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## NOTES AND TOPICS

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### A Vision of Trans-Tasman Cooperation

Roger Hallam

AUSTRALIA and New Zealand have long enjoyed a close relationship. For a short period until 1841 we had one and the same government based in Sydney. Our armed forces fought side by side in a number of major conflicts. We enjoy free movement of citizens between our jurisdictions. Since 1922 we have had formal agreements on bilateral trade. The most recent is the Closer Economic Relations Agreement of 1983 and its subsequent protocols. There have been agreements to harmonise professional qualifications, industry, consumer and other standards, business laws and regulatory practices. Government purchasing preferences and aviation regulations have been made largely non-discriminatory.

Two-way trade in goods and services is running at almost A\$12 billion a year. New Zealand is Australia's third largest trading partner and Australia is New Zealand's largest trading partner. Significantly for Victoria, over 70 per cent of exports to New Zealand are manufactures (for example, cars, plastics, paper). There is A\$18 billion of two-way investments in our economies. But trans-Tasman cooperation needs to go much further if we are to realise the full potential of our partnership.

#### A Single Economy

As we have seen with the European Union, once economic integration begins, it does not necessarily stop with the free flow of trade, capital and labour across foreign boundaries.

My fervent hope is that in the early part of the next century New Zealand and Australia will become a single economy, with a single currency governed by a joint central bank. This would imply also the same company laws, and, one hopes, similar tax bases, even if we apply different tax rates. Close coordination of fiscal policy would also be necessary. A start in this direction could be made if the Australian federal and State governments committed themselves to the disciplines of a Fiscal Responsibility Act, as New Zealand did in 1994. Without a strong commit-

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*The Hon. Roger Hallam, MLC, is Minister for Finance and Minister for Gaming in the Victorian government. This is an edited version of a speech delivered at the Summer Sounds Symposium, Marlborough Sounds, New Zealand, 28 February - 2 March 1997.*

ment to responsible financial management on both sides of the Tasman Sea, a common currency could result in one side gaining at the expense of the other. For instance, if either country were to run up a large deficit, resources would flow across the border to fill the gap, raising the risk of the central bank increasing interest rates across both jurisdictions to offset loose fiscal policy in one. This could in turn lead to a higher exchange rate, which would disadvantage exporters on both sides of the Tasman. So a common fiscal policy is a precondition for a single stable currency, which, properly managed, would bring substantial benefits.

With a single economy, we could face Asia and the rest of the global economy as a united force when it came to promoting our trade, investment and financial interests. As well, a market enlarged by economic, monetary and fiscal unification would offer our producers further economies of scale. Above all, we could benchmark every tier of endeavour — including government — without the economic distortions which currently exist.

Political integration is not a necessary ingredient of a single economy. As the world becomes more uniform and integrated economically and technically, I suspect that people within distinct locations will try to assert their uniqueness and autonomy by more sharply defining their local politics and cultures. So my vision for the future of Trans-Tasman cooperation is of a genuinely integrated economy of two nations, celebrating their distinct cultures while sharing their best practices.

### **Public Sector Reform**

Internationally, New Zealand and Australia are generally regarded as leaders in public-sector management. In terms of administrative and financial integrity, transparency, efficiency and effectiveness, our public sectors are the envy of not only less developed countries to our north, but of all the member states of the OECD. Indeed, New Zealand is recognised as a world leader in reinventing government to meet the challenges of the future. These efforts have been watched with interest by the rest of the world — and by Victorians in particular.

Within Australia, the federal government undertook a number of economic initiatives in advance of New Zealand, such as cutting tariffs, prohibiting restrictive trade practices, floating the exchange rate, relaxing exchange controls and deregulating the financial system. As well, New South Wales introduced audited consolidated financial statements for its public sector in advance of New Zealand or any other jurisdiction. But in general, governments within Australia have followed rather than led New Zealand on public policy and management reforms.

We in Victoria have unashamedly followed the New Zealand lead, but, more important, we have used that lead to articulate and justify much of our reform agenda. And while New South Wales under Premier Nick Greiner was the recognised pacesetter in Australia between 1988 and 1993, the Kennett Government of Victoria has since forged ahead as the most reformist government in the country.

## **The New Zealand Model**

In Victoria we freely admit that many of our public policy and management initiatives are based on what is often referred to as the New Zealand model.

These include:

- Honest, transparent and accountable government by adhering to professional accounting standards and publishing meaningful service performance indicators.
- Responsible financial management through balancing the budget and reducing debt and contingent liabilities to a tolerable level.
- Holding government to its core purpose: which is to serve social ends, not run businesses when they could be better managed privately.
- Promoting a tax regime which is simple, equitable and efficient so that workers, investors and managers have an incentive to add to net wealth, not subtract from it.
- Having ministers act as 'purchasers' of services rather than 'providers' so that they can exercise choice over suppliers and products.
- Regulating the economy so that there is equal opportunity to engage in economic transactions, without some players — whether government instrumentalities, private businesses or unions — gaining a monopoly or other unique privileges.
- Comprehensible and credible financial reporting.

As we head towards the third millennium, I see Australia's States increasingly looking to New Zealand for inspiration on how to get better value for money from their public sectors and restore competition and incentives in the private sector. Alternatively, they may even turn to Victoria for ideas on how to make the New Zealand model work in an Australian setting. 'Benchmarking' will become the most important avenue of government reform over the next few years. A logical place to start would be with New Zealand participation in the Australian Productivity Commission's annual reports on the key performance measure of government social activities, such as hospitals, schools, public housing, courts, and so on, and business ventures including electricity, water, ports, railways, and so forth, in each jurisdiction. This important initiative of the Council of Australian Governments allows Australians for the first time to make meaningful comparisons on how efficient and effective their governments are in supplying vital services to them.

Including New Zealand in this exercise — at least in the social activities part, since New Zealand has privatised most government commercial ventures — would

expose all major government bodies in our two countries to Trans-Tasman benchmark competition. The results would make fascinating reading for the general public, since it would highlight the gaps in efficiency and effectiveness between Australian public services and those of New Zealand.

### **Victoria's Reforms**

In borrowing from the New Zealand model of public sector reform, the Victorian government embraced change more out of financial and economic necessity than out of any ideological zeal for small government and market forces.

Our over-riding objective has been to make Victoria a better place to live, to invest and to do business. At the macro level, we had to rescue Victoria from the financial crisis we inherited from the previous Labor government. At the micro level, the challenge was to lift the competitiveness of the Victorian economy. This meant restructuring the business environment to encourage industry to trade more extensively with the Asia-Pacific region.

Government policies directed at making Victoria more competitive include:

- reform of workers' compensation, which has almost halved premiums, saving around \$500m for employers each year;
- major private investments in public infrastructure, like the \$1.7 billion Melbourne City Link road project;
- structural reform and privatisation of the electricity industry to deliver real reductions of 16 per cent and 28 per cent in household and small business electricity prices respectively by 2000, and which has already yielded sale proceeds of \$13 billion to reduce State debt;
- reform of the ports (partly through privatisation of regional ports), with reductions in charges of at least 20 per cent in Melbourne, Geelong and Portland;
- reform of local government, which led to a reduction in the number of councils from 210 to 78, the introduction of competitive tendering for services, performance-based contracts for managers, and new auditing, corporate planning and annual reporting requirements. The result is an overall reduction in rates of 20 per cent: an average saving of \$159 per Victorian household; and
- streamlining business regulations.

As the responsible Minister, I was closely involved with workers compensation and local government. Though I did not exactly follow the New Zealand route in each case, visiting your country to see how you had approached these matters proved very valuable in shaping policy and justifying the change. I freely admit to stealing good ideas from many jurisdictions. Again, I stress the enormous value of

having a respected model to pirate, and to cite to one's political opponents, particularly when the example could not be challenged on partisan grounds.

Based upon the outcomes, the strategy has been successful. Since coming to office in 1992, we have virtually eliminated the budget deficit of \$2.5 billion a year; reduced public sector debt from \$32 billion to \$19 billion; accommodated cuts in Commonwealth government grants exceeding \$200m in 1996/97 without increasing taxes; increased investment in public infrastructure to around 1.25 per cent of gross state production (GSP); applied strict accrual accounting and GPS statistical standards to the public accounts and budget papers; published for the first time consolidated financial statements for the Victorian public sector; driven massive efficiencies and improvements in public service delivery by restructuring departments, re-engineering processes, upgrading and automating systems, greater contestability in service provision and measuring the results through benchmarking against world-best practice.

But Victoria's reform program is not yet complete. Over the next few years we intend to introduce even greater competition, external contracting and privatisation; reduce the level of Victoria's business taxes to those of New South Wales, our toughest State competitor; restore our credit rating to AAA; and require government agencies/departments to manage their balance sheet rather than their annual budget allocation. (This is a very brave move, and again, New Zealand can be credited with much of the inspiration for it.)

## **Comparisons**

Our reform experiences have many similarities. Both were born out of financial and economic crises, for example. Yet there are also significant differences between the two. Victoria enjoyed robust economic recovery relatively soon after beginning reform, while New Zealand underwent prolonged economic pain before the benefits of change materialised. Victoria's reform program has (at least so far) maintained public support, judging by the government's re-election in 1996 and its standing in the opinion polls. In New Zealand, the radical reform program saw two finance ministers sacked, each of their governments lose their majorities and a popular backlash against strong executive government resulting in a new electoral system. Victoria's reforms concerned State issues, while New Zealand's reforms covered national matters of economic management (such as the exchange rate, tariffs, and monetary policy) in addition to other matters.

To be fair, the extent of the economic turnaround in Victoria was not as great as in New Zealand because much of Australia's economic restructuring had already occurred before the election of the Kennett government in 1992. Tariffs had been cut and restrictive trade practices prohibited under the Whitlam Government of 1972-75. The Australian dollar had been floated, exchange controls relaxed and the financial system deregulated when Paul Keating was Treasurer in the 1980s. Nevertheless, tough measures associated with bringing the State budget into balance and reducing government debt should have provoked an electoral backlash. These measures included large cuts to government spending, changes to taxes (including

temporary surcharges), public service retrenchments, asset sales, utility privatisations, contracting-out of government services and rationalisation of some benefits. Yet public support for the Victorian government has remained solid. Why?

### **The Politics of Reform**

An answer, perhaps, can be found in Roger Douglas's book *Unfinished Business* (1993). In Douglas's view, structural reform will be successful if conducted rapidly on a broad front, and if the government is confident about what it is doing and communicates its objectives to the public. Douglas makes the interesting point that both Labour and the Nationals rode highest in the opinion polls when they were promoting their reforms with gusto and enjoyed internal unity. It was only when each government called for a 'breather' in its reform initiatives, in the belief that some people needed time to catch up, that the opponents of reform got the opportunity to marshall their forces and launch a counter attack.

I think the result demonstrated the greatest risk to a reformist government, namely, internal polarisation between those who want to advance the process of reform a stage further, to bring even better results, and those who want to placate the critics. A stalemate developed. The public lost confidence in the direction of policy and, sadly, turned on its heroes of yesterday. To quote Douglas:

In my view, there is one force which is always capable of undermining the process of structural reform — the government itself when it loses sight of its own primary objectives. If the discipline of collective cabinet decision making and collective cabinet responsibility breaks down, the way is open for interest groups to regain control of the game. (1993:237-8)

In Victoria, I think we have been bold and clear in our vision and program, but, more important, we have been united and consistent in communicating and promoting reforms — and we have been able to cite respected models as the source of that vision and program.

### **The Vision**

So I leave with you the vision, and offer the challenge to think broader, larger and longer. Don't be satisfied with the contemporary wisdom that says that the best we can do is to remove any barriers to trade across the Tasman. This sells us all short. We need to look at what could be achieved if we were prepared to *really* co-operate: to marshall our collective strength and put it out in the market place. The untapped potential lies in the synergy which would spring from genuine benchmarking and even greater exchange of experience and skills.

### **Reference**

Douglas, R. (1993), *Unfinished Business*, Random House New Zealand, Auckland.