economic strategy 1979

NEW ZEALAND PLANNING COUNCIL

ECONOMIC STRATEGY 1979

A Report by the
New Zealand Planning Council

Published by the
New Zealand Planning Council
P.O. Box 5066, Wellington

JANUARY 1979 NZPC No. 11

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LIST OF ILLUSTRATIONS

FOREWORD

The attached report was prepared by the New Zealand Planning Council to assist the new administration after the 1978 general election. There have been a few amendments to the version submitted to the Government in December, as opportunity has been taken to update some statistical material and to improve the presentation of one or two sections.

The Council's main purpose has been to consider prospective short-term developments in relation to the medium-term goals outlined in its report *Planning Perspectives 1978-83* and to assess their implications for policy. Our conclusion is that some important policy changes will be needed in 1979 to provide a sounder basis for sustained recovery. The recovery will be shortlived unless we successfully counter three major threats:

1. Exports are not growing rapidly enough to sustain full employment and a moderate improvement in living standards.
2. Inflation is still too high.
3. Our present highly regulated economy is not sufficiently productive and makes it too easy to pass on costs.

A co-ordinated programme of action is needed to tackle these threats together.

Our report emphasises the need for measures to stimulate more earning and saving of overseas exchange. Whether the stimulus takes the form of devaluation, or of a package containing more tax incentives and subsidies to those selling goods and services overseas and more surcharges or direct controls on payments overseas, if its effectiveness is to be sustained it must be coupled with action to deal with the other obstacles to recovery.

The expansion of money and credit, spending and incomes must be curbed to a rate which is justified by the country's ability and willingness to produce goods and services and by imported cost increases which we cannot avoid. This in turn will require a reduction in the present large deficit between Government revenue and expenditure. However, in New Zealand as elsewhere, budgetary and monetary policies alone are not enough to control inflation while allowing opportunities for employment to expand. Thus if unemployment is to be reduced, Government, employers, and unions must try to work out together means of keeping pay and prices within better bounds without detailed Government regulations. We discuss some of the major issues involved, which should be an important element of the conference on employment which the Industrial Relations Council has suggested should be held shortly.

As the recent OECD survey of New Zealand has emphasised, we have an unusually insulated domestic economy. This insulation has been a major factor in sustaining inflation and weakening the export drive. Thus, in any package of measures designed to deal with our problems, regulations and private restrictive practices which are protecting inefficiency and permitting enterprises to adopt cost-plus attitudes in the market must be removed or modified, unless there are strong social benefits to justify their continuation. Otherwise, as in the past, the profitability of enterprises which can export or produce efficient substitutes for imports will be rapidly eroded, despite the incentives, by inflated costs and by low efficiency in other sectors of the economy. For this reason, we suggest the liberalisation of import licensing as one element of a policy which will emphasise assistance to enterprises to improve their efficiency rather than long-term and highly discriminatory protection of high-cost operations. We also suggest a similar approach to other systems of licensing and restrictions now imposed on entry to certain activities. We suggest that the first criterion for all licensing decisions should be the need to increase efficiency in the economy as a whole. Explicit provisions should be made for competition to be encouraged, and the onus of proof should be on holders of existing licences rather than on applicants for new ones.

We ask all New Zealanders to recognise that there are severe limits to the powers of Government in finding acceptable solutions to our difficulties. Government's power is shared with that of organised labour, private employers, and a number of other powerful interests. If these interests continue to have little regard for the long-run national consequences of their actions and their bargains, both democracy and full employment are threatened. The Planning Council has welcomed the initiative of employers and unions in calling for a conference on full employment, provided that it is more than a bout of public oratory from entrenched positions. We see much to be gained from serious discussion of how workers, employers, and others can help to make the important changes which are needed if employment and living standards are to be sustained. Only through such changes and by co-operation among Government, employers, and workers in working out socially responsible policies on pay and prices can we achieve the required boost to exports and output. An atmosphere of division and confrontation is not conducive to future prosperity and we trust that the Government will take full advantage of the indication that employers and unions are seeking a more constructive and united approach.

We hope that this report, along with the OECD survey and other recent publications issued by ourselves and others, will provide useful background for any employment conference, and for those who must make the decisions in 1979 which will substantially influence New Zealand's future economic and social development.

Frank Holmes

Chairman.

16 January 1979.

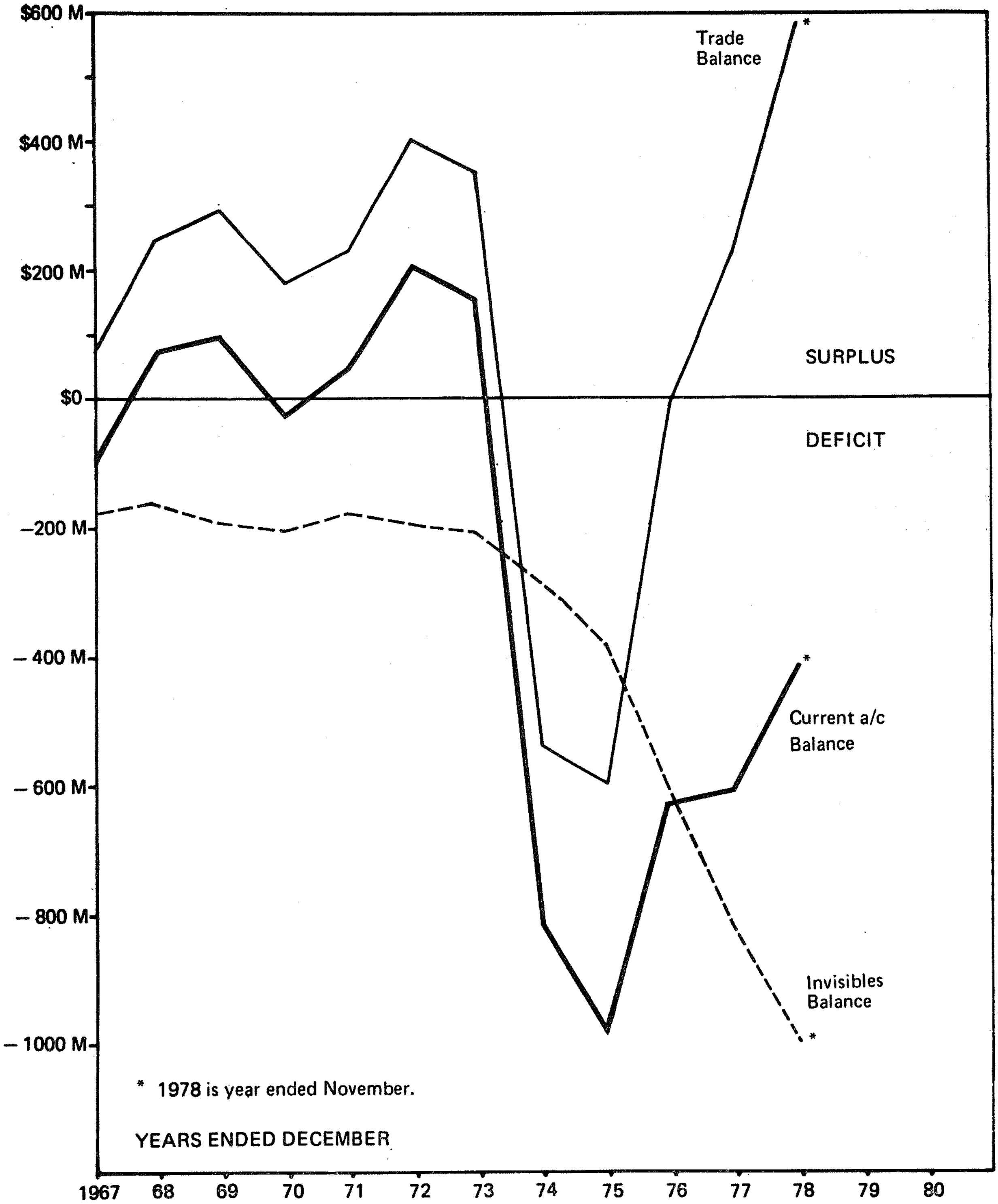
INTRODUCTION

1979 will be a crucial year in New Zealand's battle to resume sustained expansion and reduce social tensions after the prolonged difficulties which have beset us since the oil crisis of 1973. We have made some progress. Prices have been rising less rapidly. The deficit between overseas receipts and overseas payments has been greatly reduced. In response to the stimulus given by Government since late 1977, some expansion of domestic activity is now occurring after a long recession. However, the battle is not over. New Zealanders will have to face, and co-operate in, some important changes of policy early in the new year. Otherwise, the economic improvement will be short-lived. We must not re-enact the old and tragic scenario of boom and retrenchment. If we do, we shall fail to grasp the real opportunities which are open to us to create a more durable basis for improving living standards, increasing opportunities for employment and avoiding the further loss of young and gifted people to other countries.

In our publication *Planning Perspectives 1978–83,* issued early in 1978, the Planning Council set out the main elements of a strategy for recovery over the next few years. We suggested that New Zealand could and should aim for a growth of real gross national product (GNP) of about 3 percent per annum over the planning period 1978–83, while reducing our dependence on overseas borrowing to a prudent level of about 2½ percent of our GNP. Without this growth, it would be difficult to avoid serious unemployment and a deterioration of our living standards relative to others, conditions which provoke domestic disharmony and exodus from the country. We emphasised that the problems could not be solved by the Government alone, or without significant changes of policies, attitudes, institutions, and practices.

Since publishing *Planning Perspectives,* the Council has published a number of other papers concerned with particular aspects of the strategy which it outlined. These are listed inside the back cover. We expect to report during the first half of 1979 on government expenditure policies, on investment requirements, and on regional policies. The Council's Economic Monitoring Group has recently reported on short-term trends and policies. We do not intend in this statement to go over the ground which they have covered. Our aim is to draw attention to key issues which we believe New Zealanders must face in 1979 if the aims of the medium-term strategy are to be achieved.

Fig. 1
BALANCE OF OVERSEAS EXCHANGE TRANSACTIONS



Source: Reserve Bank of New Zealand

STRATEGIC ISSUES

We see three main threats to be dealt with. They are all related to one another, and must be attacked simultaneously if they are to be successfully overcome:

- **Exports are not growing rapidly enough in volume to sustain a moderate growth in living standards and full employment.**
- **Inflation is still too high.**
- **Low productivity persists in our over-regulated, cost-plus industrial structure.**

Governments have done a great deal to try to solve New Zealand's difficulties with overseas payments. Fig. 1 shows that the balance of trade in goods has been restored to substantial surplus. It is significant, however, that reduction in the volume of imports has made the major contribution. This reduction has been a reflection of recession and unemployment. There is widespread agreement that to continue along this road is unacceptable. But recovery will require additional imports. Orders are already well up and payments will be much higher in 1979. Moreover, as fig. 1 indicates, net payments overseas for services ("invisibles") continue their persistent rise. Higher oil prices in 1979 will increase payments for both goods and services.

It should be evident that we can sustain the increased payments, and reduce our reliance on borrowing overseas, only if our exchange earnings rise at a much higher rate. **Our recovery is presently being led not by exports but by the rising expenditures of Government and consumers.** The present prospects are that "traditional" pastoral exports will decline in volume during this season and next, while exports of manufactures and services will grow much more slowly than they did in 1976 and 1977. In total, **in the absence of policy changes, the volume of exports will be relatively static.** Fortunately, prices for some exports, notably meat, have been improving, but this should not be allowed to obscure the need for an increased volume of exports. Continued stagnation could be a serious obstacle to sustained domestic expansion. The Council estimated that a 3 percent growth in real GNP would require a 5 percent growth in the volume of exports annually during the planning period. Without it, Governments will have to restrict expansion because New Zealand will not be able to afford to pay for the overseas goods and services required.

New Zealanders must ask why exports are doing so poorly despite all the incentives which Governments have given to stimulate their growth. In our view, the major reasons are not lack of opportunities or poor prices overseas, but lack of confidence that exporting will be profitable, and a consequent reluctance to invest in more output for export. The incentives lose effectiveness when domestic costs persistently rise more rapidly than those of trading partners or competitors, or when regular delivery on a profitable basis is impeded by industrial disruption or inefficient transport and other services.

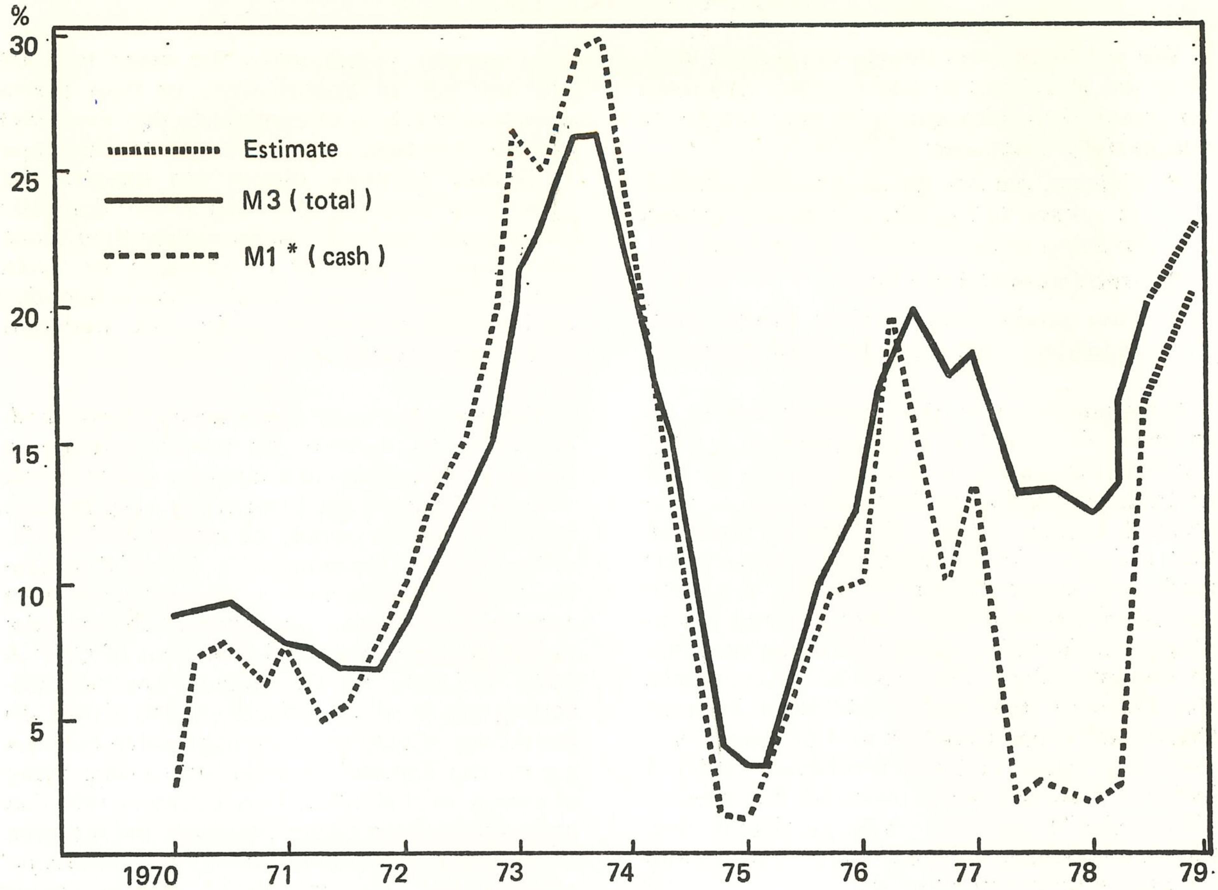
There are forces at work which, unchecked, are likely to reverse the progress made in bringing New Zealand's inflation under better control. Wages have been rising very rapidly. So, too, has the supply of money and credit, reflecting the Government's financial operations. The Government's revenue has been running well below its expenditure, and the deficit is likely to exceed 9 percent of GNP in 1978-79. Lately, the Government has been offsetting some of the effects of this deficit on the money supply by more aggressive borrowing on the domestic market. The falling away of private capital inflow from overseas will also have a restraining effect. However, the reserves of financial institutions have been growing strongly and the growth of private sector credit seems likely to continue to move well above the upper end of the guidelines set by the Reserve Bank for this fiscal year.

If the rapid expansion of money and credit were allowed to continue, it would facilitate an excessive inflow of imports. It would also help to rekindle inflation by driving up prices further, with serious consequences for exporters who cannot pass on the additional costs overseas.

There are other factors besides inflation which have made it too easy to pass on costs in New Zealand. As a result, pressures to improve competitive efficiency are much less than are needed in the country's present and foreseeable circumstances. Inhibiting factors include high protection for some industries against overseas competition, official regulations, and private practices which restrict domestic competition. In addition price relationships are distorted by controls and subsidies. If exchange earnings are to be increased, it is not enough to concentrate on those industries which earn exchange directly. Inefficiencies and high costs elsewhere in the economy can often frustrate their efforts. **All New Zealanders have a part to play in the improvements of productivity and the control of inflation which are fundamental requirements for sustained recovery.**

Fig. 2a

ANNUAL GROWTH RATES OF MONEY SUPPLY

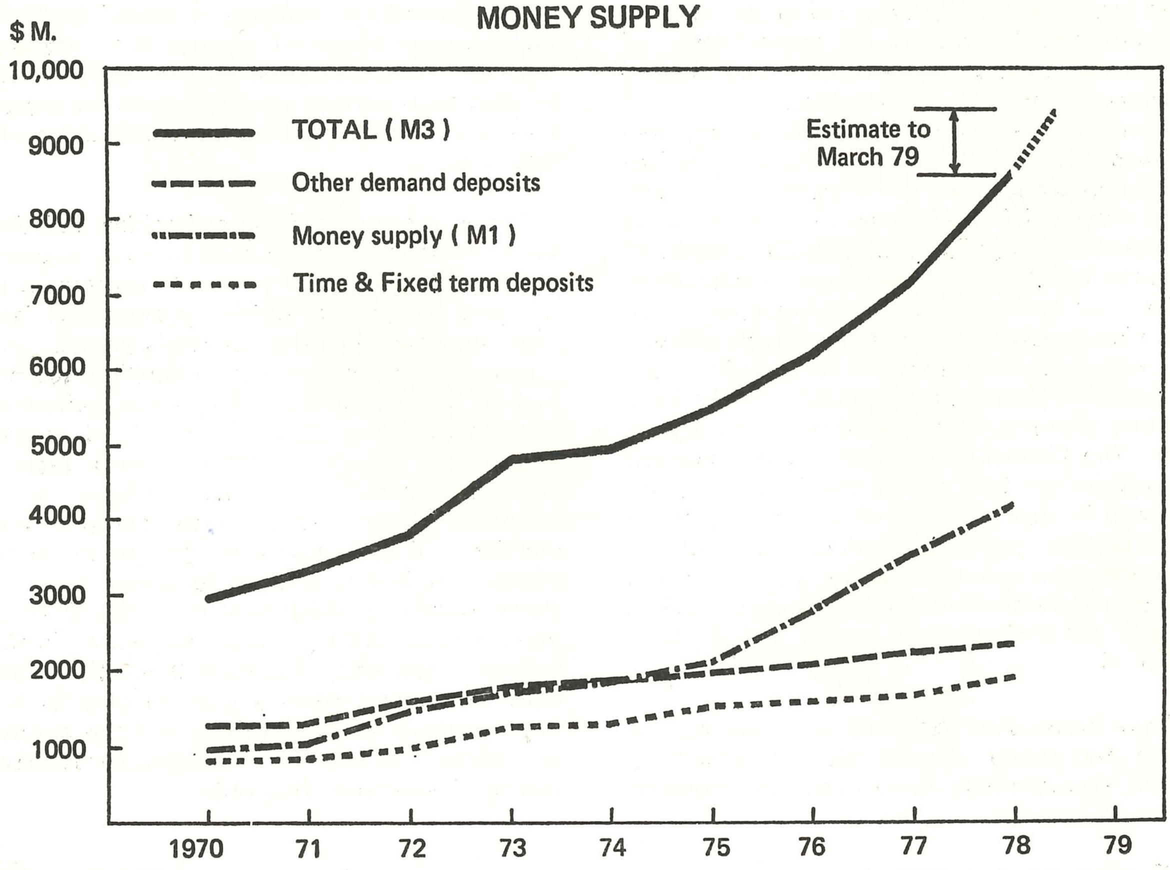


March years

* M1=Notes,coin,demand deposits,savings bank cheque deposits. M3 is M1 plus other demand deposits and time and fixed term deposits at selected financial institutions.

Fig.2b

MONEY SUPPLY



September 30 years

Sources: Reserve Bank of N.Z., Bank of New Zealand

A PROGRAMME FOR 1979

A programme for 1979 which would be consistent with the medium-run strategy set out in *Planning Perspectives* would need to include action on three fronts:

(1) **Measures directed to stimulating both earning and saving of overseas exchange.**

(2) **Measures designed to bring New Zealand's inflation down to rates no greater, and preferably less, than those prevailing on average in the countries with which we trade, in a manner which will expand, and not reduce, employment opportunities.**

(3) **Measures directed to promoting a more efficient, flexible, and competitive economy.**

The required measures will not work if they are introduced piecemeal. It is recommended, therefore, that the Government formulate and announce an integrated plan of campaign. This would show how concerted action on each of these fronts is necessary to support the action being taken on the others. In order to achieve long-term gains for all New Zealanders, the package of measures will have to provide for short-term changes in the distribution of income and in long-established regulations and practices. Some organised groups are bound to resist these changes. It is vital therefore that every effort be made to explain the plan and to muster wide public support for it. An early start is essential to prevent misdirected expansion and inflationary forces from gathering undue momentum.

The following is a summary of the major ingredients of the programme which the Council believes to be necessary:

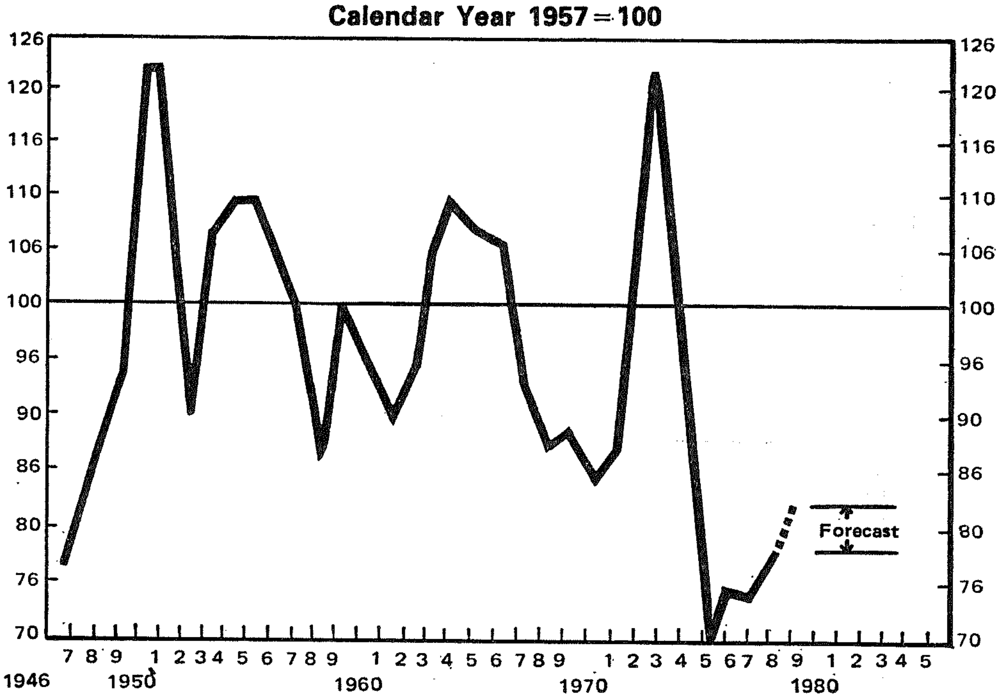
Reducing the Overseas Exchange Constraint

New Zealand will have to earn its way out of its present difficulties. We should not expect to be bailed out by any spectacular improvement in export prices overseas which would restore the terms of trade to the average levels prevailing before the oil crisis. Recent developments have been consistent with the assumptions made in *Planning Perspectives*

Fig.3

TERMS OF TRADE

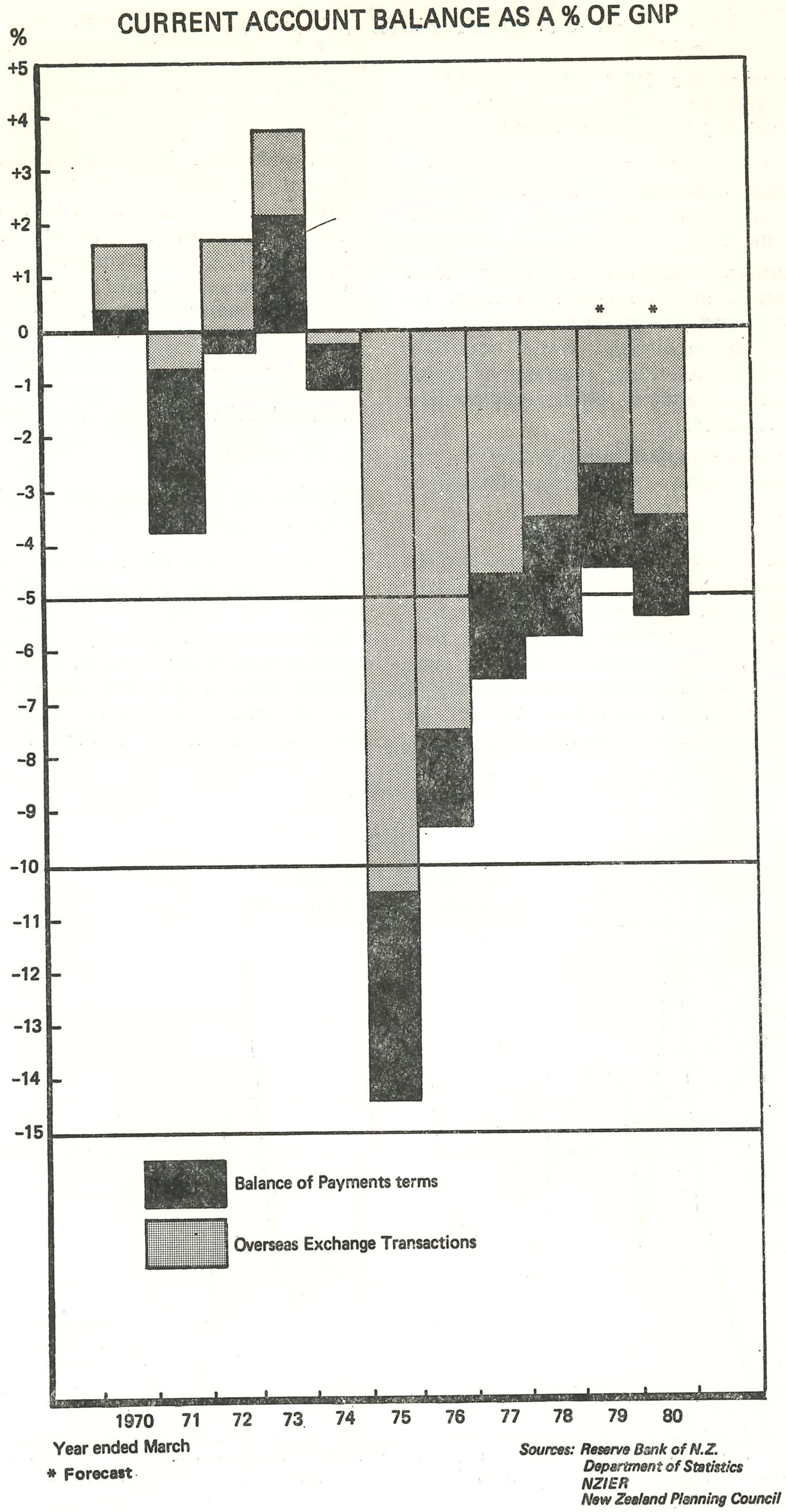
Calendar Year 1957 = 100



Source: Department of Statistics
NZPC Estimate

Fig.4

CURRENT ACCOUNT BALANCE AS A % OF GNP



that the terms of trade (ratio of export to import prices) would continue to improve moderately. They may indeed, in the coming year, rise above the figure of 80 percent of the 1957 base of 100 which we suggested the Government should assume as the average which would prevail between 1978 and 1983. Nevertheless, we would stick to this assumption for the medium term at this stage.

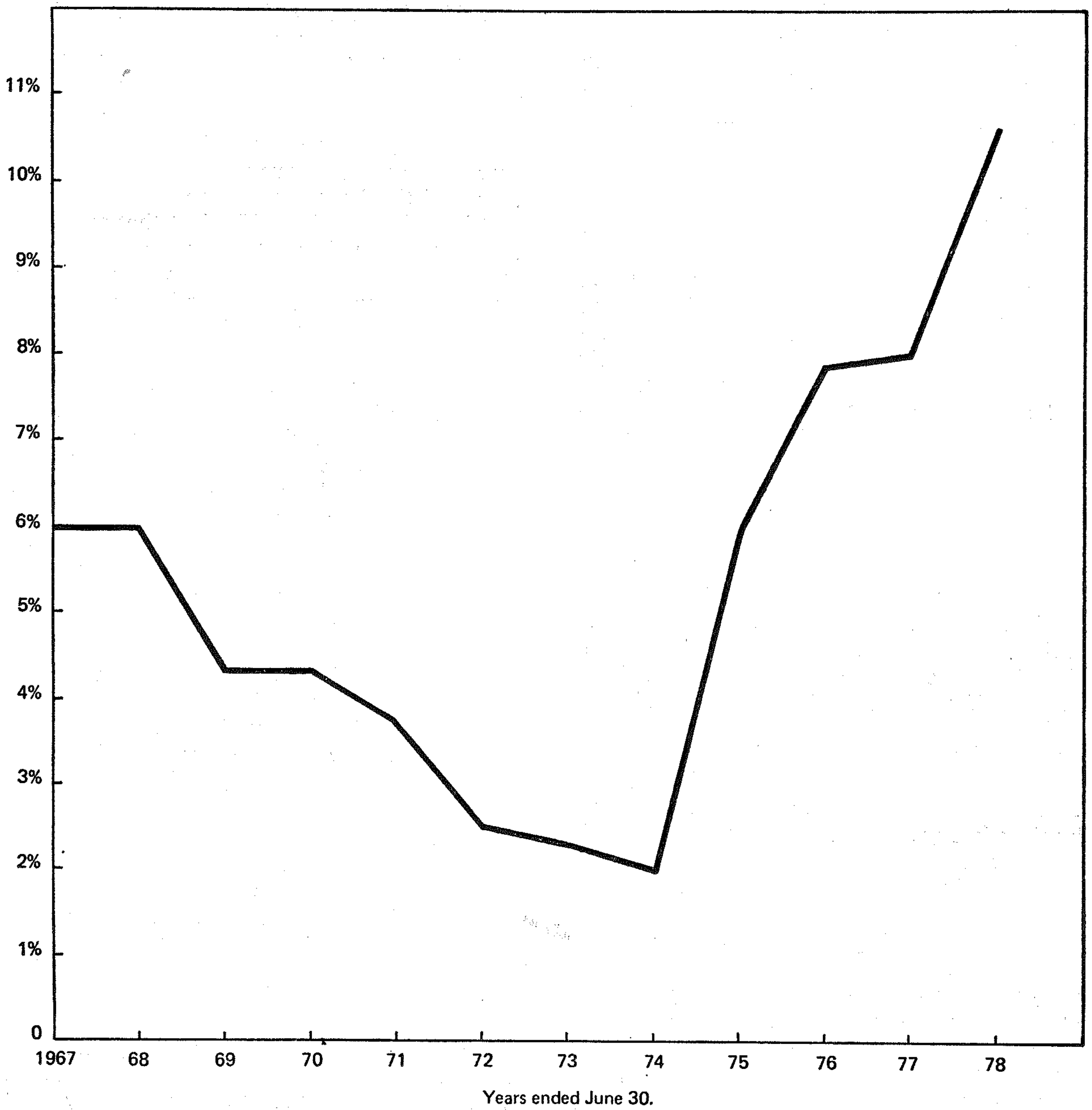
The Council's strategy for New Zealand's development envisaged a continuation of a deficit between overseas receipts and payments. However, we continue to believe that policies should aim for a reduction of the deficit on current account in the official balance of payments to about 2½ percent of GNP on average in the early 1980s. This deficit has fallen from well over 14 percent of GNP in 1974–75 to about 5 percent this year*.

Recent forecasts indicate that the deficit will probably increase in 1979, as fig. 4 indicates.

**The balance of payments statistics referred to here try to encompass all current economic transactions between New Zealand residents and foreign residents. They should not be confused with the statistics of overseas exchange transactions (OET) through the banking system which record only transactions involving remittances. The current OET deficit has fallen from 10½ percent of GNP in 1974–5 to less than 3 percent this year, as the graph shows.*

Fig. 5

THE COST OF SERVICING OVERSEAS DEBT (Net)
(Net international investment income)
AS A % OF TOTAL EXPORT RECEIPTS



Source : Reserve Bank of New Zealand.

It is important that prompt action be taken to ensure that the deterioration is temporary. This is necessary both to keep the cost of servicing indebtedness manageable and to sustain the confidence of overseas lenders and investors in our creditworthiness. For these reasons, the benefits of continued borrowing must not be dissipated in excessive monetary expansion and undue growth of personal consumption and government expenditure. **The borrowing must be seen as part of a policy to stimulate the earning and saving of overseas exchange to an extent that leaves no doubts of the country's capacity to service the debt.**

A deficit in the balance of payments may be covered by official borrowing, by private borrowing, or by direct investment in New Zealand by overseas enterprises. Private overseas borrowing has been substantial since 1974, but appears to be diminishing appreciably this year. If this tendency continued, the burden imposed on official borrowing to cover the deficit would be greatly increased. Some of the decline in private capital inflow may be speculative. This would be reversed if Government adopted the policies recommended below.

The Council believes that it **would be in the national interest to foster a greater inflow of direct investment from overseas in the next phase of our development.** This would not only help to cover the overseas deficit. It could also contribute to development by introducing management and labour skills not presently available here and giving access to technology and markets. Present policy on overseas investment is not as restrictive as some overseas enterprises are led to believe by the published information available. **We recommend liberalisation over a wide front and an active publicity effort to encourage overseas interest.** Policy should naturally aim for proposals which will increase exchange earnings or lead to the production of domestic requirements without undue protection. We have no doubt that liberalisation can be effected with benefit to all New Zealanders and without sacrifice of national sovereignty. It should be accompanied by liberalisation of the conditions governing the immigration of managerial, technical, and other staff whom any business enterprises, local or foreign, wish to employ to bring their investment plans to fruition. The changes should apply to services, such as tourism, as well as to industrial proposals.

Flagging exports are the greatest threat to New Zealand's future prosperity and full employment. The volume of traditional exports is still declining, primarily as a result of the effects of previous low farm incomes on the ability and willingness of farmers to invest. While recent measures have raised confidence, farm incomes seem likely to fall again in 1979 in the absence of further support. This is not due to a poor outlook for overseas prices, but mainly to the prospect of rising domestic costs. **A continued increase in farm income is a pre-requisite for sustained expansion of the volume of traditional exports by at least 2 percent per annum. This is a crucial element in the Council's strategy.**

1977–8 saw a very disappointing setback to exports of manufactures and services which had previously been growing strongly. While some revival is now occurring, it is still well below the 10 percent expansion in volume required. Additional stimulus to all our export industries is obviously needed.

If the forces which generate inflation in New Zealand could be contained, the most straightforward way of dealing with this situation would be devaluation of the currency. In effect, this means that users of overseas exchange would be asked to pay more to benefit those who earn overseas exchange. It would provide additional rewards in local currency for all overseas exchange earned, whatever the source. It would favour most those exporters who had the lowest overseas exchange content in their operations. The fact that overseas exchange would cost more would give enterprises and citizens some incentive to seek out substitutes from local producers for their requirements, where possible.

The main problem with devaluation is whether the benefits would last for long. New Zealand has been described as a cost-plus economy. The suggestion is that additional costs are passed on more easily here than elsewhere, partly because a high proportion of enterprises are sheltered from overseas or domestic competition and partly because of our wage-fixing arrangements. The passing on of costs is even easier if money supply and domestic spending are rising strongly. Fear of the inflationary impact of devaluation in this cost-plus environment has been a major reason for its rejection by the present Government up to now, and by our own Economic Monitoring Group last September.

Unfortunately alternative means of effecting the necessary switch of resources are not immune from the same problems. More subsidies and incentives without devaluation would either add to an already excessive supply of money or require a compensating increase in taxation. There are strong arguments for aiming to reduce rather than increase rates of income tax. In particular high marginal rates reduce incentives for individuals to be enterprising and assume responsibility and intensify inflation by provoking claims for big pay increases to cover higher tax rates as well as rising living costs. Extra indirect taxes would have effects on the price level similar to those of a devaluation.

In short there is no easy way out of our present situation. The nettle must be grasped one way or the other. But if devaluation or any other expenditure-switching remedies are to be effective, the redistribution of income which they are designed to achieve must be reasonably well sustained. In essence, a devaluation recognises that not enough domestic industries can operate profitably in international competition at the old exchange rate, either because their productivity has lagged behind that of competitors or because domestic costs have risen too rapidly, or both. A higher price for overseas exchange would give enterprises more incentive and more capacity to undertake the investment needed to boost exchange-earning or to produce substitutes for imports needed for growth. But if others demanded and got compensation to maintain relativities and offset cost increases, the exercise could be pointless, even counter-productive. On its own, devaluation would not cure the problems which made it necessary.

Government would need the co-operation of all sections of the community to sustain the benefits of devaluation by ensuring that inflation was curbed and efficiency boosted. This co-operation would be equally important if Government rejected devaluation and chose other means to switch expenditure. These means could be greater tax concessions or subsidies to those selling overseas and tax surcharges or more stringent direct controls on imports or other uses of overseas exchange. The disturbing growth of the deficit on "invisible" transactions suggests that special attention should be given to means of stimulating overseas earnings and savings in the service industries, such as tourism, insurance, finance, construction, and various kinds of consultancy work. Recommendations made by the Tourism Advisory Council and suggestions emerging from the Export Services Seminar last year offer ideas on possibilities.

Saving overseas exchange should be an important element of the strategy. The most promising medium-term prospects are in producing domestic substitutes for imported liquid fuels. Work to this end must continue to have high priority. So, too, must the continued encouragement of conservative use of such fuels and of other imported supplies and services.

In selecting an appropriate set of measures to boost the earning and saving of overseas exchange, the Government should heed the importance of holding costs, improving efficiency and reducing wasteful expenditure. To this end, it should try to avoid new measures, and to dispense with some old measures, which involve high subsidies on particular inputs or which give very high protection to particular industries through tariffs or import licensing. As indicated in *Planning Perspectives,* **the Planning Council advocates measures which are general rather than discriminatory in their impact, and which promote rather than inhibit competition.**

Conclusion

Reducing Inflation While Increasing Employment

The need to take measures of the kind outlined in the previous section will add to difficulties already present in avoiding some setback to previous efforts to curb inflation. The inevitable impact effect on prices must not be permitted to generate a general upward pressure on costs. To this end the measures must be accompanied by firmer control over the growth of money, spending, and incomes. The main weapons to be used are those of fiscal and monetary policy. The basic principle must be to achieve, as soon as possible, **a rate of price increase no greater than that of our trading partners**—preferably less, given our need to expand exports.

On average, our trading partners are now managing to contain price increases to about 7 percent per annum. If New Zealand is to match or beat their performance, we must aim to curb the growth of our money supply and of our domestic money incomes. The appropriate rate of **monetary growth** will vary according to circumstances, but **should be designed to keep the growth of money incomes to only 1–2 percent above the rate of price increase among our trading partners.** The faster our output grows, the less the restraint on incomes will need to be.

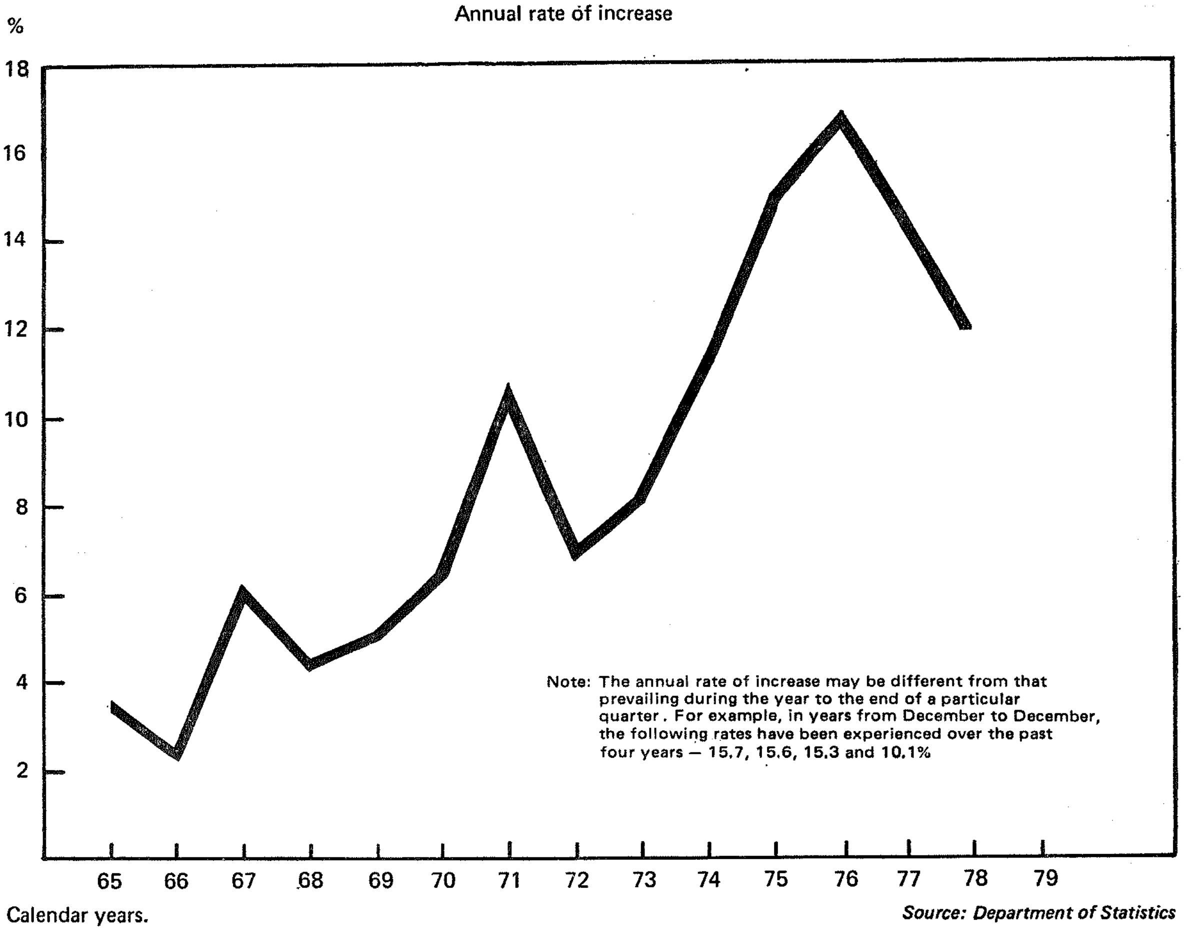
We reiterate our recommendation in *Planning Perspectives* that the Government and Reserve Bank should publish guidelines which indicate the rate of growth of money and credit they consider to be consistent with their aims of fostering production and curbing inflation. More importantly, they should try to explain clearly what policies are needed to stay within the guidelines, and what their implications are for the increases in pay and other incomes which can be afforded without depressing the growth of activity and employment.

A rapid increase in Government expenditure, covered much less than usual by tax revenues, has played a big part in the recent expansion

Fig.6

CONSUMERS PRICE INDEX

Annual rate of increase



Source: Department of Statistics

of money and credit and in stimulating domestic consumption. Heavy public borrowing in New Zealand has been moderating the monetary impact of the deficit to some extent. In the short term, such borrowing will continue to be desirable along with relatively high reserve requirements for deposit-taking institutions, as a means of keeping the expansion of private sector credit in check. However, it is important not to make credit to productive enterprises too scarce and expensive. **Proper control of money and spending will require a considerable reduction in the Government's deficit before borrowing in 1979.**

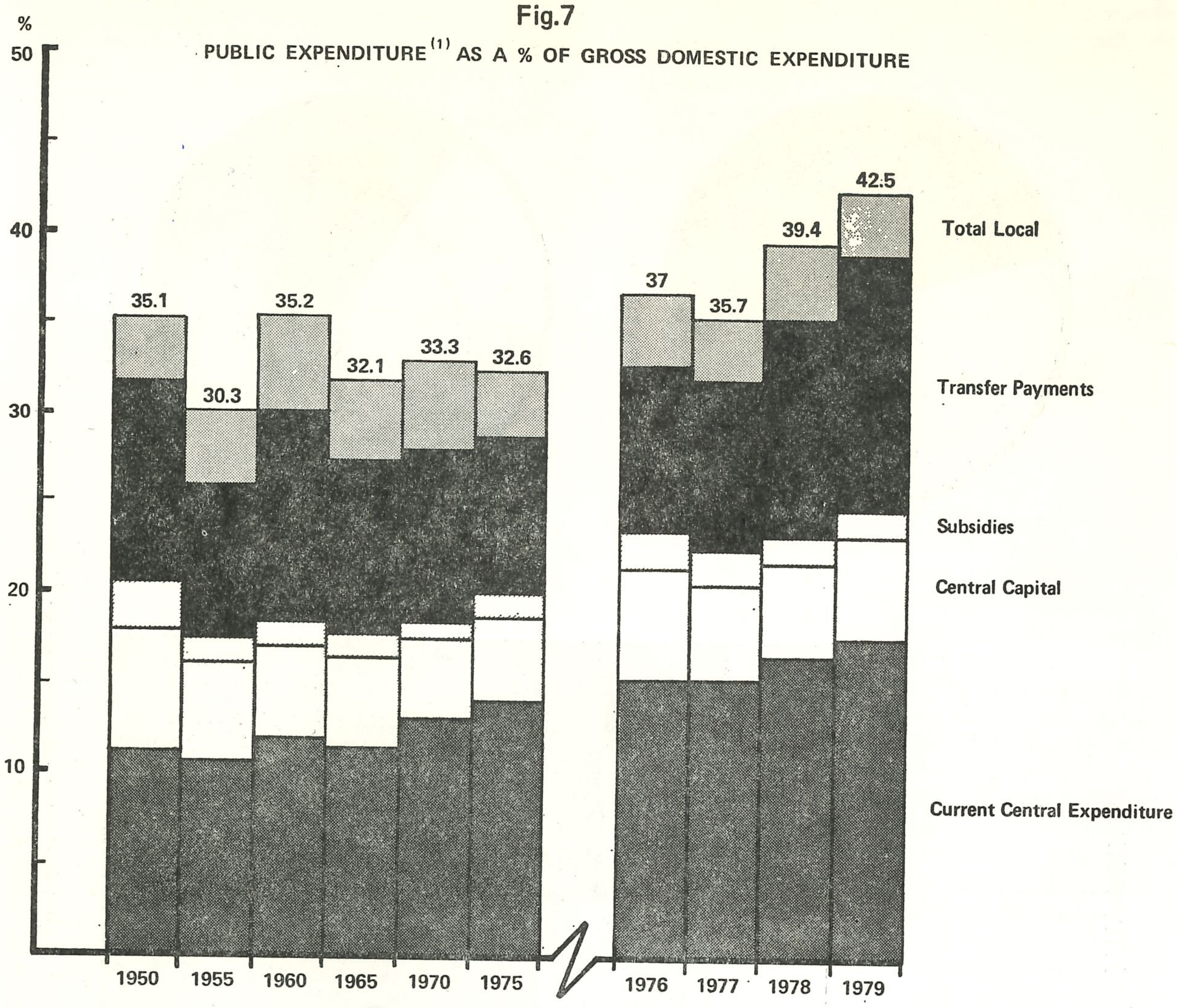
In deciding how to reduce the deficit, the Government should pay special attention to the requirements for sustained expansion. In the next phase of our development, there must be a switch in the distribution of income towards farmers and companies which earn and save exchange. This is needed as a basis for growing exports and investment. To enable these activities to expand, while living within our external means, restraint on government expenditure and private consumption will be needed for a while. In time, this policy should permit a further growth of output and real incomes to be achieved*. All forms of income and expenditure can then move up more rapidly than they will if such restraint is not exercised.

These requirements suggest that, in reducing the Government deficit, emphasis should be placed on restraining the growth of Government expenditure and ensuring that consumption is not artificially stimulated by unduly low charges for public services. The Council will report further on strategies for public expenditure in the second quarter of 1979. Income tax revenues will increase appreciably as a result of the big pay increases which have occurred. Whether additional taxes on consumption will be needed will depend on how far Government expenditure can be restrained and on whether or not we now enjoy a period of stability in pay rates.

**The way in which this growth might be structured is suggested in* Optimal Projections for 1983, *a recent paper from the Victoria University's Project on Economic Planning, although the projected growth rate is somewhat lower than that of* Planning Perspectives.

Fig.7

PUBLIC EXPENDITURE[1] AS A % OF GROSS DOMESTIC EXPENDITURE



[1] Includes spending on Goods, Services, Subsidies and Transfer Payments

March years

Source: Treasury

Note: 1979 is an estimate.

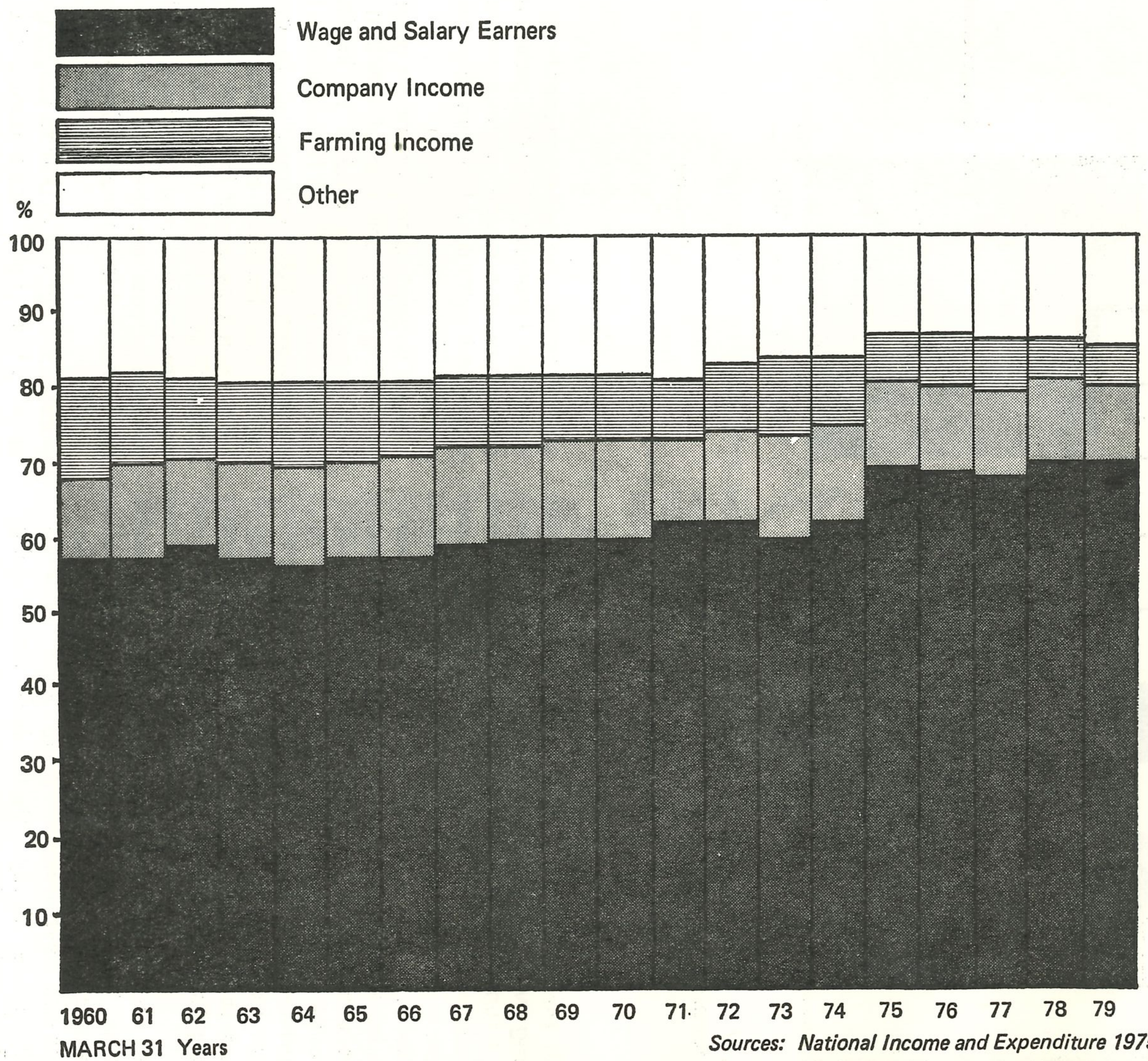
A major problem confronting New Zealand along with other democratic societies is how to keep the growth of money wages and prices within bounds, without provoking serious unemployment and recessions of activity. Monetary and fiscal policies alone are inadequate to achieve the desired balance. Yet attempts to control wages and prices directly have been disappointing, even in depressed conditions, let alone when monetary expansion has been excessive . Any success in holding back the growth of wages and prices has been short lived.

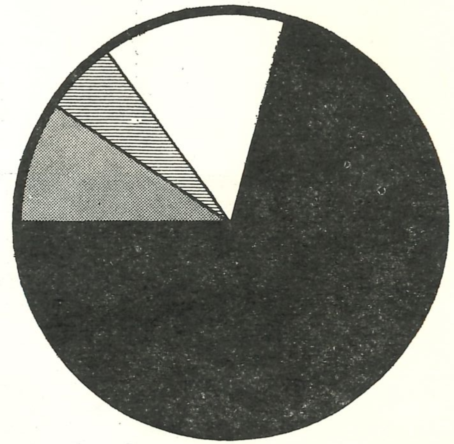
In administering wage controls, governments have often felt politically obliged to grant substantial increases in pay. When attempts have been made to apply the controls more firmly, there has been quite widespread evasion or avoidance through other means of compensation or benefits to workers. The controls may have some success in the short term in lowering expectations of increases. However, they can create anomalies and distortions which aggravate things when they are inevitably relaxed in due course.

Price controls also have never been effective in holding back the tide of inflation for long. They have indeed tended to institutionalise a cost-plus mentality in New Zealand business, while doing little or nothing to control the costs. The benefits of widespread controls have been very small in relation to the heavy administrative burdens which they involve for both government and business, and to their adverse effects on the flexibility of business decisions and incentives to improve efficiency.

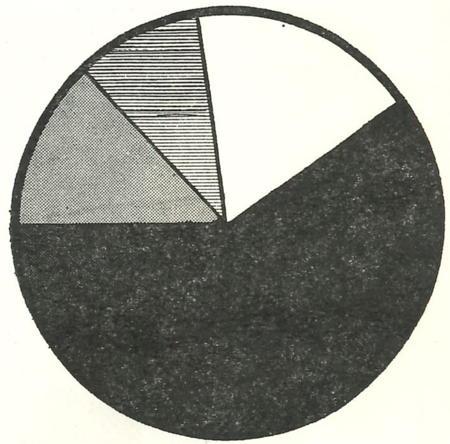
Estimates of the extent to which wages and salaries will have risen during the year to March 1979 vary from $13\frac{1}{2}$ percent to 17 percent. With output rising by only about 1 percent during the period, labour costs per unit

Fig.8
SHARES OF NET DOMESTIC PRODUCT





1979 SHARES



1969 SHARES

Sources: National Income and Expenditure 1975/76

Note: Years 1977–79 are NZIER Estimates and Forecasts.

of output will have risen appreciably. In the short run, however, aided by tax reductions, the real disposable income of wage and salary earners will probably rise by between 4 percent and 7 percent.

These circumstances make further large price increases inevitable. Under present wage-fixing procedures, these in turn can become the basis for claims for another round of substatial pay increases.

If New Zealand is to achieve the exports needed for full employment, it is just not on to have another year of rapid increase in pay while output is rising by only 2 or 3 percent and the net incomes of farmers and others whose output is crucial for the export drive are being seriously eroded. That is the prospect before us if present trends continue. In their preoccupation with demands for increases in their money incomes, New Zealanders are undermining their capacity to produce the goods and services which will give real purchasing power to their dollars.

It is important that all New Zealanders should appreciate that there are severe limits to the powers of Government in finding an acceptable solution to this problem. In our sort of democracy, its power is shared with that of organised labour and private employers. Both democracy and full employment will be under serious threat if these powerful interests continue to have little regard for the long-run national consequences of their actions and their bargains.

Conclusion

Fortunately there is some recognition by both the Employers' Federation and the Federation of Labour that the present problems of the labour market need to be reviewed as a matter of urgency. **The Planning Council endorses their suggestion that the Government convene a national conference to consider means of implementing a policy of full employment in New Zealand, provided that it is more than a bout of public oratory from entrenched positions.** There is a great deal to be gained from serious discussion of how workers, employers, and their associates can help to make the changes needed to sustain employment, by boosting exports and output and by co-operating with Government in the evolution of socially-responsible policies on pay and prices. An atmosphere of division and confrontation is not conducive to future prosperity, and **the Government should take maximum advantage of this indication that employers and unions are seeking a more constructive and united approach.**

With a general order recently awarded, and with the end of a negotiated wage round approaching, the die is cast for pay settlements for a period ahead, provided the "12-month rule" holds and no early approach is made for a further general order. It is important that Government, employers, and unions should consider, individually and collectively, what changes should be made to present procedures to ensure outcomes more consistent with the national interest in 1979 and in the future. The following issues are particularly important:

(a) **Should the general order system be retained along with free collective bargaining? If so, are changes required to avoid duplication of cost-of-living increases?** Certainly, it should be made plain that devaluation or similar measures would not provide justification for a general increase in pay on grounds of increased costs or a change in the distribution of income. Nor would a change in the structure of taxation from income taxes to indirect taxes.

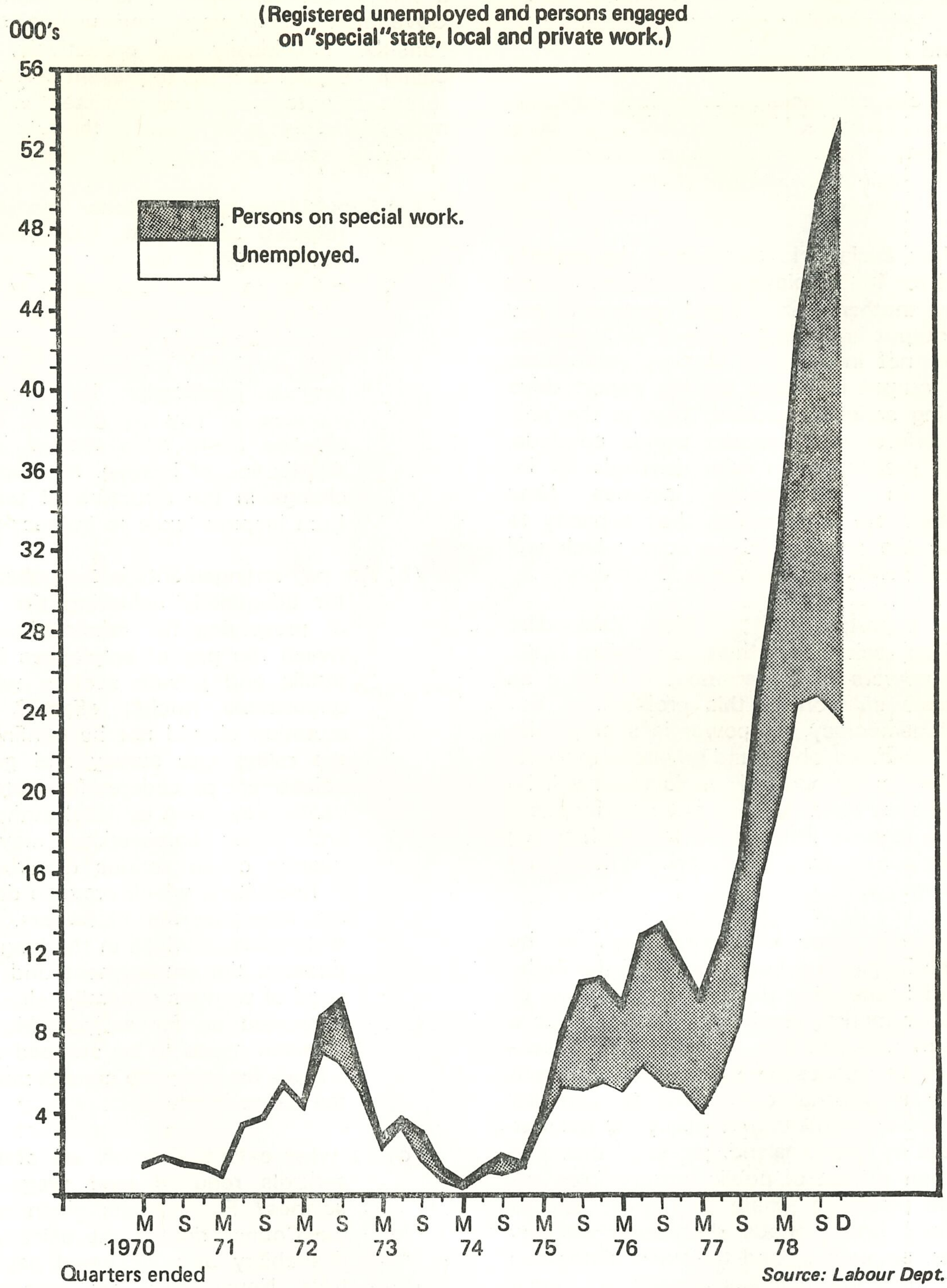
(b) **Are pay arrangements in the public sector adequately achieving the goals of preserving fair relationships between the pay of employees in the public and private sectors without undesirable ratchet effects?** Here attention should not be confined to the ruling rate survey and general adjustment procedures for state servants. Pay-fixing by local authorities and public corporations may frequently cause serious disturbances in relativities, which provoke damaging repercussions elsewhere. Such disturbances, which in the long term threaten the employment and livelihood of workers generally, should be prevented as far as possible. Pay research needs to be stepped up as a basis for adequate consideration of the issues involved.

(c) **To what extent, if at all, are statutory controls required over wages and salaries?** For reasons given earlier, the Council doubts the efficacy and desirability of widespread pay controls. Nevertheless **we recommend that consideration be given to the possibility of strengthening the Court of Arbitration so that it may monitor proposed settlements before they are registered and implemented.** The object would be to promote reconsideration of any settlements which seem likely to cause pay generally to accelerate more rapidly than official guidelines suggest should prevail in the national interest. The Government should make every effort to secure the agreement of unions and

Fig. 9

UNEMPLOYMENT

(Registered unemployed and persons engaged on"special"state, local and private work.)

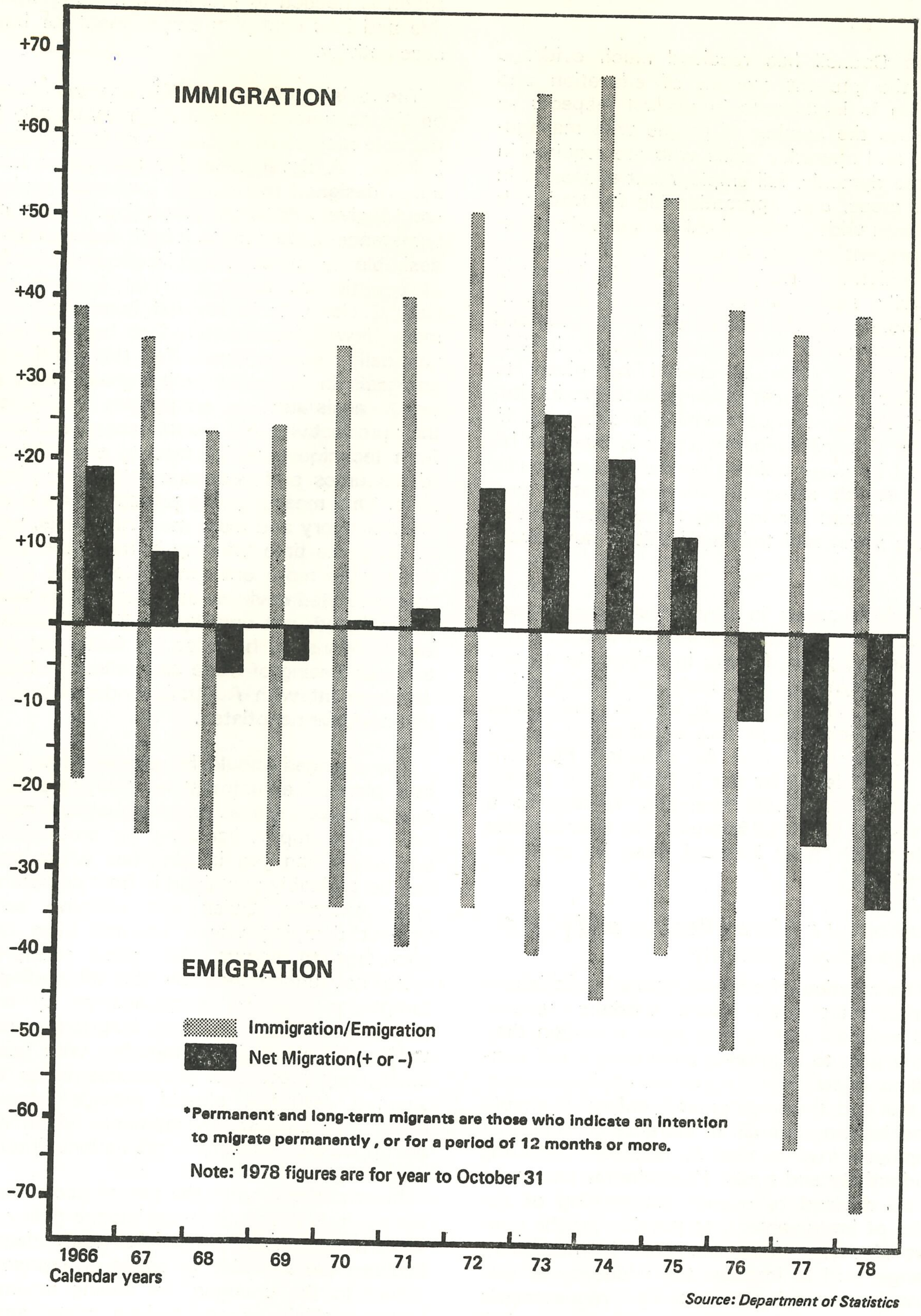


Source: Labour Dept.

employers in advance to such guidelines. If discussion failed to produce an outcome in conformity with the guidelines, the Court might promote a public inquiry, at which the Government and others likely to be adversely affected could give evidence, and after which the Court would make a recommendation to the parties. It is hoped that this would be necessary in only a few cases, so that Government regulation could be confined to that necessary to uphold the authority of the Court and to safeguard the public interest against the abuse of power. As indicated below, we believe that a similar approach should be taken to the regulation of prices.

In considering requirements of full employment, the parties must discuss future pay structures as well as pay levels. Even in conditions of considerable general unemploy-

Fig.10
PERMANENT & LONG TERM MIGRATION*



Source: Department of Statistics

ment, shortages of skilled workers and management have persisted. These shortages have impeded output and the provision of employment for others. Emigration aggravates the problem. A long-term solution requires that the growth of New Zealand's productivity and real income per head should bear comparison with Australia's and other countries'. In the meantime, in considering the structure of any pay increases or tax concessions which can be afforded, **governments, unions, and employers should give considerable emphasis to**

ensuring that margins for skill and responsibility are sufficient to attract and retain key staff.

The Council has received much evidence that the present system of education and training is inadequate in several respects to generate the number of people with management and operative skills who are required in a more dynamic, full employment economy. In other areas, e.g., apprenticeship for trades, it has been widely recognised for some time that the present system is unduly rigid; nevertheless action to remedy the deficiencies has been painfully slow in coming. An employment conference should be asked to recommend programmes for more rapid change. In this connection, attention should be given to whether the present balance between institutional and on-the-job training is adequate. If, as the Council suspects, there is much to be gained by more training on the job, proposals need to be made for its organisation and financing and for making more effective use of the vocational training facilities now available.

While changes in pay policies and structures, and changes in education and training, will be important factors in helping to ensure full employment, they must be accompanied by other changes in economic and social policy which ensure that employment opportunities are expanded. As indicated, **this cannot be achieved by the indiscriminate expansion of money and spending. It requires a concerted effort to improve the effectiveness with which New Zealand uses its available resources.**

Promoting a More Effective and Competitive Economy

The creation of circumstances in the labour market which will induce workers, unions, and management to pay more attention than in the past to improving productivity and controlling costs is of fundamental importance. To this end, the employment conference **should consider programmes to increase constructive employee involvement in decisions affecting productivity and costs. Programmes also need to be devised to ensure fair sharing of the fruits of improvement, to provide for the support of those made redundant by necessary change, and to improve the adequacy of services for assessing likely market requirements for labour and for retraining, placing, and, if necessary, resettling workers.**

Implementation of the measures recommended above to promote the profitability of industries which earn or save overseas exchange, and to ensure that demand expands adequately to make full use of our resources without inflation, would do much to improve the efficiency of our economy. But further action is needed to promote a more competitive and less cost-plus environment for business activity.

The revision of the tariff last year was based on the assumption that it might eventually be the sole method of protection of New Zealand industry. A devaluation (or alternative measures designed to promote exchange saving) would give additional protection. These circumstances would make it both opportune and desirable to effect a significant liberalisation of quantitative restrictions on imports into New Zealand. It is of vital importance that more New Zealand enterprises become internationally competitive. To this end, **the emphasis in industrial policy should shift towards assistance to enterprises to improve their productivity and contain costs, and away from techniques which lead to wasteful use of resources and cost-plus attitudes in business. This means giving protection on a less discriminatory and more moderate basis, while at the same time bringing in measures which will enable more enterprises to thrive in the less protected environment. These aims would be furthered, not only by the liberalisation of import licensing, but also by faster progress towards freeing of trade and rationalisation of development with Australia under NAFTA, if this could be negotiated.** CER

The changes should be phased in to facilitate planned adjustment to the more liberal regime by enterprises which have been relying heavily on import licensing for protection or which are engaged in activities which could not be profitably sustained in freer competition with Australia. Quick and effective action against dumping would become even more important to ensure that good enterprises were not undermined by the off-loading of temporary overseas surpluses or by other practices unlikely to bring long-term benefit to New Zealand. This, together with use of emergency protection procedures when they seemed desirable, should provide adequate safeguards against developments which were disruptive and contrary to the national interest.

In accordance with the aim of accentuating the positive in industrial assistance policy, **the Government should ensure that more adequate facilities are available to assist enterprises to adjust to the changes,** by finding means to improve efficiency and reduce costs, and/or by moving out of unprofitable activities into more viable ones. This may require some additional public expenditure, e.g., on assistance to workers to retrain or resettle, on some allowances to facilitate more investment in activities requiring little protection, on stimulating research and development activities so that technological innovation is accelerated, and on supplementing the counselling services available to industry from private or semi-official sources. However, the price to the community would be small in relation to the enduring gains to be made through profitable investment and more efficient use of resources.

Import licensing is not the only form of government regulation which should be re-assessed in this way. **Government should systematically review the necessity to continue systems of licensing or other official restrictions now imposed on entry to certain activities, such as the meat works and various parts of the transport industry.** The object would be to ensure that the national benefits exceed the costs of the regulations. We suggest that the first criterion for all licensing decisions should be the need to increase efficiency in the economy as a whole. **Explicit provisions should be made for competition to be encouraged, and the onus of proof should be on holders of existing licences rather than on applicants for new ones.**

For reasons given earlier, **the present detailed control of prices under the Stabilisation of Prices Regulations 1974 should be discontinued. Formal control should be confined to a relatively short list of goods and services, notably those sold under conditions of monopoly, subsidised by Government, or specifically brought under control because the Government has good reason to believe that without control the industry would have raised prices or wages in a manner that would have had serious consequences for stabilisation policy.** Provision could be made for larger enterprises to notify price increases. A general surveillance, and investigation of price increases which seemed excessive, should be exercised under the Commerce Act. Regulations to inform and protect consumers should also be continued under that Act.

The benefits of the relaxation of detailed controls recommended here will be achieved only if enterprises accept the increased opportunity to compete which this offers. A long period of **detailed control has fostered many restrictive arrangements in the private sector. Such arrangements should now be abandoned or severely modified. Thus we recommend that Government should exert pressure on trade and professional associations or societies to desist from practices which limit competition and, if necessary, take action to outlaw them.**

If private enterprises will not permit competition, so that market forces can operate reasonably effectively, then they cannot expect freedom from government action to protect consumers and promote the public interest. The changes recommended here will operate with greatest effectiveness in an economy which is expanding with sufficient stability to engender confidence in business that the expansion can be sustained. This reinforces the point made earlier that we need a concerted set of policy changes, each designed to reinforce and sustain the effectiveness of the others.

CONCLUSION

A fresh approach is needed to overcome disillusionment and lack of confidence about New Zealand's future. In the Council's view there is no justification for pessimism about the opportunities open to New Zealand if we are prepared to grasp them. We see no grounds for predicting that our terms of trade are in persistent decline. We believe that there are few countries more fortunately endowed with the resources upon which a prosperous economic future can be based. Contrary to popular mythology, New Zealand's main problem would seem to be in its people, and their present attitudes to productivity and the management of their affairs.

The Council's main concern is with the widespread view that New Zealanders are incapable of changing attitudes, practices, and institutions which virtually guarantee the continuation of instability and slow growth. Governments with a 3-year term, it is said, must inevitably follow inflationary policies and avoid "rocking the boat" if they are to sustain the support of electors in the face of the promises made by parties in opposition. The political system, and the other institutions which we have developed, give organisations of producers and workers great power to boost their money incomes excessively, and to resist changes which it is widely agreed would make for greater prosperity and stability. If it is true that we cannot do better than this, then future generations will have every justification for condemning this one for turning the country from a progressive welfare state into an unstable and receding backwater.

The Council believes that leaders in all walks of life must and will recognise the dangers inherent in recent trends, and face up to making the changes now needed to harness New Zealand's potential for sustained economic and social progress.

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(An independent group established by the Council to monitor short-term trends and policies.)

No. 1 New Zealand's economic trends and policies

September 1978

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E. C. KEATING, GOVERNMENT PRINTER, WELLINGTON, NEW ZEALAND—1979
23835D—79G

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NZPC No.11