

## *New Zealand needs fresh thinking*

By David Skilling

*This document was originally published in The Press, Perspective Section, 23 August 2004.*

**In a disruptive, changing world, New Zealand must identify its policy priorities before it can realise its potential, argues David Skilling.**

New Zealand is a country with amazing potential and opportunity but it also faces big challenges. Despite the recent good economic times, the average Australian remains about a third richer than the average New Zealander, and this income difference makes it difficult to attract and retain skilled labour, firms, and capital.

Many New Zealanders are struggling to get ahead and build a financial future for themselves and for their children. Indeed, about 30% of New Zealand children live in poverty.

Overcoming these challenges and realising New Zealand's full potential will require much more than recycling the same old ideas and solutions. New ideas and new solutions are required to adequately address these challenges.

A new generation of thinking and action is required for two key reasons. First, the challenges confronting New Zealand have changed.

Whereas the economic policy priority 20 years ago was removing inefficient government intervention and balancing the government's books, New Zealand's policy settings and institutions are now widely regarded as among the best in the OECD.

But despite world-class policies and institutions, New Zealand's economic performance has not lifted to an extent to allow significant convergence to Australian income levels.

***«We need to move beyond identifying and mitigating problems with existing approaches and become more accomplished at designing and implementing news solutions.»***

The task of raising economic growth in this environment represents a very different challenge and suggests that the policy priorities now lie elsewhere. The way in which higher growth is achieved over the next 20 years will very likely involve a different policy emphasis than has been the case over the past 20 years.

This is not to say that the past two decades represent failed policies of the past. Much of the change was necessary. The mistake is to believe that these policies represent the end of the process, as opposed to the start.

As one set of problems are addressed, new issues and priorities arise. This is also true in other areas like education policy, where the priority has shifted from increasing participation to improving the quality of the education, and social policy. We need to turn our attention to finding new answers to new problems. We must turn our attention to finding new answers to new problems.

The second reason new ideas are needed is that the world has changed in a significant, disruptive way in the last few decades, which has placed a lot of pressure on existing policy approaches. US intellectual Francis Fukuyama labels the cumulative ideas, technology, and people, the rise of the service-based economy, and rapid technological change.

Knowledge and innovation are increasingly the key drivers of productivity and growth.

Huge social change has also occurred in terms of things such as family structure and so on.

Many of these social changes have also been observed in New Zealand and many of the economic changes have had a profound effect on New Zealand's economic performance.

Geographic isolation has not insulated New Zealand from these disruptive changes.

In business, disruptive change means that companies need to find new ways of doing business. The companies who respond best to these changes will succeed at the expense of companies who lag.

Similarly, governments need to adapt economic and social policy in response to disruptive change, although the consequences of failure to adapt to change are declining economic and social outcomes rather than bankruptcy.

These disruptive economic and social changes mean that policies designed in a previous environment are unlikely to continue to deliver the desired outcomes, and will need to be adapted to the changed environment.

Policies designed to address the priorities generated in one environment often do not work as well in addressing different priorities generated in a changed environment.

A clear lesson from history is that policy must be regularly adapted to respond to these changes, to ensure that good outcomes are delivered.

Economic and social policies have evolved in response to emerging challenges and pressures in the last century, and must continue to evolve to remain relevant. History has not ended.

The challenge for government, as well as for business, education, and community leaders, is to work out which policies and actions are appropriate in this changed world.

So how has New Zealand done to date in terms of adapting policy to respond to these changes? In short, not very well.

In my view, there has been little creative policy adaptation to many of these disruptive changes in the last couple of decades.

This may seem counterintuitive. Surely the past two decades have been characterised by significant, sometimes radical, change?

But for the most part this change has not represented an attempt to adapt economic and welfare policy in the last 20 years, with deregulation, privatisation, and improved fiscal and monetary policy.

This was a process of responding to problems generated by disruptive change, which meant the existing policy approach was increasingly generating poor economic outcomes.

This process of reform has made a positive contribution to New Zealand's economic performance.

But aside from reducing government involvement, economic policy has not been directed to helping the New Zealand economy to perform in this new environment in the same way as other countries have done.

Indeed, in terms of the structure of the economy, the composition of exports and so on, the New Zealand economy has not changed much in the last few decades relative to many other developed countries.

And in terms of welfare policy, the generosity of various programmes has been reduced, others have been removed and user-pays has been extended in health and education.

But beyond these changes, motivated largely by fiscal concerns, there is little that represents a deliberate attempt to adapt policy settings to a changed world.

The fundamental design of the welfare system looks very much like it has for the past few decades, with a focus on income transfers.

So to the extent that policy change has occurred, it has focused on addressing problems generated by the disruptive changes, often by reducing government involvement. In many areas, this was a necessary response, but this focus on addressing problems with the existing approach is not the same as a focus on solutions – introducing new policies that deliver improved outcomes in a changed world.

This means that New Zealand has a set of economic and social policies that are a legacy of the environment that prevailed several decades ago, and that respond to problems that were present then.

The relative absence of policy adaptation to this disruptive change is likely to be a key reason that New Zealand's economic and social outcomes are not hitting the mark.

So what type of policies might represent an appropriate response to the disruptive change? In terms of economic policy, it is increasingly important to strengthen the innovation capacity of the New Zealand economy to raise productivity and growth.

This is likely to involve investing in research and development and related infrastructure, education, and better integrating New Zealand into the regional and global economy so as to access ideas, people and capital and export markets.

Increasing the investment in knowledge has been a key focus for many developed countries as a response to the economic changes.

Indeed, an important reason for New Zealand's lack of convergence to the income levels of other countries despite world-class policy settings is likely because of the difficulties that a small, isolated economy like New Zealand has in terms of generating, accessing, and using ideas, knowledge, and technology.

Traditional approaches to welfare policy – public provision and income support – are struggling to deliver the desired outcomes in terms of ensuring meaningful participation and assisting all New Zealanders to get ahead.

One promising approach to improving these outcomes is to encourage and assist asset ownership for all New Zealanders.

Increasingly, asset ownership of a house, financial assets and so on is recognised to have important economic and social effects for individuals and for communities.

In combination with the traditional focus on income transfers, encouraging asset ownership is a way of enabling meaningful participation in today's world for more New Zealanders.

In sum, we need to move beyond identifying and mitigating problems with existing approaches and become much more accomplished at designing and implementing new solutions that creatively respond to the changed world.

We cannot respond to a disrupted world by simply doing more (or less) of what we have done in the past.

Rather, new and creative approaches to economic and social policy are required to improve New Zealand's economic and social outcomes.

As the examples above illustrate, this may involve more government in some areas and less in others.

Identifying the policy priorities in a changed world is a central feature of policy debate and action in many other countries, and is a debate that New Zealand also ought to take part in.

***Dr David Skilling is the chief executive of the newly-established think-tank, the New Zealand Institute.***