

2025 TASKFORCE

***SUBMISSION FROM Kerry McDonald
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Thank you for the invitation to submit. These views are public and I can be contacted at the above address.

EXPERIENCE

I worked as an economist, at NZIER for 16 years including 6 as director, and in the UK and Australia, specializing in applied economics, including industry and international trade studies. I was a senior executive in (now) Rio Tinto from 1980 to 2003 (a Managing Director for 13 years), involved with the operation and development of major multi company international industrial projects, in Australia, New Zealand, Japan, Canada, USA, Venezuela, Brunei etc, including a strong focus on developing highly competitive, high performance/best of breed operations. I was Chairman of the NZ State Sector Standards Board, on many public sector taskforces and committees and a director of many companies in Australia and New Zealand, including BNZ, NAB, CHH, Leighton Contractors, OceanaGold, Ports of Auckland, ComalcoNZ, etc.

OVERVIEW

Refer -“ NZ’s Political Economy: Ineffective Policies, Lost Opportunities, Miserable Results and Serious Risks”, BOARDROOM, Institute of Directors, June, 2008; or www.strategicvalue.co.nz.

New Zealand’s economic policies and performance have been abysmal, over some decades, leading to persistent relative decline, serious structural weaknesses and increasing political barriers to reform and improvement.

The low productivity growth and undermining of NZ’s competitiveness post-1999 is a disaster. Significant improvement will

now be very difficult because 70%, basically of the electorate, pay minimal tax and are net beneficiaries from Government spending. In addition, there is little understanding of or sympathy for the export or tradable goods sectors, or of the need for economic reform. The electorate votes for short term personal benefit, not a prosperous future.

Another key factor is that the State Sector is now too large, too expensive and relatively ineffective.

To make progress you will have to recognize and overcome these barriers.

APPROACH

You need a strategy that recognizes and addresses the political and economic realities. That is the first priority.

In it policy options, especially economic, will need to be closely coordinated with political/public engagement options.

It needs to attempt to get public understanding and support, and overcome the Douglas era based policy phobias. Effective support from all political parties would be very useful, but is improbable.

The strategy needs to envisage work on a broad front, across all sectors, but I would prioritize the State Sector where there is a lot of low hanging fruit.

The Private Sector will be difficult.

Time is against you as NZ is now well down the slippery slope and the tradable goods sector has been, and still is being, hammered.

There is little freeboard.

State Sector

Refer State Sector Standards Board reports from 2001/2002. None of the recommendations were adopted but they are still relevant and important.

The current English initiatives are on the right track but, in all of the circumstances, are too weak and slow.

Effective performance management would be easy and make a very big difference, with little disruption.

The Sector's weak performance during the finance company debacle is a good indicator of capability and performance.

The cost of the sector is an impossible burden for the tradable goods sector and the 15% of personal income tax payers who pay 62% of personal income tax.

The SSSB report recommendations are brief, clear and highly relevant.

PRIVATE SECTOR

This will be very difficult. The Sector has changed a lot. Management has “plateaued at a level of mediocrity” (NZ Institute of Management). Government indifference over the last decade and adverse policy settings, and often adverse market conditions now, have caused major problems. The commitment to New Zealand is now much less, as is the willingness to take additional risk to grow businesses. Leaders learned that engaging on policy matters was largely a waste of time.

The Sector has “hollowed out” with the downgrading of the presence of many multinational companies, which removed many senior and skilled jobs, centers of decision-making and control and a key source of well trained and capable New Zealand managers, leaders and directors. It also reduced New Zealand’s influence in these businesses and shifted them down the food chain, particularly with the poor performance of the economy. With the shift down the food chain, the quality of ownership will follow.

Lifting the capital:labour ratio is critical, but the incentive to invest is weak. Until policies shift to engender real confidence in the medium to longer term there will be no positive shift. Another priority is a policy environment more attuned to improving international competitiveness.

There is a lot of Government activity to “help” business. Does it add value, cost effectively. Meanwhile the State Sector/Government spending problems also inhibit a more constructive monetary and exchange rate policies.

CONCLUSION

There is a major task to be done, to arrest New Zealand’s continuing decline. But, it will be difficult to succeed, given how far the Country has slipped, and it consequent economic, particularly structural, and other, difficulties.

Success will require a full-blooded, unqualified commitment, based on an astute, strategic and well executed approach, linked with unequivocal political leadership.

Numerous similar attempts over some decades, which I recently saw reviewed all, unequivocally, failed.

No one will thank you for another failure.

Good luck!

Kerry McDonald
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