

Business Forum

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Economic Performance and the Rules of the Game

As a sport-loving nation we understand that no matter how much the rules of a game might evolve, it is ultimately the performance of individual players in the team along with how well they function together that leads to relative success or failure.

Fundamentally it is the same in an evolving economic game. Success in terms of increased prosperity is primarily determined by our performance in adding value at a personal, enterprise and community level. The value is signalled through the remuneration paid for our jobs and the financial returns we generate from the processes and capital invested in our businesses and other enterprises.

So leaving to one side debates on the effectiveness and efficiency of direct wealth transfers, what potential contribution might we expect from local or central government to our overall performance and prosperity?

In principle, we should be able to make some assessment of the value added at an operational level for crown entities, departments and agencies as we would for other enterprises. However, in practice it proves to be far harder. Even where there is clear consumer demand, seldom does price and the normal interplay of demand and supply help us make assessments of relative value. Typically, governments are monopoly providers so there are no local comparators and international comparisons tend not to be straight forward.

So, crudely, we rely on our three yearly democratic election process and the insights shared through the media and political debates to determine the scale of resources from taxes, levies and borrowing that we as a community want to allocate to government activities, including which ones are seen as our greatest priorities.

At a more strategic level, how well politicians design and implement our social, economic and environmental frameworks matter- but only indirectly like the rules of the game.

Rugby during the professional era provides a good analogy. Rule changes have affected player behaviour and the flow and style of the game. However, irrespective of rule changes over time, players and their fans still know what good performance looks like for every playing position making up the team. Yes, we might believe passionately that the rules need to change to achieve a

better flowing game, but we don't let the players and teams off the hook if they perform poorly, whatever the rules.

That is why better performance through innovation in our jobs and enterprises matters the most over time and needs to form the greater part of our focus. Innovation can flow from the positive attitudes and the application of our people and enterprises, whatever our social, economic and environmental frameworks.

Get both dimensions right; implementing good Government frameworks to complement the attitudes and application of our people and our enterprises, and the resulting economic and social impacts can be very significant. Witness the changes in China in the last two decades.

This is illustrated by many well-researched articles in *The Economist*. Typically they analyse the evidence from a wide range of countries to assess the impacts on outcomes and performance for whatever element of social and economic frameworks they are reviewing.

For example, a recent edition looked at women in the workforce and the different solutions to the combining of work and parenthood. It concluded that it was difficult to evaluate the relative merits of the wide variations in arrangements and that quite different systems produced similar results. Anti-statist America has roughly the same proportion of children in kindergartens as statist Finland.

The conclusion is that once the strategies and systems which have reasonably good prospects of delivering improved outcomes have been chosen, how well and consistently these are implemented is of far greater importance than looking for any theoretically best approach.

Also, if government frameworks and policies favour certain behaviour, then with any major change inevitably there will be winners and losers. Governments like to be popular so pleasing the winners is not the issue, rather justifying the impact on losers and making an assessment of what that might mean politically will determine whether the proposed change proceeds or not.

So is the large number of New Zealanders at the centre of New Zealand's politics prepared for a balanced prescription of tax changes in the 2010 Budget with some pain offset by some gain? Will the John Key led Government get the prescription right and demonstrate the leadership package and present it well?

Or have we as voters and tax payers, become so mollicoddled by the State over the years that we can no longer discern what effectively are our own responsibilities, whether or not Government makes good choices about New Zealand's social and economic frameworks?

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