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Promoting Structural Adjustment in APEC Economies:

Deregulation and Structural Adjustment in the Context of Wider Macroeconomic Reform Processes - The New Zealand Agriculture Experience

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Table of Contents

INTRODUCTION

Over the last two decades the New Zealand economy has undergone significant reform, changing from one of the most regulated economies in the OECD to one of the most deregulated. In the early 1980s, New Zealand was a highly regulated economy and regulation was, at least in part, the reason for extensive government involvement in most areas of the New Zealand economy, particularly the agriculture sector. Over the intervening years, public sector administration of the economy has evolved and now bears little resemblance to government's role prior to the reforms of the mid-1980s.

This paper outlines the dramatic changes that took place in the New Zealand economy, focuses upon the effects of these changes on New Zealand's primary sector and notes some of the lessons learned during the reform process.

BACKGROUND

New Zealand lies in the south-west Pacific Ocean, and consists of two main islands and a number of smaller islands. Its total area is around 270,000 square kilometres, similar in size to the Japan or about 3 percent of the size of China, but with of population of just over 4 million.

New Zealand is highly urbanised with around 72 percent of the resident population living in urban centres with 10,000 or more people. New Zealand is a market economy, with growing service and manufacturing sectors, which complement a highly efficient export-oriented agriculture sector. Agriculture[1] accounts for approximately 20 percent of New Zealand's gross domestic product (GDP).

In relation to the size of its population New Zealand has a large area of productive land. Over 90 percent of New Zealand's agricultural production is exported. Agriculture, horticulture and forestry exports total just under NZ$18 billion per annum, which comprises 62 percent of New Zealand's total exports by value.

There are some 70,000 farms in New Zealand, which predominantly specialise in livestock production and are well-established in terms of size and capital investment. Most of New Zealand's agriculture is pasture-based as the climate allows grass growth almost year round. The climate is fairly predictable, characterised by mild to warm weather with generally abundant rainfall. With much of the land being steep and hilly, farming has traditionally centred on sheep and cattle, and the production of sheepmeat, beef, wool and dairy produce. In recent years, livestock farming has diversified and includes a wide variety of animals, including deer and goats. Cereal crops are grown on a limited scale, mainly to supply the domestic market. Increasing use of coastal flat land for horticulture has been a major development over recent years. Since the 1970s horticultural produce has become an important export earner.

[1] Excluding fishing and forestry, but including farm products, processing, transport, wholesale/retail and food processing

NEW ZEALAND'S REGULATED ECONOMY – BEFORE 1984

In the 1950s New Zealand was one of the richest countries in the world on a per capita basis. The United Kingdom (UK) absorbed most of the produce New Zealand could supply, with guaranteed access and good prices. The UK supplied much of the investment capital and expertise for developing processing industries for agricultural products, meat in particular.

Producers of some products, particularly dairy, formed co-operatives to handle the processing of their products and the government legislated for producer boards, which were intended to improve export returns for farmers. These boards had wide powers, and some of them acted as single desk exporters of their products.

Under this international market and domestic environment, farming flourished and New Zealand built a high standard of living, with a period of sustained full employment.

In the late 1960s, faced with growing balance of payment problems, successive governments sought to maintain New Zealand's high standard of living and full employment rate with increased levels of overseas borrowing and increasingly protective economic policies. This led to the progressive introduction of protection for a small manufacturing base, based on the rationale that a domestic industry could only develop if protected from international competition. The government introduced controls (import quotas) for manufactured goods, which eventually led to the introduction of price regulations (tariffs). With the intention of developing the country and providing employment, the Government undertook a huge capital works programme, building roads, houses, hospitals, power stations and telecommunications.

This resulted in an inefficient manufacturing base that could not compete internationally. In addition, it necessitated a large government bureaucracy to manage and regulate. Government departments and agencies also provided many of the services needed in society and made many of the decisions that would otherwise have been made by individuals and businesses in the private sector.

While export markets for agricultural produce were guaranteed, government policy was aimed at increasing production. These exports funded the imports that New Zealand required in increasing volumes, while the manufacturing base grew behind quota restrictions and tariff barriers.

Government practice was to "fix" specific problems in an ad hoc way, often without considering the wider economic implications. In general, industry became less efficient and government controls became more pervasive. Many of the protected industries and services provided inputs to agriculture. The added costs associated with domestic manufacturing began to erode the international competitiveness of New Zealand's agriculture sector. The policy response was to promote increased volumes of agricultural exports to finance the ever-growing demands of the domestic economy.

In addition, the fiscal and monetary policies promoted at the time were largely unsustainable and aimed at achieving multiple objectives. The state sector was highly regulated and centralised, with a number of large departments with competing policy advice, trading, regulatory and service delivery functions. In addition, there were numerous "quasi government organisations" funded mainly or wholly by government grants and a small number of “government corporations” trading commercially but with key strategic decisions requiring the government’s involvement.

IMPETUS FOR CHANGE

In the late 1960s and in the 1970s New Zealand experienced a series of external shocks manifested in large reductions and fluctuations in its terms of trade, the loss of preferential access to the British market and the oil price shocks of the 1970s. In particular, the entry of Britain into the European Community in 1973, with its protectionist agricultural policy marked a major turning point for the New Zealand economy. Access to New Zealand’s secure, high priced market virtually disappeared over night and exporters were forced to look for alternative markets.

Policies in New Zealand were principally aimed at maintaining a high level of economic activity and employment in the short term. High levels of protection of domestic industry had greatly undermined competitiveness and the economy’s ability to adapt to the changing world environment.

The government began a programme of borrowing on international markets, to finance the increasing cost of government administration and to meet a growing fiscal deficit. The combination of expansionary macro policies and industrial assistance led to macroeconomic imbalances, structural adjustment problems and a rapid rise in government indebtedness. A fixed exchange rate policy masked the impact the controls were having on the economy and masked the real size of external borrowing.

Agriculture

The policy response was to again encourage farmers to increase production. Farm inputs, particularly finance, fertiliser and transport, were subsidised. Price support schemes were developed to stabilise incomes, providing a more certain environment for farmers in which they could increase production. Government believed these incentives were necessary for continued increases in production. They were also regarded as compensation to farmers for the increased costs caused by the protection of the domestic economy, the inefficient domestic manufacturing base and overvalued currency.

By the 1980s agriculture, New Zealand’s key export sector, was heavily subsidised, especially in industries such as meat and wool. In the period 1980-84 total assistance or transfers to the pastoral sector rose to 33 percent of the value of agricultural output. High domestic inflation and declining terms of trade were rapidly reducing New Zealand’s international competitiveness. Increased output from the agriculture sector was in some cases worth less than the cost of production and processing.

DEREGULATION AND REFORM

By the early 1980s, there was widespread dissatisfaction with the economic management and interventionist policies of the government, particularly amongst New Zealand’s business community. New Zealand had slipped into a lengthy period of economic underperformance, with slipping living standards compared to other OECD economies, high inflation and a low per capita GDP growth. By 1984 there was wide acceptance that a change in direction was required, and a number of acute problems had to be addressed:

- the *fiscal deficit,* which had reached nine percent of GDP;
- a growing *public debt* problem, with borrowing often being used to support consumption. Government net debt as a proportion of GDP had risen from 9 percent in 1976 to 41 percent by the mid 1980s;
- a persistent *current external deficit,* which was complicating overseas debt management and putting pressure on the exchange rate;
- persistent inflationary pressures with the consumer price index (CPI) reaching almost 20 percent before price controls were imposed in 1982;
- a lax monetary policy, which, because of the government's suppression of interest rates, had led to excessive monetary growth;
- a growing unemployment rate, which had reached 7 percent by 1983; and
- a real GDP per capita growth between 1976 and 1984 that averaged only 1.15 percent per annum.

In 1984 a new government was elected. The economic goal of the new government was to maximise sustainable medium term growth. The belief was that market-driven competition was the best means to achieve economic growth. It began immediately to liberalise the New Zealand economy through removing many of the controls and regulations preventing competition. Initiatives included:

- removal of general wage and price controls.
- de-regulation of the financial markets.
- devaluation and the floating of the New Zealand dollar.
- removal of export assistance.
- substantial lowering of import protection.
- increased indirect taxation and widening of the tax base.
- corporatisation / privatisation of government businesses.
- greater efficiency in government expenditure.

From 1984 onwards, the direction of economic policy in New Zealand turned away from intervention toward the elimination of many forms of government assistance.

State Sector Reforms

Compared to other industrial countries New Zealand’s public enterprise sector played an unusually large role in the economy, accounting for nearly one-third of total employment and managing a substantial range of trading activities. In 1984, when slow growth and a chronic and rising deficit prompted the government to look at the economy, the scope and role of the public sector was a principal focus of concern.

The resulting institutional reforms were aimed at enhancing efficiency, competitiveness, transparency and accountability in all Government activities. After 1984, a set of principles for reform of the state sector were:

- The state should not be involved in any activities that would be more efficiently and effectively performed by the community or by private business.
- Trading enterprises would operate most efficiently and effectively if structured along the lines of private sector businesses.
- Departments would operate most efficiently and effectively with clearly specified and non-conflicting functions, and particularly with policy and operations functions separated and with commercial and non-commercial functions separated.
- Departmental managers would perform most effectively if made fully accountable for the efficient running of their organisations, with the minimum practical central control of inputs.
- The costs of state activities should as far as practical be fixed through real market factors; in other words, the quality, quantity and costs of products should be determined by the purchaser's requirements, rather than the producer's preferences.

The government trading enterprises, for example, were not driving growth in the economy; in many cases the post-tax return on investment was negligible and they were weighing down the New Zealand economy. The response was:

- Removal of almost all state-regulated monopoly rights.
- Corporatisation of 24 state-owned enterprises (in transport, finance, tourism, forestry, broadcasting, utilities, and service industries).
- Restructuring to isolate natural monopoly elements of state-owned enterprises.
- Full or partial privatisation of Air New Zealand, Bank of New Zealand, Petroleum Corporation, Tourist Hotel Corporation, Shipping Corporation, Rural Bank, Forestry Corporation, Post Office Bank, Telecom Corporation, and others.
- Further privatisation planned via divestment of asset sales, sale of rights, share sales, etc.
- Requirement for local authorities to corporatise local authority trading enterprises and tender out services.
- Encouragement to local authorities to sell holdings in airports, port companies, and local utilities.
- Sale of other assets, for example, irrigation schemes and fishing rights.

The range of policy reforms carried out during the 1980s was comprehensive, but not complete. Full reform of tightly protected industries had still not happened. Imports were still restricted, labour unions were very strong and the labour market was not free. A process of reform continued in the 1990s. Tariffs were reduced, from 1991 to 1996, to reduce price support for domestic manufacturing. A new Employment Contracts Act took effect in 1991, effectively freeing up the labour market and introducing significant flexibility in the workplace. This resulted in significant gains in productivity, particularly in such places as the ports.

Agriculture

The agricultural sector was one of the first affected in the reform process. Assistance to farmers, which had reached a peak in 1984, was drastically reduced over the remainder of the decade: price supports, taxation concessions, capital subsidies, input subsidies and free government inspections and advisory services for farmers were all removed. Most subsidies were stopped immediately. Reform of Producer Board monopoly powers was started and government's research and development agencies were restructured to improve efficiency.

The reforms also affected the Rural Bank, which had about 80 percent of farmers as clients. The Rural Bank was owned by the Government and provided subsidised credit for farm purchase and land development. It stopped subsidised lending, gradually raised the terms of its existing lending to market rates and was eventually sold to a commercial bank.

Agricultural assistance in New Zealand fell from an average of 25 percent of the value of agricultural production over 1979-86 to 3 percent in 1992. What now remains is largely spending on general services such as inspection, quarantine, research and pest control. New Zealand's agriculture sector is the least assisted among OECD countries.

IMPACTS OF THE ECONOMIC REFORMS

In many ways the New Zealand economy was slow to respond to the reforms of the 1980s: GDP growth remained low, unemployment continued to rise and inflation and external deficits persisted. Initial adjustment costs were probably underestimated at the time reforms were undertaken. Both physical capital and human capital were made redundant, directly reducing production in the short-term.

Significant improvements in New Zealand's growth performance did not occur until the mid 1990s following an export-led recovery that began in 1991 during a period of relatively subdued world trade and low commodity prices. New Zealand's international competitiveness was restored following a rapid fall in New Zealand's inflation rate and depreciation of the New Zealand dollar.

In the past decade New Zealand's real GDP has been growing at a 3.6 percent annual rate from 1993-2002, compared to a 3.0 percent average for OECD countries. This is significantly better than New Zealand's 1.6 percent a year GDP growth during the reform period (1984-1992) and 2.1 percent annual growth in the preceding decade.

New Zealand's growth recovery has been largely sourced from growth in the service sector and increases in labour utilisation. Since market deregulation in the mid 1980s there has been a marked change in New Zealand's industrial structure. Output from services industries has increased as a share of total GDP, reflecting a large jump in the relative growth of services output. The primary sector also increased as a share of total output by continuing above average industry growth rate, a pattern that has been occurring for at least the last 25 years.

Agriculture

In the decade from the mid 1980s to mid 1990s, New Zealand farming moved from a relatively high income, protected, low-risk environment, to a low income, unprotected environment in which industry and individual farmers carried the risks. The initial effects of the reforms were significant. In 1984 farmers had a relatively prosperous season even with the removal of all price support, largely as a result of 20 percent devaluation of the New Zealand dollar. However, the floating of exchange rates in 1985 resulted in a rapid rise in the value of the New Zealand dollar, and coupled with depressed commodity prices, farm incomes especially for sheep and beef farmers were low. In addition, interest rates were relatively high, exceeding 20 percent, as the Reserve Bank fought to control a high rate of inflation. Agriculture production was also affected at this time by a series of climatic disasters (floods, droughts, and snow fall).

As a result the pastoral sector experienced significant capital losses, restructuring and changes in farm ownership. Farmers reacted by minimising farm inputs and reducing livestock numbers. In many rural communities the downturn in farmer spending was exacerbated by the impacts of other reforms, for example the closure of banks and reduced government services and presence in rural communities.

This was a difficult and stressful time for the rural sector. Some people had to go on to government welfare support. Original estimates were that up to 10 percent of farmers would be forced off the land and land prices would fall. In the event, although accurate figures are not readily available, only around 1 percent of farmers had to leave their land. The government provided some transition assistance to farmers through debt-rescheduling, in 1986 and 1987, and later an exit package for farmers who still remained deeply in debt.

There is little doubt that subsidies are capitalised into land prices. New Zealand land prices hit their peak in the early 1980s. By 1988 land prices had fallen by around 50 percent in real terms, which demonstrates the extent to which subsidies were capitalised into land values. Prices increased in subsequent years and by 1995 the price of most categories of farmland had recovered to around 86 percent of their 1982 value in real terms. The price of most categories of farmland is now higher than the pre-reform peak. The reduction in land values also meant that aspiring farmers faced less of a barrier to enter farming and the value of land better reflects the market value of its output, rather than the capitalised value of government funded assistance.

Initially the reforms had little effect on farm size. However, subsequent to the implementation of the reforms some of the most fertile farm land has been converted into horticulture and there has been a growth in the number of farms producing horticultural products, which typically are smaller in size than other land uses. Additionally, areas of marginal land were converted to forestry and the most marginal of land was withdrawn from agriculture production and retired into native bush.

Despite the difficulties facing the rural sector, the government stood firm on its reforms and a slow recovery in farm profit began after two to three years. Farmers began to respond directly to international market signals and capital flowed into more efficient, diverse and profitable farming operations. Less profitable sheep farms were replaced with more profitable beef cattle farms, planted production forests, or even left unmanaged and have reverted to a natural vegetation cover. A significant expansion of the dairy industry began. Deregulation had forced a restructuring of servicing and processing industries, as well as diversification into new markets and new products. Farmers are continually trying new crops, grasses, animals and trees. For example deer, an introduced and noxious animal in New Zealand, were turned into a profitable venture by some enterprising farmers and deer farming has now become a significant part of the agriculture sector.

Overall, production, processing and marketing channels became much more efficient. Productivity in the agricultural sector increased markedly; with productivity growth 3.5 times higher than in the economy as a whole. For example, some of the most spectacular gains in productivity have been in sheep breeding, with export revenues from around 40 million sheep in 2002 exceeding that of 70 million sheep in 1980s. This is largely because of increased farm productivity in the sector and more processing and value-adding taking place in New Zealand.

A significant feature of farmers' operations through this period was the increase in off-farm income. Currently approximately 70 percent of New Zealand farms have some form of off-farm income either via off-farm work or off-farm investments.

Farmers pushed very hard for reform in the rest of the economy to reduce the price they had to pay for farm inputs. Farmers wanted better control over inflation, lower interest rates, reduced tariffs on imported goods, deregulated transport and labour markets and lower shipping costs. They did not seek to reinstate support for agriculture. Farmers also recognised that in order to regain farm profitability off-farm gains were also needed in the agriculture-related processing and service sectors. Gradually, as these changes were implemented, and as farmers became more efficient, farm profitability and farmer confidence began to increase.

There have been benefits not only to farmers but to the wider economy. Consumers, often forgotten when it comes to agricultural policymaking, have benefited from lower food prices. More fundamentally, comparative advantage is now allowed to operate: resources are allocated in a rational manner.

Reduced government intervention has also had environmental benefits. Government currently provides a regulatory framework to encourage sustainable land management, but markets take the primary role in determining land use. As a result, there has been a growing appreciation that sustainable land management is enhanced through diversification and there is a better appreciation of the complementary nature of diversified land use to mitigate soil erosion, enhance general amenity values as well as producing a valuable crop. In addition, the removal of subsidies has highlighted the fact that some land uses, for example forestry, are a more appropriate and sustainable use for much marginal land.

Overall, New Zealand farmers are more confident of the future than they have been for many years, and there is no wish to return to government supported farming. The New Zealand farming sector has come through the initial shock of the 1980s reforms and has emerged as a more dynamic, diverse, responsive and internationally competitive sector.

However, given the distortions in international prices due to subsidised production in other countries and a continuing decline in the real price for many products, the need to improve efficiency and productivity continues.

IMPACTS OF THE STATE SECTOR REFORMS

Institutional reform included:

Structural Reform: This involved the abolition of a number of often quite large departments and their replacement by "state owned enterprises" operating commercially under boards of directors. Many of these enterprises have subsequently been sold. The state has now withdrawn almost entirely from direct involvement in trading enterprises.

Public Service Departmental Restructuring: This involved the rationalisation of the function and shape of core public service departments, particularly by separating policy advice functions from service delivery and moving much of this servicing to a new tier of non departmental agencies now known as “crown entities”.

Reform of Management Systems: In 1988 Chief Executives of government departments became individually accountable to the Ministers responsible for their departments, ending 75 years of centralised control of the public service. The role of the State Services Commission changed from employer of all public servants to employer of the chief executives. This was followed by the series of financial management and accounting reforms designed to introduce as many of the disciplines of the commercial operating environment as practical into the state sector. These are now firmly established.

In 1984 there were nearly 88,000 people in the public service. The public sector currently employs around 36,000 and is characterised by:

- Relatively small departments or ministries with quite sharply defined policy advice, service delivery, and regulatory and sectoral funding functions. Some departments, including the three largest - Inland Revenue, Social Welfare and Justice - continue to perform a combination of functions.

- While there is no formal hierarchy amongst the 36 departments of the public service, the Department of the Prime Minister and Cabinet, the Treasury and the State Services Commission operate, individually and collectively, as key advisors to the government and co-ordinators of its business. Together these three departments perform the functions of a corporate office for the government. Their role is to be distinguished from that of the controller and auditor general, whose responsibility is to provide Parliament with independent assurance about the activities of the executive. Other departments include the Ministry of Agriculture and Forestry, the Ministry of Foreign Affairs and Trade and the Ministry of Education.

- A number of “crown entities” form a second tier of central government agencies. Crown entities are bodies owned by the Crown that are not departments, offices of Parliament or state-owned enterprises. Crown entities range from crown research institutes to regulatory bodies, such as the Commerce Commission and the Securities Commission. The crown entities generally have regulatory, purchasing and servicing provision functions. Most are run by autonomous boards, which appoint their chief executives who settle terms and conditions for their employees. The crown entities operate under “statements of intent” agreed with responsible Ministers and tabled in Parliament. These statements specify objectives, performance targets and measures, accounting practices and other performance and accountability provisions

- A number of “state owned enterprises” created from former trading departments and corporations now operating as commercial businesses along private sector lines. A number of these enterprises have now been privatised.

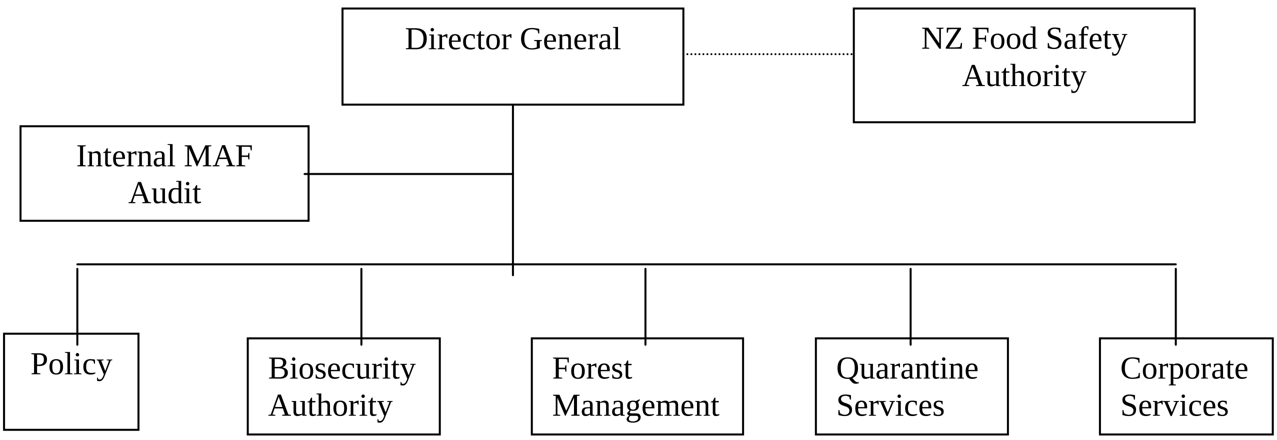
Agriculture

The Ministry of Agriculture and Forestry employs 1,200 people and is structured into five main business groups: Policy, Biosecurity Authority, Forest Management, Quarantine and Corporate Services (refer Chart 1). The Ministry works to ensure that agriculture, forestry and horticulture make the best contribution to New Zealand's sustainable development and economic growth. The Ministry's main objective is to create an environment that enables private land-based interests and rural communities to conduct their business profitably and sustainably. In summary, the Ministry:

- Provides policy advice to government on the international trading environment, sustainable resource use, regulation of product safety, biosecurity and related matters.
- Develops, administers and certifies standards and systems, facilitating market access and manages agricultural, horticultural and forestry biosecurity and animal welfare.
- Manages the government's forestry interests and commitments.
- Protects New Zealand's competitive advantage as an exporting nation by protecting its animals, plants, forests and fisheries against the introduction of exotic pests and diseases.

The New Zealand Food Safety Authority, a semi-autonomous organisation attached to the Ministry, is responsible for domestic food safety (including imported food) and the food safety aspects of primary production and exported food products. It sets food safety standards and ensures those standards are enforced.

Chart 1: Structure of the Ministry of Agriculture and Forestry



As with the agriculture sector itself, the administration of agriculture has undergone significant process of reform since 1984. Prior to 1984, the Ministry of Agriculture and Fisheries was a relatively large department with 10 divisions and employing more than 6000 people. As it was, most of the divisions were divided into regional units, which provided a wide range of services to agriculture, horticulture and fisheries including:

- scientific research;
- border control and quarantine-related activities;
- administrating the farm subsidies;
- providing free advice to farmers and orchardists;
- managing irrigation schemes;
- fisheries research and management; and
- representing government on the various producer boards, which included setting production quotas and prices.

In line with the economic strategy and a market-driven focus of the new government, restructuring of the Ministry was inevitable. Government also pursued a policy to clarify the roles and purpose of its agencies, reduce the cost to government, make costs transparent, make services contestable and separate policy and delivery functions. As a result, some of the Ministry's functions simply became redundant, for example when payment of subsidies was eliminated there was consequently no administration of the "delivery" of subsidies. Other areas were privatised, for example the provision of advice to the sectors; and others were provided on a "user pays" basis, for example inspection and quality assurance related activities.

The separation of functions reached a new level in 1992, when the research functions of all agencies including the Ministry of Agriculture and Fisheries were separated into newly formed Crown Research Institutes. This was part of government's policy to provide a more open and flexible framework for the management of science, aimed at better collaboration between public and private sectors in research, development and technology transfer. When government agencies need research services they are met through contestable contracts, which is thought to be a more efficient approach than having ownership of the delivery mechanism.

The current Ministry of Agriculture and Forestry is the result of the Ministry of Fisheries being formed in 1995 and the Ministries of Agriculture and Forestry merging in 1998. Since 1998, the Ministry has been restructured four times, mainly as a continuation of the reform process as outlined above, although creation of the New Zealand Food Safety Authority is more a response to rising public awareness of food safety issues. In the Ministry's experience change is stressful, it takes longer than expected to accomplish and can be costly if not managed carefully: valued staff leave the organisation, output is temporarily reduced and new skills and new systems are needed. Before embarking on change, strategic planning is critical to meet on-going client needs and to set the future direction for organisations. It is also important to prepare an organisation for change and have established a good level of communication with affected parties.

THE WIDER LESSONS OF NEW ZEALAND'S REFORM PROCESS

The 1980s reform programme was an urgent task, made necessary by the slow economic growth and high level of external debt of the New Zealand economy. Government intervention in all aspects of the economy had led to severe resource misallocation and high levels of assistance that could no longer be maintained. The reform programme aimed to achieve sustainable economic development. Government intervention in all areas of the economy was drastically reduced.

The New Zealand experience of reform, encompassing as it did all sectors of the economy, has some wider implications:

- There needs to be strong on-going political support for the reform process.

- The sequencing of reforms can be important. Farmers' cooperation in the agricultural reform programme was underpinned by the plans to remove tariffs on imported inputs. But the lowering of tariffs did not proceed as quickly as the removal of agricultural support. Farmers also suffered from falling output prices some years earlier than they experienced the benefits of labour deregulation in, for instance, the processing and other downstream industries. From the point of view of individual sectors, deregulation should be multi-sectoral and proceed as uniformly as possible throughout the whole economy.

- One of the lessons arising from the New Zealand experience then, is that in a tightly controlled and regulated economy such as New Zealand in 1984, de-regulation and reform needs to be carried out simultaneously across all sectors of the economy. Reform of one sector in isolation is unlikely to result in any efficiency gain. Popular support for reform is also much higher if the public perceive that the pain, and gains, are evenly spread.

- Intervention is much easier to initiate than to terminate. In the case of agriculture for example, when subsidies are capitalised into land values it becomes increasingly difficult to break the cycle of intervention and make the adjustment towards land values that better reflect the market value of its output.

- Deregulation can proceed unilaterally. Quantitative research, for instance by the OECD, shows that the benefits of agricultural liberalisation are maximised when countries deregulate multilaterally. Nevertheless, the New Zealand experience is that reform does, in the long run, confer substantial benefits on the liberalising economy, as the reformed sectors become more market-oriented and less of a drain on national resources.

- There will be areas where "market failure" requires ongoing government involvement. But the government should apply a rigorous test to ensure it is not pulled quickly back into extensive regulatory and services delivery roles.

- A less tangible benefit from the New Zealand experience is the renewed self-respect of farmers, now independent of government assistance. They know that they are no longer a charge on the public purse and they have found that this improves their credibility in public eyes. In international fora, such as the WTO, FAO and OECD, the New Zealand experience provides a credible case-study in efforts promoting trade liberalisation. The New Zealand experience shows that in a modern economy the family farm does not need state charity. Families can live well and prosper by their own efforts.

- In terms of reform of the administration of agriculture: change is stressful, it takes longer than expected, outputs are temporarily reduced and it is costly (quality staff leave, new skills are needed and new systems are needed). Strategic planning is critical: to ensure the delivery of on-going functions and to set the future direction for the new organisation. Management and good communication is also important, to prepare the organisation for change.

CONCLUSION: THE NEW ZEALAND ECONOMY TODAY

Since the start of the reforms in 1984 New Zealand has had a number of changes of Government. Despite differences in political ideology, all Governments have maintained broadly similar economic and fiscal policies that support a market-oriented approach. After the initial burst of radical reform, reform has tended to be at a slower pace and of an evolutionary nature.

Overall, the economic reforms New Zealand has embraced have been beneficial to New Zealand's economic growth. OECD reports have suggested that improvements in human capital, reduced inflation variability, reduced size of government and increased trade exposure have all been beneficial to New Zealand's per capital GDP growth. Persistent comprehensive reform over the past 15 years, leading to sound macroeconomic policy, has also increased New Zealand's resilience to economic shocks and allowed it to perform with relative strength through the global slowdown and periods of drought.

An equally important outcome of New Zealand's reforms is that there is now no expectation, either in agriculture or in other sectors, that industries or people are entitled to government assistance as a matter of course. Government is there to provide a safety net, for instance following severe climatic disasters in agriculture. However, the responsibility is on people themselves to ensure that their enterprises are viable. One indication of the extent to which attitudes have changed is the response of manufacturers to an offer made in 1997 by the new Minister of Finance. He offered $100 million in assistance to manufacturers hurt by the stronger New Zealand dollar. The Manufacturers Association, which had a decade earlier been staunch supporters of tariff protection, decisively rejected the offer. Or, as Federated Farmers, the main farmers' organisation in New Zealand puts it: farmers in New Zealand are proud of their independence, are determined never again to be dependent upon government subsidies and reject totally any return to government handouts.

Nevertheless, the reform process needs to continue. New Zealand GDP per capita is half that of the United States of America, and two thirds that of the United Kingdom and Australia. We continue to operate a balance of trade deficit. We have large welfare transfers, despite a widespread labour shortage. Compliance costs of government regulations on business have started to increase again. All this means that New Zealand cannot relax: the role of government must continue to adapt in order to ensure our economic growth in an ever-changing global environment.

New Zealand Ministry of Agriculture and Forestry
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