How New Zealand does it

by The Rt. Hon. Robert D. Muldoon

Over the last decade or so western countries have tended to react to events, rather than to seek to shape them. There has been loose talk about the loss of confidence in national institutions. People have been mesmerized by the apparent complexity of current problems. If the term "paralysis by analysis" has become a cliché, it is only because it so accurately describes the predicament so many have created for themselves. Electorates have responded predictably by rotating their governments with regularity.

In New Zealand, my government has taken a simpler view. We have looked first to our traditional strengths in agriculture and pursued policies to build on those strengths. We have looked at areas where we have been less strong, areas where we have been dependent — energy in particular — and adopted policies to change that. We have looked at our critical external interests in the Pacific, in Asia, and our economic relationship with Australia and built on those.

In taking these practical steps we have not been guided much by ideology. Our approach is this: if it seems to make sense, if it seems to contribute to the growth of New Zealand, we'll do it. Nor have we developed an elegant conceptual phrase to describe this approach. We just call it our growth strategy.

Let me sketch the international environment in which a small country like New Zealand finds itself. After the Second World War, the West established the framework for a relatively liberal international trade and payments system. Against the background of a global war and, before that, a global depression of frightening proportions, world leaders were in a unique position to utilize the political will to make major reforms to international economic and political institutions. The Bretton Woods system (IMF and World Bank), the General Agreement on Tariffs and Trade (GATT), a new regime to govern international civil aviation and the United Nations itself, were among the direct results. We had stable exchange rates and steady growth as one country after another embraced what we loosely called "Keynesian economics."

Good old days

New Zealand in those days had a simple economy and a simple recipe for economic success: we could produce certain high quality foodstuffs cheaper than anyone else and we had a ready market for them — Britain. As late as 1960 over 50 percent of our total exports went to that one market. We had a phrase for it — "living off the sheep's back."

What we did not realize — and we were far from alone in this — was the extent to which this system depended upon unrivalled United States economic power and ready access to cheap energy. Nor did we fully appreciate the significance of creeping protectionism in international agricultural trade. When in the 1970s the climate changed profoundly for the worse, New Zealand found itself badly exposed. As the pressure mounted on the American domestic economy, and the primacy of the US dollar in the international payments system declined, a system of floating currencies, managed country by country, replaced the internationally-managed fixed parity system.

I believe the world economy is now in a critical situation. The balance of payments and debt problems of many developing countries are approaching a crisis point. The cumulative deficit over the period 1979 to 1981 of the non-oil developing countries was almost 250 billion dollars, equivalent to over 20 percent of their export earnings. But within these aggregate figures, bad as they may be, are concealed individual stories of misery. Oil today costs Tanzania 80 percent of its export income, and interest on external debt is 19 percent. Eighty plus nineteen is a simple enough sum. It implies that the remaining 1 percent of Tanzania's export earnings is available for general imports. It means a massive dependence on further borrowed money, which increases their debt service ration, or a dependence on aid funds if they wish to finance essential imports. Clearly deficits on this scale cannot be sustained. The investments that might service these deficits are not being created.

What are the risks?

From the West's point of view, the risks are considerable. Many of our private banks are dangerously over-exposed. The strange thing about this aspect is that the situation these banks now face had been eminently foreseeable for some years. The ultimate risk for the West, however, is the political instability that will arise if the position of some of these countries deteriorates further.

World needs new financial system

I have come to the conclusion that the approach to the question of international economic cooperation needs to be reviewed, and I question whether the calendar of inter-

---

The Rt. Hon. Robert D. Muldoon has been Prime Minister of New Zealand since 1975 as leader of the National Party. This article is based on a speech delivered to the Canadian Club of Ottawa in September 1982.