Welfare State?* the Council discussed at some length the implications of a period of slow economic growth for Government expenditure, particularly on social programmes. We made the point that when overall constraint on spending is necessary “a political choice will need to be made over the way in which it is shared between the private and public sectors.”* We took as our starting point that there was a consensus in the community (reflected in the platforms of the main political parties) against continued growth in the relative size of the public sector.

This is clearly a question for further debate in the community but the Council, on the basis of an assumed average growth of 3 percent per annum over the decade, recommended that the real increase in public spending over the decade should be limited to 2 percent per annum on average.

In fact, the economy has not attained 3 percent growth, and in volume terms net central government expenditure (gross expenditure less receipts and other adjustments)—the amount to be financed by taxation and borrowing—has probably been growing at around 1 percent in 1980–81. Gross expenditure is likely to have been growing even more slowly with expenditure on goods and services flat and monetary benefits showing a

continued increase but at a slower rate than in the previous year (attributable primarily to the changed basis for National Superannuation).†

Too much should not be read into one year's tentative figures (and local authority expenditure would require examination) but overall the trend of public expenditure appears to have been tightly restrained. The Government will need to watch carefully the balance between capital spending (which has been falling in real terms) and current expenditure on goods and services (which has been held in real terms) and monetary benefits.

The Council has advocated special attention in a policy of restraint to National Superannuation, subsidies, and “tax expenditures”. Equally the Government should not be too concerned if the ratio of public spending to total spending rises when private and total activity is low as over the last couple of years. Some elements of expenditure (such as job creation and the unemployment benefit) are directly counter-cyclical; but more importantly if public expenditure is held on a stable path the percentage will fall as the economy recovers. As noted earlier (see p. 44) it would be very damaging if public expenditure or the Government's deficit were to lead to excessive pressures on the economy when it is expanding of its own accord. (The Minister of Finance has recognised in his November 1980 measures that this risk should be avoided.)

In the meantime it is the nature of public expenditure on which attention should be focused. Even the most determined Governments have less discretion than they would like to reduce expenditure or change expenditure patterns. The two main areas where Governments have some room are:

†There are extensive technical difficulties in defining deflators and thus in measuring the “real” increase in public expenditure at times of high inflation. For a discussion of the different ways in which Government expenditure may be assessed see *Public Expenditure and Its Financing: 1950–1979*, New Zealand Planning Council, Wellington, 1979.

* *The Welfare State?*, p. 8.

- direct and indirect assistance to productive enterprise (agriculture, forestry, industrial development, transport and communications, etc.);
- social services (including both delivery systems—health, education and so on, and benefits).

As discussed later the Council believes there is scope to reduce spending in some of these areas if Governments are prepared to make greater use of the exchange rate and to reduce subsidies and tax expenditures. Expenditure on social services and benefits has grown particularly rapidly in recent decades: from 47 percent of total expenditure in the 1950s, 55 percent in the early 1970s, to about 59 percent in 1978–79. In the 1960s and early 1970s expenditure on health and education grew particularly rapidly; lately benefits have grown fastest, with National Superannuation the major influence.

In *The Welfare State?* the Council urged changes in certain services and benefits. Such changes seemed desirable in their own right, but even more so in a period when economic considerations required restraint on spending.

Health: In health the Council suggested a change of emphasis in policy. There should be a more critical approach to building and to the purchase of expensive technological equipment. There should be more emphasis on the promotion of good health, on the prevention of sickness and accident, and on the integration of health services into the life of the community, with hospitals and medical practitioners seen as only part, albeit important, of the services involved.

Law and Order: Community-based preventive programmes were also emphasised in the Council's approach to law and order. It questioned the effectiveness of many of the sanctions now used either as a deterrent or as a path to rehabilitation or reform of those who have offended. It suggested some means of relieving current pressures on the courts and the prisons, and increasing the responsibilities of individuals and families to deal with the problems involved.

Education: In education, falling rolls at the earlier stages would make it possible to effect selective improvements throughout

the system even if total educational expenditure rose more slowly than Government spending as a whole. The Council emphasised strengthening pre-school and primary schools to help them detect and deal with children's difficulties early, in association with parents and health and social workers; development of secondary school curricula to cater better for those "turned off" by current, unduly academic programmes; and vigorous development of technical, community, and continuing education to enable people to develop their talents throughout their lives.

Income Maintenance: In income maintenance, the Council questioned the desirability of spending so much, in a period where restraint on Government expenditure was required, on a national superannuation benefit for all, regardless of means, at age 60. It suggested some deferment of the age of eligibility and a change to an after-tax, rather than before-tax basis of comparison with the average weekly wage in determining what benefit should be paid. The Council advocated gradual reform to reduce anomalies in the structure of benefits and to ensure that funds available for income maintenance and social welfare were directed more effectively to those in greatest need of support.

Income maintenance illustrates well the approach of the Council to public expenditure on social policy:

Income maintenance, despite the many years on the drawing board and the fact that it has been a major focus of political attention, is just as much in need of radical review as any area of social policy. The immediate need, however, is to impart a sense of confidence that choices about the distribution of welfare are not dictated by short-term political expedience, and that clear principles of social justice are followed in extending assistance to all citizens in need. The Council believes that lack of clarity on this score has created divisions and resentments within society that already affect our productive effort as well as the broader social environment.*

The Council obviously was not advocating weakening the safety net which welfare measures provide. But it suggests

* *The Welfare State?*, p. 27.

that there are better ways of promoting welfare and meeting cases of genuine need within the resources provided.

Government has already taken some steps in the direction the Council advocated.

The success of New Zealand's transition to a period of higher growth will be judged by the way in which society can meet pressing social needs *despite* the limits on available resources. The Council believes its suggestions on health, education, law and order, and income maintenance are worthy of the continuing attention not only of the Government but of all New Zealanders who are in most cases both clients and paymasters.

Taxation

Taxation has an impact on almost every aspect of policies for the transition. What happens to pay and prices will be influenced by the possibility of reductions in personal taxation. How public expenditure is managed will determine the scope for such reductions. The distribution of incomes, in a socially acceptable way, is one function of the tax system. Yet there is great dissatisfaction with the present taxation system—one mark of which is the undoubtedly widespread practice of tax avoidance and evasion.

The Council continues therefore to urge that there should be a major review of the tax system (which was last subject to such examination by the Ross Committee in 1967). We are separately giving detailed consideration to the agenda for such a review. This must include investigation of the distributional aspects of taxation (and of public spending) and of the actual incidence of taxation, as well as the equity and efficiency considerations that need to be taken into account with respect to different taxes and the system as a whole.

Five characteristics of the New Zealand tax system are however basic to any consideration of reform:

- The percentage of GDP which is taken in tax is not unusually high in New Zealand; what is distinctive is the percentage of revenue raised by way of personal income tax, from a relatively narrow base.

- The tax base—the spread of activities from which tax is received—has been steadily eroded by rebates and concessions particularly as incentives to production and exporting. The amount of revenue which could be raised from low rates across a wide area is raised from high rates on a narrow basis, increasingly from wage and salary earners.
- High marginal rates of tax are reached at relatively low levels of income. They aggravate inflation and are economically inefficient. They are a disincentive to savers; and to workers to work overtime or to acquire additional skills.
- Taxation on capital is almost non-existent—a situation in which New Zealand among OECD countries is almost unique.
- A two-tier structure is emerging in which wages and salaries are being supplemented by fringe benefits at a disconcerting pace.

“Reductions” in taxation in recent years have been, in effect, the return to taxpayers of a proportion of the additional tax they would otherwise pay by moving into a higher tax bracket because of a pay rise—the so called “fiscal drag”. They are no less welcome for that. Indeed the Council would favour a more systematic form of indexation of tax rates and rebates and exemptions. The room for real tax “relief” overall over the next year or two (while retaining a responsible fiscal stance) is likely to be very small if it exists at all. The movement that can be made is in terms of shifting the burden away from taxes on income and towards taxes on expenditure. This may have to be a gradual process until a firmer basis is laid, perhaps by 1982, for more wide-ranging tax reform; but it is one the Council urges the Government to pursue.

The continued need to contain the growth of public expenditure is discussed earlier (see p. 48). The Council also sees opportunities to reduce tax “expenditure” arising from the wide range of concessions and tax incentives given to promote various activities. There are at least 50 such incentives and allowances currently applied, not including personal tax rebates and concessions. A review of incentives and allowances should be made before the

next budget (in conjunction with the consideration of alternative policy approaches, including exchange rate adjustment) to determine the extent to which each is contributing to economic strategy and at what cost. Total tax expenditure on investment and export tax incentives, for example, could exceed \$300 million this year. To the extent that reductions are feasible, the burdens on taxpayers could be reduced. Changes in other policies, which may help to pave the way for such reductions, are discussed in the next section.

Structural Change

The policies discussed are designed to manage the economy in such a way that there will be confidence in investing in the opportunities for growth and employment which are offering—by reducing the rate of inflation; by consistent monetary and fiscal policies; and by encouraging co-operation among the social partners. But there are other impediments to growth, in the institutions and procedures within which enterprises operate.

The Council has stressed the importance of earning and saving more foreign exchange if New Zealand is to build a better society. This entails changing the structure of the New Zealand economy. One measure of that shift has been an increase in exports in relation to GDP. (The ratio has moved from 21.6 percent in 1976 to 24.4 percent in 1979 and is likely to have moved further since then.)

The policies which have encouraged this shift have been broadly in line with the Council's recommendations in *Planning Perspectives and Economic Strategy 1979*. They fall into two categories:

- a trade strategy directed at exporting more goods and reducing dependence on imports, especially of oil;
- measures to encourage efficiency, innovation, and productivity in the use of resources throughout the economy.

Policies alone are of course not enough. Action is required in manufacturing, on farms, and in the service industries. While the Council's emphasis falls on policies, it

acknowledges the major structural change that has taken place over the past 5 years or so in the private sector.

A More Open Economy

No country is self-sufficient—not even the United States or the Soviet Union. Obviously New Zealand must import the raw materials which it does not produce: equally clearly there are manufacturing processes (for instance associated with major defence industries) which involve capital and risk beyond our means. For almost all goods in between there is a choice between importing and local manufacture.

Countries are generally better off if they devote their resources to producing goods in which they have a comparative advantage. In practice, countries do not always behave in accordance with this principle. This tempts New Zealand to balance the protective action of others with similar measures. This may not be in our interests. National income will increase if the resources available in New Zealand are devoted to those activities which we do well; and purchase from overseas, within the limits of overseas earnings and prudent borrowing, those where the comparative advantage lies elsewhere. Despite trade barriers, the prospects are that we can substantially increase our exports profitably. The level and forms of protection for New Zealand industry are rightly being given close attention. The Council advocates that “protection should be given on a less discriminating and more moderate basis.”* As a technique, import licensing has particular disadvantages. It enshrines rigidities which render the economy less adaptable to change; it suppresses price competition from overseas; when some imports are allowed, it confers advantages on those who hold the licence at the expense of consumers; and it is essentially biased in favour of existing enterprises against newcomers.

* *Economic Strategy 1979*, p. 20.

The Council is not advocating the removal of protection, and acknowledges that licensing may sometimes be the best method of protecting an industry. Nevertheless, we suggest that the general directions of policy should be towards more reliance on the tariff, more moderate protection, and greater emphasis on assistance to make our industries and services more effective and competitive.

The problems created by reliance on import licensing can be partly reduced by measures (such as those in the 1979 Budget including tendering for licences) to modify the system to improve competitiveness and encourage cost containment in industry generally. The programme of industry studies is defining the areas in which further steps are feasible and desirable in important commodity groups. The Council believes however that we must work towards more fundamental reform, and specifically to reliance on tariffs rather than licensing as the basic system for the protection of domestic industry.

Along with more active use of the exchange rate, tariffs can, the Council believes, provide the necessary level of protection for a wide range of domestic manufactures; and provide it more effectively because they can encourage producers to contain costs, become more competitive, and adapt more readily to changing circumstances here and abroad. In some situations, import licensing may need to be retained for varying periods. Licence tendering may be appropriate in these cases.

Movement towards more reliance on tariffs (and where appropriate, licence tendering) might well increase revenues without increasing the price of imported goods, and increase also the proportion of revenue derived from indirect tax. Thus there are fiscal as well as more general arguments for changes in the policies on protection.

At present, and until this major issue of industrial policy is more clearly resolved, the environment for manufacturing investment will be uncertain. The Council does not envisage immediate or rapid change but does believe that the open economic strategy for the 1980s embodied in the export drive, if it is to succeed, must

be accompanied by complementary and consistent measures to change our own restrictive system of protection.

Our aim is to accentuate the positive in industrial policy. The Government should continue to assist industry with education and training, research and development, and to adjust to the changes in protection policy. The employment policies discussed earlier will help greatly in this respect.

The counterpart to protection against imports, whether by tariff or licensing, is the assistance given to exports through the tax system. The revenue cost of manufacturing and service export incentives has been estimated at approximately \$100 million in 1978-79 and seems likely to exceed \$160 million in 1980-81. Some of this is for market development but most is for increased exports of goods and services, and this may well have been highly effective expenditure in stimulating export growth.

Tax expenditures of this size nevertheless reduce the scope for tax adjustment elsewhere in the system and, like any tax concession, need to be assessed from time to time. There is concern, for example, about the equity of a system which allows some firms which export to pay little or no taxation while many producers for the domestic market must pay full rates. Moreover, there is the prospect that more export encouragement can be given by changes in the exchange rate rather than explicit tax concessions.

Furthermore, changes in the export incentive system (or in the import system) may be unavoidable over time if we are not to risk retaliation or obstruction of the effort to increase exports. We cannot afford to lose sight of the fact that trade is a two-way process with benefits expected and gained on both sides.

The assurance has been given that the new export taxation incentives will continue until 31 March 1985. We consider it essential in any event that the viability of exporting be maintained. Nevertheless the Council believes that opportunities should be taken, as they arise, to increase reliance on exchange rate management (as the means to ensure satisfactory returns for exporting), with correspondingly less emphasis on specific tax concessions or grants. Exchange rate changes can also

encourage or support import substitution by making it profitable to produce goods domestically without excessive protection.*

The combination of incentives and subsidies for exporters and high protection for selected domestic industries has some of the same effects as a properly functioning exchange rate in encouraging exports and discouraging imports when the Government is concerned that the deficit on overseas transactions would otherwise be too high. However, we favour moving to a less discriminatory and more equitable and effective system of protection, support, and assistance.

A More Competitive Economy

“Restructuring” is not something that applies only to manufacturing industry. No sector is immune from the effects of inefficiencies in other areas. The transport industry and the public sector are two which have obvious effects upon the effectiveness of other producers. We tend too, to talk of farming as if there were not wide differences in the use which individual farmers make of the resources available to them, but big gains could be made by more efficient land use management.

The broad objective of structural policy throughout the economy is to encourage efficiency and the ability of producers to respond to demand. In the public sector this places a priority on the introduction of techniques which simulate the functioning of prices in the market. The Council urges:

- The Government to further review: (a) the need for regulations which inhibit entry or competition such as in transport, or in the meat industry;† and (b) the effectiveness of legislation governing monopoly/cartels and other restrictive practices (including those of trade and professional organisations).

*See *Planning Perspectives*, pp. 86–87 and *Economic Strategy 1979*, pp. 12–13 for the Council’s view on the use of the exchange rate.

†The Meat Industry Amendment Act 1980 was enacted in December 1980.

- Managers in the public sector to work with urgency towards procedures which ensure that the activities for which they are accountable are as effectively managed as those which would operate in a competitive market place.

Loss of jobs or the closing of factories is not new: it is part of the process of change. But the effects are more painful for individuals and families in a period of low growth, particularly when a region or community is disproportionately affected.

It is too easy for those not affected to talk glibly about “mobility” of resources. People who lose jobs have a life beyond the workplace which is disrupted; and community assets are not easily transferable. The Council in *Employment* has made proposals both to improve the handling of closures and to assist the adjustment of those affected—through assistance to find new jobs, to shift, and to retrain.

Adjustment assistance is often desirable for industries too. The Council welcomed the comprehensive package of measures—including a development fund to facilitate re-organisation—which was an integral part of the decisions on the textile industry. A similar approach should be followed with other industries for which the choice lies between continuing stagnation and decline or a regrouping to find a place in an economy in change.

Priorities in the Transition

Economic policy in New Zealand has rightly been preoccupied for most of the last 35 years with the balance of payments. This has certainly been so for the last 6 years. As we have noted earlier new policies designed to shift production towards the international sector have been put in place over the last 2 or 3 years. At the same time, except for a brief period in 1977–78 domestic demand has been restrained. The result has been a much healthier external position when compared with the situation in the middle of the 1970s.

The international economy is not likely to help New Zealand much over the next

year or so, especially with a continuing question mark over the price and supply of oil. But if the present export momentum can be held, and growth in the domestic economy remains on a path consistent with capacity over the medium term, the balance of payments problem will start to recede.

A main priority must therefore be to maintain the international competitiveness of exporters. The Council supports a flexible exchange rate system and the supplementary minimum price schemes for pastoral exports. It also acknowledges the importance of the revised export performance taxation incentive to manufacturers and exporters of services. But it remains of the view that the exchange rate should, over time, become the primary instrument for ensuring the competitiveness of the international sector. The cost to the revenue, and trade policy considerations, suggest that this issue should be given close attention by the Government. It should be associated with moves towards reliance on the tariff rather than licensing as the basic form of protection of domestic industry.

Willingness to use the exchange rate is consistent with the aim of building a flexible, open, and competitive economy in which there is less need for the Government to intervene to redress imbalances. Too often the countervailing actions cause other distortions. Even the essential measures to shift production to exports carry the risk of perpetuating a "dual economy" which is unlikely to be the best means of achieving increased output per head in the long run.

New Zealand's inflation performance is bad. The uncertainties which go with persistent high rates of increase in costs and prices are inhibiting the development of a strong economy: the pattern of investment is distorted and social divisions are exacerbated. A renewed attack on inflation must therefore be high on the list of priorities.

In the Council's view the deep-seated nature of the cost-price-wage spiral in New Zealand requires a new and concerted approach to the problem by the union movement, employers, and the Government—a social partnership. We have sketched out some key elements in

continuing arrangements for consultation going far beyond pay. We believe that a joint commitment to move along these lines is essential if New Zealand is to make progress not only in holding costs but in meeting major social concerns.

A renewed social partnership is not a substitute for stable demand management with consistent monetary and fiscal policies in slowing down the helter-skelter pace of inflation. The Government has used strong words in describing its attitude to controlling the money supply: "We will not allow credit to increase to validate soft wage settlements. If increases in costs and prices are excessive the money will not be there to pay for them."* We note however that the Government has been less aggressive recently in bidding to fund its deficit by borrowing from the non-bank private sector—a necessary element in effective monetary policy.

Monetary policy must act in tandem with fiscal policy. The Government has stated in the 1980 Budget that its "medium term aim is to reduce the size of the Budget deficit and the growth of public sector expenditure consistent with the need to sustain reasonable levels of economic activity." The Council has indicated that two major elements in successful management of the public accounts are a critical review of "tax expenditures" and a stable path of expenditure of 1 to 2 percent in real terms over the next few years (assuming that the economy will be growing at around a trend of 2 to 3 percent). The emphasis should be on projects to support productive investment, on employment and training, and on areas of special need rather than on universal benefits.

Reform of the tax system—centred on a shift from the reliance on personal income taxation—is a vital element in our proposed social partnership. If tax reform were easy there would have been an earlier response to the pressures for it. Shifting burdens means a lightening of the load for some at the expense of others. Nonetheless, it must be tackled and the

* *Budget 1980*, p. 9.

Council has "an agenda" for tax reform high on its 1981 work programme.

The objective of the Council's recommended strategy is an expanding economy which will provide more jobs and higher real incomes. We believe that New Zealand is in a process of transition to a period when an adequate growth rate can be sustained. But for a period ahead—and there is room for differences of judgment about how long the period will be—a substantial programme for the creation of jobs in the public sector should continue.

The budgetary costs, and the administrative complexities of such a larger job creation programme should not be played down. But the Council sees it as an issue of special urgency to ensure that public funds are imaginatively used with maximum benefit to those working on projects (particularly by way of training) and to the country. We believe that New Zealand society will be ready to support this commitment and be prepared to make whatever temporary sacrifices are necessary.

Unemployment is rightly given prominence. But its alleviation is not the only social objective. We have in chapter 1 discussed a number of other major social concerns, including the distribution of income and access to public services. Progress in these areas is more difficult when the economy is not expanding, but it is still important.

The Council is aware that not enough consideration has been given yet to the social implications of an economy in transition, and it plans to examine the issues more thoroughly in its future work programme. It is apparent that success in managing the transition will be measured by whether New Zealand can cope with current social concerns without prejudicing the achievement of the sustained growth which is within the country's potential.

CHAPTER 4 PLANNING, INITIATIVE, AND RESPONSIBILITY

Why Plan?

It will not be easy to make the transition from our present difficulties to renewed economic and social progress. But planning can help.

Planning is a systematic effort to work out the best way to achieve objectives. The difficulties of detailed planning increase as one moves away from physical projects and becomes more concerned with broader issues of economic and social development in a sector or a region or a nation. The difficulties also increase with the length of the planning period and the uncertainties of the situation in which the planners are operating.

When there are many uncertainties, and change is rapid, accurate forecasting is impossible. Models and forecasts based upon past relationships can quickly become misleading. This is one reason why in business and Government throughout the world, enthusiasm for detailed 5-year plans has waned. Effective business and national planning now concentrates on issues likely to be of strategic importance in the next few years. It tries to ensure that decisions are carried out efficiently and effectively, but that enough flexibility is maintained to adjust quickly and appropriately to unforeseen circumstances.

Uncertainty makes planning more difficult, but it also makes strategic planning more necessary—in both public and private sectors. A nation, like a business, must adapt to change if it is to prosper. With energy shortages overseas and changing market conditions for our exports, New Zealand must change its economic course in several respects if we are to maintain and improve our living standards. Planning is an essential element in making the necessary changes.

One of the most vital tasks of any government is to put before the nation a vision of what can realistically be achieved—to give a sense of direction and provide a compass by which policy makers

and others can steer. It will be necessary to change course from time to time to avoid hazards, to catch a favourable wind, or because priorities change. In turbulent seas the need for a sense of direction—the basic purposes and priorities—is greatest.

To get New Zealand out of its current difficulties, planning must look beyond tomorrow or the next election. It is unlikely to be effective if policies are introduced piecemeal, with inadequate explanation or little participation by those most affected. Planning is not just a matter for Governments. Different people and groups will, of course, have different ideas about the best ways ahead for New Zealand. To tap these ideas, and to help reduce conflict, the Government must consult widely with others whose support is needed to put plans into effect.

How Well Are We Planning?

The Private Sector

In recent years, market-oriented, strategic planning has been developing in many private enterprises, as have education and professional discussion about planning.

The Manufacturers' Federation has been examining the possibilities for greatly increasing the proportion of manufactured output which is exported. The Retailers' Federation, the Fishing Industry Board, and Federated Farmers have all been working on plans for their own sectors. These new initiatives independent of Government, are a welcome development.

In other sectors, such as forestry, tourism, and housing, planning in the private sector is closely linked with the work of Government departments through advisory councils. The sectoral planning is helping to provide a better base for national development planning.

Government Departments and Agencies

The time and resources devoted to planning vary greatly from one department and public agency to another. The recently announced energy plan, although in some respects contentious, was perhaps the most notable development during 1980.

Unfortunately, in Government the pressing needs of the short-term too frequently predominate, and not enough attention is given to reassessing priorities—the heart of effective planning. This affects not only public expenditure planning but also the effective collaboration of organisations involved in sectoral planning. It can be frustrating for advisory councils seeking a lead from the Government. The problems are accentuated when Government expenditure and staffing are being restrained. However, if resources are to be used more effectively, priorities must be reappraised. Room can be made for planning by reducing the time devoted to less crucial activities.

It would help greatly if each department planned ahead more systematically. A department should set out how it sees its own work proceeding over the next few years—what its priorities are; how expenditure and staffing will change; and how it intends to measure, monitor, and evaluate its progress. It should also try to assess how the aspects of the economy or society for which it is responsible might best develop in the future:

- What are the opportunities for development?
- What are the constraints?
- How well equipped are the constituent elements of the sector to take the opportunities and overcome the constraints?
- What changes must be made for the sector to do better in the future?
- What policies and programmes of assistance and control should be pursued?
- How can co-operation with other organisations be most fruitfully developed?

Both the sectoral plan and the department's own plans should be based on effective consultation on trends, policies, and programmes with the private

sector, and local and regional governments. This would include people the plans are designed to help, and those whose co-operation is essential if the plans are to succeed.

Government Expenditure and Manpower Planning

If planning is to be more effective the Government must improve its own forward planning for expenditure and use of manpower. Publishing forward estimates would help planning in the private sector.

Past procedures for determining public expenditure have not been satisfactory for Government to plan and determine priorities, or to evaluate the performance of departments. The Government accounting system also needs modifying if it is to become a suitable tool for effective management. The Council has commissioned work on the costing of Government services; it hopes this will contribute to a programme of gradual improvement. The Council intends to undertake further work on planning in the public sector during the next 2 years.

The Council welcomes steps now being taken within Government to determine more systematically what total Government expenditure seems appropriate for the next 3 years, and how this might best be allocated among the different votes. The Council hopes the Government will publish the results of this work as soon as possible.

Local and Regional Planning

Planning along the lines suggested above, and better co-ordination, will help the Government accomplish its undertaking to develop a partnership in planning with united and regional councils. The Council's recommendations are published in *Planning and the Regions*. Regional planning provides a framework for focusing regional priorities; for resolving conflicts where they arise between regional aspirations and the national interest; and for facilitating better use of resources. It should be regarded as

offering opportunities rather than constraints, and not seen as the establishment of another costly tier of government.

Government Planning and the Private Sector

Planning does not need to mean more Government, more centralisation of power, or more detailed control from the centre. Indeed, in a period of uncertainty and change, centralised, bureaucratic planning and control is almost certain to be too rigid and unresponsive, and to impede effective adaptation.

Trying to generate a sense of common purpose does not mean getting everyone to conform to detailed goals set from the centre. As society becomes more diverse, it becomes more important that planners recognise the different interests that have to be accommodated if they are to be harnessed into constructive endeavours rather than dissipated in anti-social behaviour.

A major aim of planning must be to help create a stimulating but reasonably stable economic and social environment in which individuals and enterprises can effectively plan their own development. Here we would emphasise again the importance of Government leadership in providing a forward assessment of trends, opportunities, and constraints in economic and social development, and in providing an integrated view of the policies which it intends to introduce to give effect to the economic and social strategy which it considers to be in the country's best long-term interests.

The Limits of Government

The New Zealand tradition of government differs from overseas ideologies of nationalisation and preference for private enterprise. New Zealanders have used the power of the State when it has seemed appropriate for development, for upholding the interests of local residents against overseas

pressures, and to mediate between conflicting interests in New Zealand, as well as to protect the disadvantaged and modify the distribution of income and access to services which would apply without Government intervention.

This concern by Government for development and welfare must continue. But initiative and responsibility must come from all sections of the community, not just the Government. It is important that citizens recognise the limits of Governments to meet expectations generated in the past—often by politicians themselves. There are pressures on Governments to retain popular support, and on opposition parties to attract it. Acceding to such pressures has often led to unwise relaxation of restraints before elections, and to promises which lead to policies in conflict with the requirements for stable expansion. The pressures might be reduced by adopting a longer parliamentary term, as advocated by the Council in *Planning Perspectives* and in its 1979 annual report. A longer term would permit leaders more time to secure support for unpalatable measures needed in the long-term interest, and enable more of the beneficial effects of such measures to be felt.

But the difficulties of modern Government run deeper than this. Increasing resistance to the growth of taxation is reflected, not only at the ballot box, but also in growing tax avoidance and evasion. The resistance to higher taxes has not been accompanied by significant reductions in the feelings by many groups that they are entitled to increasing services, benefits, or subsidies from the public purse. The difficulties intensify in periods of slow or negative growth. With little or no extra to share, more expectations are necessarily disappointed.

Not only are the external conditions facing Government more turbulent and harsh, but also domestic problems have increased in complexity. The demands for direct participation in decision-making have increased, and the pressures applied by groups with diverse interests have become more intense and sophisticated. The conflicts between Government and others, and the strengths and weaknesses of leaders, are more continuously and

ruthlessly exposed through the media. This has been one of several factors contributing to an erosion of authority, a disenchantment with Government, and substantial switches of support for different political parties. Recipes which appeared to work in the past are increasingly seen as inadequate for solving present and expected problems. The difficulty, here and elsewhere, of sustaining employment without serious inflation is the most obvious current manifestation of the limits of Government power. Considerations such as these lie behind several of the recommendations made in this report.

The Council believes Governments can simplify their tasks by putting more weight on general incentives in policy, and less weight on selective, *ad hoc* interventions and administrative controls. There could be more use of a "sunset" approach* to some regulations and committees. Certainly, a critical appraisal of the way the time of Ministers and officials is apportioned could help ensure that adequate attention is given to forward planning. Responsibility for detailed operations should be devolved as much as possible; for example, to public corporations for enterprises like the railways.

The Council envisages a transition from a centrally administered Welfare State to a Welfare Society in which more responsibility will be assumed by individuals, families, voluntary societies, unions, and employers, and local bodies closer to those who need assistance, companionship, or other forms of social support.

More devolution and decentralisation of responsibility is desirable, as the Government develops its partnership with local authorities and the new regional bodies. This should enable people to contribute more effectively to planning for the development of the communities in which they live.

With a more systematic approach to planning, the Government can make more

fruitful use of the support available through advisory councils, caucus, and select committees of Parliament, and other sources within and outside Government.

Co-ordination of Planning

The preamble of the 1980 Budget went a long way towards shaping a consistent economic strategy for the next few years. Many in the private sector hope that the Government will now go further. They are looking for a more comprehensive and cohesive set of policies and programmes, which is not only economically sound and consistent, but also takes account of the social and industrial stability needed for economic progress. The Council shares their view that publication of the Government's own plan, along with further sectoral plans, like that for energy, would be very helpful to those planning development in other sectors. It would also generate a greater sense of purpose and of commitment to policies likely to be of long-term benefit to the country.

The Planning Council, through its reports; through meetings, conferences, and seminars; through discussions with ministers, officials, members of parliament, advisory councils, and leaders in many walks of life has consulted widely. It has tried, from an independent viewpoint, to illuminate important issues of development, and to promote action to deal with them. The Council believes this has helped promote discussion, prepare the ground for changes, and suggest courses of action. But the Council's role is to advise, assist, and promote consultation. The Government of the day has the power to decide what should be done. If planning is to be effective, the Government itself must plan. It must assume a leading role in encouraging others to plan co-operatively with it for the long-run national interest, and ensure the results are translated into appropriate policies and programmes.

While Government must make the final decisions in policy, the Council regards it as imperative that any Government should make strenuous efforts to involve others

*By a "sunset" approach is meant a built-in expiry date unless overt action is taken to extend the legislation.

who have the power to frustrate its intentions in responsibility for decision-making. The involvement should not be confined to issues which are bound to be contentious. For example, unions and employers should be more deeply involved in the formulation of economic and social policy generally, and in the administration of our employment services.

The Council has argued earlier that, in the 1980s, New Zealand needs to become both more competitive and more co-operative. It is through the pursuit of a just society, based on initiative and responsibility, that the country will be best placed to respond both to the principal economic issues which it faces and to the basic personal and social aspirations of the New Zealand people.

APPENDIX I

SOME MEDIUM-TERM PROJECTIONS

The following projections were originally published in Eric Haywood's *Forecasting the Economy in the Eighties*, Planning Paper No. 10, New Zealand Planning Council, December 1980.

TABLE AI. 1 REAL GROSS DOMESTIC PRODUCT: ACTUAL AND TREND PROJECTIONS

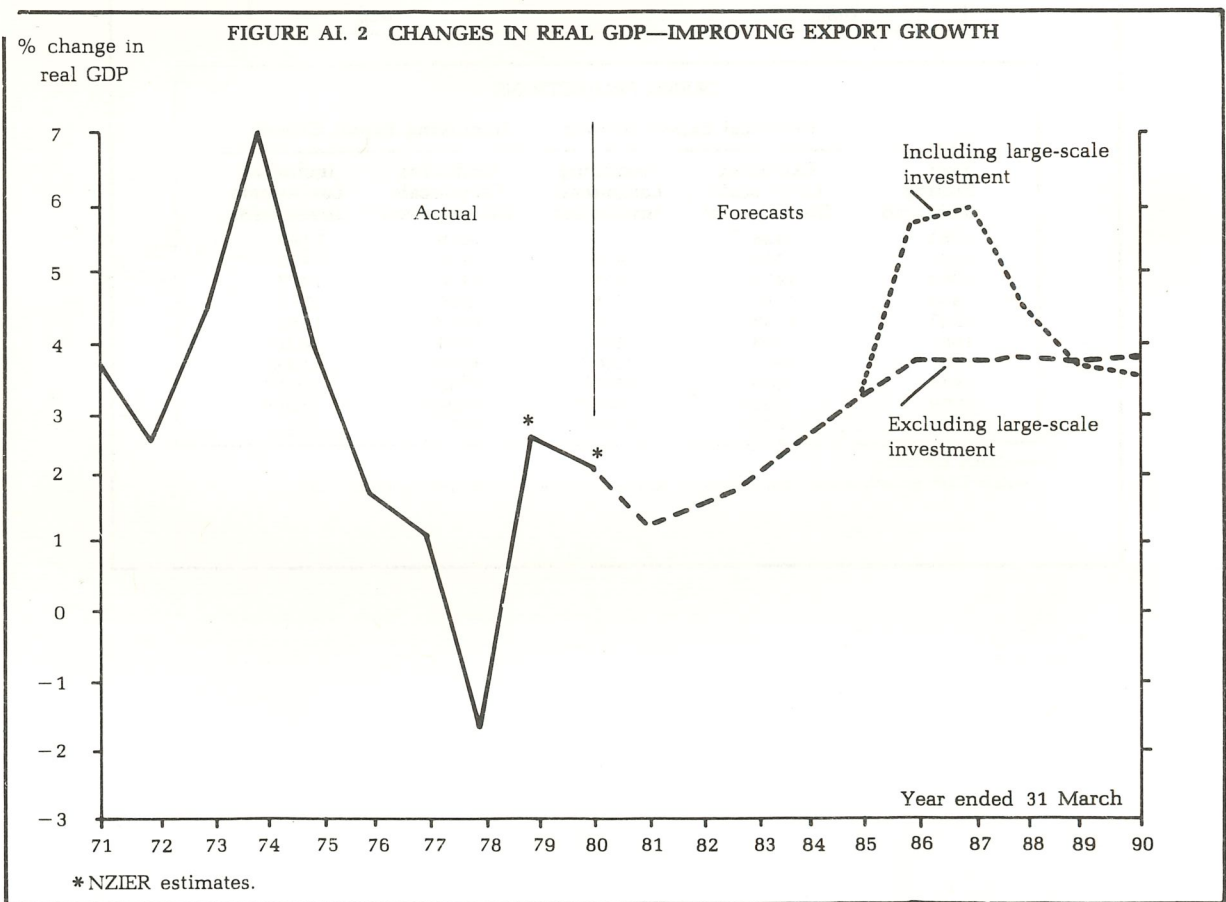
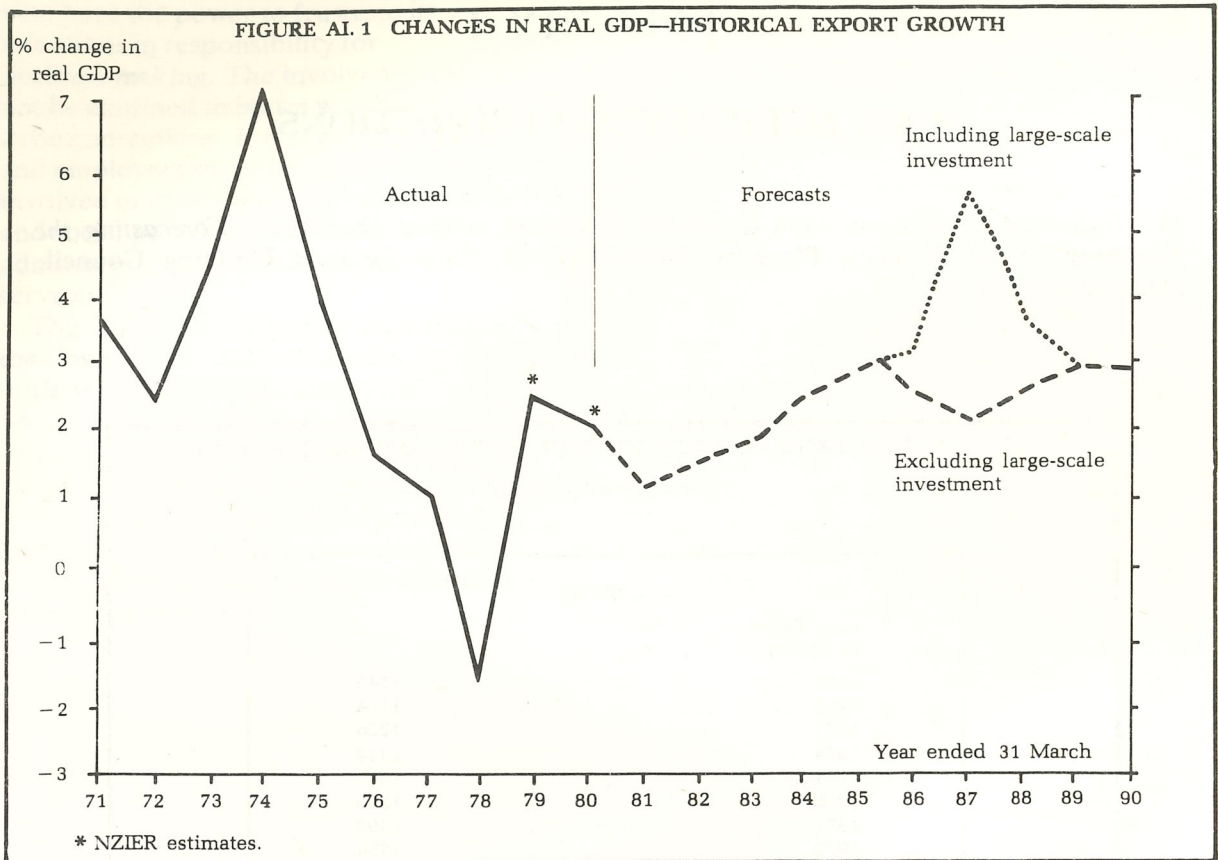
(Base: 1965-66 = 1000)

ACTUAL					
Year Ended					
31 March					
1971 ...	...	...	...	...	1145
1972 ...	...	...	...	...	1174
1973 ...	...	...	...	...	1226
1974 ...	...	...	...	...	1314
1975 ...	...	...	...	...	1367
1976 ...	...	...	...	...	1390
1977 ...	...	...	...	...	1392
1978 ...	...	...	...	...	1354
1979 ...	...	...	...	...	1388 ^a
1980 ...	...	...	...	...	1416 ^a

TREND PROJECTIONS					
Year Year Ending 31 March	Historical Export Growth		Improving Export Growth		
	Excluding Large-scale Development	Including Large-scale Investment	Excluding Large-scale Development	Including Large-scale Investment	
1981 ...	1428	1428	1428	1428	
1982 ...	1450	1450	1450	1450	
1983 ...	1478	1478	1478	1478	
1984 ...	1515	1515	1515	1515	
1985 ...	1558	1558	1563 ^b	1558	
1986 ...	1598	1607 ^b	1621 ^b	1648 ^b	
1987 ...	1631	1694 ^b	1678 ^b	1743 ^b	
1988 ...	1674 ^b	1759 ^b	1741 ^b	1819 ^b	
1989 ...	1723 ^b	1810 ^b	1804 ^b	1885 ^b	
1990 ...	1774 ^b	1861 ^b	1871 ^b	1951 ^b	

a—NZIER estimates.

b—Real GDP growth above that necessary to maintain 1979-80 employment position.



APPENDIX II

PLANNING COUNCIL PUBLICATIONS

NZPC SERIES

							<i>Price</i>
1977	August	No. 1	A Moment of Truth	...	...	...	free
	September	No. 2	Regional Options	...	...	...	free
	September	No. 3	Town and Country Planning Bill	...	...	...	free
1978	March...	No. 4	Planning Perspectives 1978-1983	...	...	...	\$3.35
	May ...	No. 5	Taxation Reform (Donald T. Brash and Graeme Thompson)	...	...	...	free
	June ...	No. 6	Income Maintenance and Taxation (Paul Bevan, Avery Jack, John Jensen)	...	...	...	\$3.00
	June ...	No. 7	Working Together (Brian Picot, Claire Drake, Ted Thompson, Noel Woods)	...	...	...	free
	October	No. 8	New Zealand and the European Community	...	...	...	\$3.50
	October	No. 9	The Future for New Zealand Agriculture (Ian McLean)	...	...	...	\$4.50
	September	No. 10	Australian Relationships with New Zealand (Frank Holmes)	...	...	...
			Part I: Presentation to Study Group on Structural Adjustment	...	...	...	\$1.00
			Part II: Some Reflections on a Visit to Australia	...	...	...	\$1.00
1979	January	No. 11	Economic Strategy 1979	...	...	...	out of print
	June ...	No. 12	The Welfare State?	...	...	...	\$4.15
	June ...	No. 12a	Public Expenditure and its Financing: 1950-1979	...	...	...	\$2.95
	October	No. 13	Implications of New Energy Developments (Norman Macbeth, Graeme Thompson, Chris Livesey, Frank Holmes)	...	...	...	\$2.75
	December	No. 14	He Matapuna—Some Maori Perspectives	...	...	...	\$5.30
1980	April ...	No. 15	Planning and the Regions	...	...	...	\$3.50
	June ...	No. 16	Investment Issues (Donald T. Brash, Frank Holmes, Bill Smith, Graeme Thompson)	...	...	...	\$6.75
	October	No. 17	Employment: Towards An Active Employment Policy	...	...	...	\$5.25

PLANNING PAPERS

							<i>Price</i>
1979	November	No. 1	The National Development Bill	...	...	...	free
	December	No. 2	Land as Turangawaewae: Ngati Whatua's Destiny at Orakei (I. H. Kawharu)	...	...	...	free
	December	No. 3	Finding a Pathway to the Future: He Ara ki te Aomaarama (S. M. Mead)	...	...	...	free
	December	No. 4	Whakatupuranga Rua Mano—Generation 2000: An Experiment in Tribal Development (Whatarangi Winiata)	...	...	...	free

3
330-9932 SR
NEW

No. 18 (1981)

		DATE DUE				
1980	April	A. J. Davy (A.L.)	Stabilisation Role of Fiscal Policy (R. S. Deane R. G. Smith)	...	...	free
	March	19 AUG 1983	Zealand's Long Term Foreign Trade Problems Structural Adjustment Policies (P. J. Lloyd and others)	...	...	\$4.00
	April	3 MAY 1984	Regional Development: Objectives and Policies: An Appraisal (Claudia D. Scott)	...	...	\$4.00
	July	23 NOV 1984	Immigrants and their Motives (Rosemary Barrington and Julith Davey)	...	...	\$5.00
	August	14 OCT 1986	... Pakcha? Some Reflections on He Matapuna (Ken Piddington)	...	...	free
	December	14 OCT 1986	No. 10 Forecasting the Economy in the Eighties (Eric Raywood)	...	...	\$3.50
REPORTS OF THE ECONOMIC MONITORING GROUP		-7 NOV. 1990	"New Zealand's Economic Trends and Policies"			<i>Price</i>
	No. 1 (September 1978)	...	...	...	...	\$2.25
	No. 2 (September 1979)	...	...	...	...	\$2.10
	No. 3 (April 1980)	...	...	...	...	\$1.80

THE PUBLICATION SERIES

The Planning Council has two publications series in which it publishes its own reports and those commissioned from others. Originally all reports were published in the NZPC series. However, since NZPC No. 14 this series has been reserved for the reports of wide general interest (both Council and commissioned reports) which are marketed by the Government Bookshop. A new series—Planning Papers—is now being used for free issues and technical papers of more limited specialist interest.

The EMG series is used to publish reports of the Economic Monitoring Group. This group operates independently of the Planning Council. Its task is to report from time to time on short-term economic trends.

STANDING ORDERS

If you would like to receive all issues in the NZPC or EMG series, you should place a standing order for them with the Government Bookshop, Private Bag, Wellington.

The Planning Council does not maintain standing orders for Planning Papers. But if you would like to receive advice of new issues, ask to be placed on our Information Mailing List.

HOW TO OBTAIN PUBLICATIONS

Free Publications

Free publications are available from the Planning Council's offices.

Salable Publications

Cash Purchases: NZPC Series, EMG Reports, and Planning Papers are on sale at Government Bookshops in Auckland, Hamilton, Wellington, Christchurch, and Dunedin. (Planning Papers are also on sale at the Council's offices.)

Mail Orders:

NZPC series and EMG reports from—The Government Bookshop, Private Bag, Wellington.
Planning Papers from—NZ Planning Council, P.O. Box 5066, Wellington.



A038391B