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Rt Hon Jacinda Ardern
Prime Minister
Parliament Buildings
Wellington

12 August 2018

Dear Prime Minister

I recommend that you as Prime Minister and political Leader of New Zealand establish with urgency a Royal Commission to:

- review New Zealand's policy performance and outcomes over the last two decades
- identify the reasons for the many serious failures
- recommend changes to achieve better outcomes for New Zealanders in future

I enclose a copy of my recent paper (NBR, 3 August, 2018) **"Paradise Lost! Two Decades of Shocking Failure in Political Leadership"** which identifies the fundamental problem - the failure of New Zealand's political leadership and the consequences - many failed policies and a continuing decline in the situation and prospects of many of New Zealanders.

New Zealand's political leaders and governments have not provided the requisite leadership to develop and implement effectively the best policies to improve sustainably the living standards of New Zealanders. Instead of leading they have acquiesced to and supported misguided populist views, in order to maximise their political capital and prospects of getting re-elected. This behaviour is dishonest and clearly conflicts with their obligations to public service.

When the economic engine of a democracy fails, social and environmental imperatives become unaffordable - but rather than fix the economy politicians obfuscated and spent more of the Nation's precious capital on political band aids- reinforcing the downward spiral.

Over the period I have been involved in many business and policy related processes, particularly in New Zealand and Australia (see Attachment I). With a background in economics this has given me important insights into why many policy processes are not working and why New Zealand - such a potentially prosperous country, is facing so many increasingly serious difficulties.

Over the years I have commented on New Zealand's worsening position and prospects with little/no effect (refer www.kerrymcdonald.co.nz). The 2011 Savings Working Group (which I chaired) Report to the Minister of Finance sets out the situation very clearly with many significant recommendations which, as is typical, were ignored.

Given the long period of poor policy leadership New Zealand's position is now critical - it is on a very slippery slope, which is evident from the complex mess that you have inherited!

Increasingly serious problems, such as low productivity, low incomes, social deprivation, biosecurity and environmental protection, mental health, waste and pollution - and some 50 others, are requiring increasingly costly but often ineffective band aids, which are undermining New Zealand's future economic growth potential. And the grim reality is that paying people more via ad hoc political interventions, when the increase is not based on productivity gains and added economic value, is unsustainable and diverting scarce resources from improving future living standards on a sustainable basis.

Fundamentally, the situation is damaging, high-risk and requires urgent and effective intervention! The implications for future generations (my grandchildren!) are grim and most New Zealanders have no understanding of this!

It is also unfortunate that so many policy commentators have been complicit with the politics and myth of a "Rock Star" economy.

The policy problem is now deeply entrenched in New Zealand politics and will require determined and astute leadership, probably with a major shock, to achieve change - from useless band aids to effective, sustainable policies. And you cannot borrow to fund more unsustainable band aids as many "banana republic" economies have found to their great cost!

A Royal Commission, done well, has the potential to be an effective circuit breaker - and I cannot see any other. The lessons of the current Australian Royal Commission on banking and other financial industries are very strong. Government politicians resisted it until they were simply swamped by the waves of dissatisfaction; and what has been uncovered thus far is incredible. It will lead to an absolute sea change in policy and regulation - which is very much what New Zealand needs in terms of its policy design, implementation, management and outcomes.

My paper also identifies the importance of immediately abandoning "no surprises", having a better "whistle-blower" environment and having a much clearer strategic plan for prioritising spending and policies. These also deserve urgent action!

I strongly recommend these actions to you..

Yours sincerely,

Kerry McDonald

Enclosure: "Paradise Lost! Two Decades of Shocking Failure in Political Leadership" by Kerry McDonald, August, 2018

Attachment I

Relevant Experience:

These involvements gave me considerable experience and insights, including on the Public Service, politicians/governments and policy-related processes.

- Economist (NZ, AUS, UK, 16 years) Director NZIER.
- Economic Advisory Committee, APEC Advisory Committee - PM Bolger.
- 1969 NZIER Report to Minister of Industry & Commerce recommending policy on Regional Development - substantially implemented.
- Chairman - led the successful rebuild of DOC after the Cave Creek tragedy.
- Led the Private Sector component of PM Clark's Trade Mission to Japan
- Chairman, State Sector Standards Board - some 8 excellent reports on the state of the Public Service.
- e-Government Advisory Board - only Private Sector member.
- Foreign Direct Investment Advisory Board - twice a member.
- APEC Business Advisory Council - co-chaired the trade (EVSL) committee (with Chairman/President/CEO of General Motors).
- First NZ Chair (for 3 Annual Meetings) of the Australia-New Zealand Leadership Forum.
- Chaired AUS-NZ and NZ-Japan Business Councils; Life Member Aus- NZ Business Council.
- Numerous State Sector senior executive appointment/interview panels.
- Involved in numerous discussions/presentations on New Zealand's external relations, especially trade.
- Numerous electricity sector reform committees, including Deputy Chairman, Transpower Establishment Board.
- Chairman, Savings Working Group.
- Chairman, Centres of Research Excellence Funding Review Advisory Committee.
- Many studies on Auckland infrastructure, especially the motorway network and transport generally; book published "Urban Transportation and Land Use".
- Ports and freight systems especially Northland, Otago, Nelson, Tasmania.
- NZ's Antarctic strategy, chaired review of Antarctic Science Strategy, led 2016 risk assessment of Scott Base.
- Chairman, Kakapo Recovery Project
- 1970s Submission to the Australian Senate Enquiry into the Resource Sector - on the economic benefits of major mining and mineral processing projects.
- 1970s Presentation to a Coalition of Australian Governments meeting on the mismatch between the State and Federal governments on the costs and benefits of major mining and mineral processing projects.
- One of 2 mining company representatives in a team of 5 sent by Australian Government to Japan, at the invitation of MITI, after the disastrous 1983 coal negotiations, to assess the reasons/justifications for the dispute. Report published.
- Australia-Japan Economic Relations Research Project - Report on Bauxite, Alumina and Aluminium (ANU)
- 1980s Industry Observer - Australian Government Inquiry on Immigration.
- 1980s Australian mining industry Observer to Antarctic Resource Protection Protocol negotiations.
- 1980s/90s Re-negotiated the Comalco power agreements for Tiwai Point (and Tasmania and Queensland) leading to a \$600m investment in upgrading and expanding the NZ Smelter.
- A Managing Director of Comalco (Head of Comalco NZ and a member of the Group Executive Committee) and then CRA/Rio Tinto - one of the World's largest mining/mineral processing companies; projects & operations in many countries; a strong focus on developing high performance organisations with high/continually growing productivity, with high levels of employee trust, personal development and remuneration. Few New Zealand companies were/are in this space - "plateaued at a level of mediocrity"; and the State Sector/ Public Service is worse.
- A director, chairman and advisor to many companies in Australia and New Zealand, including BNZ, National Australia Bank, OceanaGold, Leighton Contractors, Carter Holt Harvey, Ports of Auckland, Powerhouse, ComalcoNZ, and so on.
- Co-lead a consortium of Rio Tinto, Norske Hydro and Reynolds Metals to buy the Venezuelan aluminium industry.
- Edited World Grain Trade Yearbook, 1968.
- Chairman, NZ IOD; Fellow AICD and IOD.

- Advisor to boards on capability, performance and appointments.
- Expert witness.