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It's the time of the Great Centrist Drift, writes DANYL McLAUHLAN, an era of "lost opportunities and gradual failure driven not by ideology but a lack of it".

The Interislander ferry keeps running out of power mid-journey and the passengers watch, horrified, as it drifts towards rocks while the crew works to restart the vessel. Their competitor, Bluebridge, keeps cancelling trips because of mechanical failure. There's been some sort of roll-on roll-off ferry operating across the Cook Strait since 1962, and it has run into trouble before – strikes in the 70s and 80s, a malfunctioning navigational system on a new ship in the early

2000s (not to mention the 1968 Wahine disaster). But this is the first time in 60 years that the service has just stopped working.

There's a famous exchange in Ernest Hemingway's novel *The Sun Also Rises*: "How did you go bankrupt?" Bill asked. "Two ways," Mike said. "Gradually and then suddenly."

New Zealand isn't bankrupt. The economy has flirted with recession, the current account deficit is terrible and the damage from Cyclone Gabrielle and the Auckland Anniversary Weekend floods



Destruction caused by slash during Cyclone Gabrielle can be traced to the forestry industry's ability to escape responsibility for its waste.

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will cost billions of dollars to repair – but GDP is just under \$400 billion a year, government debt is low, and our currency is relatively stable.

Things don't seem to work very well, though. The ferries are running again – for now. But important components of the state are visibly deteriorating: the health system, education, the water infrastructure, metropolitan public transport, civil defence. It feels like we're in the gradual phase of state failure – a point we're still decades away from, probably, hopefully, but blithely drifting towards.

What's gone wrong? I don't think it's any

one thing, or pretend I fully understand our recent history or future trajectory. Maybe we're secretly doing great. Maybe everything will be fine.

But I want to nominate three trends – three bad turns we've wandered down over the past 30 years. There's this consensus in most of our political discourse that everything bad was caused by the neoliberal revolution of the 1980s and early 90s, but it's been 30 years since Jim Bolger sacked Ruth Richardson as finance minister, bringing the curtain down on that revolution.

I argue that the decades since then have

also been bad, albeit in different ways. It has been the era of the Great Centrist Drift: a period of lost opportunities and gradual failure driven not by ideology but a lack of it. The mass-membership political parties of the 20th century have hollowed out, diminishing into marketing brands controlled by vying factions of professional politicians, strategists, pollsters, lobbyists and donors. This political vacuum has been filled by opportunists and vested interests. They now set our direction of travel.

It's hard to put a start date on the housing crisis or blame it on a single cause. By

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House-price inflation over the past 30 years was made worse by a shortage of new supply.



the late 1990s, New Zealand had a housing and infrastructure deficit. We also had new resource management legislation that gave local interests enormous power over what did and did not get built in their region. We had councils who figured out they could keep rates and debt low if they didn't construct new roads and pipes. Property owners realised this lack of new construction inflated the value of existing homes. Meanwhile, interest rates were low and, with no capital gains tax, if you had income and a deposit, you could borrow from a bank, buy property and make a guaranteed tax-free profit. And for 30 years, this was nearly all that mattered in the New Zealand economy.

By late 2021, our residential property market – about two million dwellings, many unheated and uninsulated – was worth \$1.7 trillion (it has come down since then). But that notional wealth was created without anyone building anything. Instead, wealth was accumulated by preventing things from being built. Most of our peer nations had housing bubbles, but they also had construction booms, because their economies responded to increased demand. We didn't, and the result is the housing shortage and a vast lack of capacity in the construction sector.

When Labour promised in 2017 to deliver 100,000 affordable homes, it failed for a variety of reasons, but part of it was the scarcity

of labour and materials. Last year, the Productivity Commission released a report on the economic performance of our construction industry. It found that the productivity of the heavy and civil engineering construction sector increased by only 5% over 20 years, compared with 30% in the overall sector and 34% across all measured sectors.

We're not very good at building or maintaining the physical infrastructure our

The state can work well in moments of crisis. But almost everything positive it tries to do is against the current.

nation needs to function and which climate events have started to destroy. In 2022, a report from the Infrastructure Commission found the total bill to spend our way out of our infrastructure challenges over 30 years would be more than \$1 trillion (in today's prices).

We need to build many things urgently. But we can't, because we've spent 30 years orienting our political economy away from development, innovation or wealth creation and towards passive income and rent-seeking.

WEALTH TRANSFERS

One of the scandals in the aftermath of Cyclone Gabrielle was the destruction caused by forestry slash: the offcuts and logs left behind after commercial forests are cleared, swept up in the tonnes of water and silt that flow from bare hills when it rains. This debris choked waterways, flooded streams and rivers, destroyed bridges and roads, and demolished homes. The same thing happened during Cyclone Cook in 2017, and a subsequent report attributed most of the damage to commercial forestry.

Then-forestry minister Stuart Nash shelved the report, and after Gabrielle, remained supportive of the industry. NZ Herald agricultural journalist Andrea Fox reported that the "powerful forestry lobby was marshalling its forces" to prevent any sort of significant inquiry into their operations. Stuff journalist Kirsty Johnston revealed that Nash had attended the Forestry Owners Association's board meetings. A few weeks after the cyclone, he was sacked for leaking confidential information about a rent relief policy to his campaign donors.

Back in 1982, American economist Mancur Olson wrote a book, *The Rise and Decline of Nations*, about the evils of political lobbying. Olson sees politics as a form of collective action: the members of a nation-state co-ordinate efforts to achieve common goals. Most political debate fixates on what the goals should be, and which parties or



Former forestry minister Stuart Nash, left, was reluctant to condemn the industry after Cyclone Gabrielle.

leaders should manage this process.

Olson warns that as a democratic state scales up in wealth and complexity, it becomes easier and increasingly lucrative for its business and political classes to covertly defect from this collective good. They can't simply steal everyone else's money – this does sometimes happen, but there's usually too much oversight and the consequences are too harsh. Instead, they form distributional coalitions to carry out opaque transfers: covert alliances that find ingenious ways to reallocate the public's wealth to themselves.

These transfers are almost always legal because some of the participants are politicians who can write the laws, and those laws are made deliberately complex so no one can see what's happening. The wealth gain is concentrated among small groups who greatly benefit from the transfer, and the cost is distributed across millions to whom it is imperceptible.

The lobbying industry works to co-ordinate these coalitions and promote their goals, sometimes discreetly, sometimes via highly visible media campaigns.

Forestry slash is an example of how this works: an industry captures the government so it can avoid the expense of cleaning up its own waste; instead, this is transferred to the rest of society at incredible cost. Olson points out that distributional coalitions often act like vandals: if they can gain \$1

for themselves by inflicting \$100 of losses on everyone else, it is rational for them to do so. Slash is unusual in that it's so visible: clear evidence of a broken system.

RATIONAL VANDALISM

RNZ investigative journalist Guyon Espiner recently published a sequence of stories on lobbying in New Zealand, and it works the way you'd imagine: a handful of former MPs

The business and political classes find ingenious ways to reallocate public wealth to themselves.

and political insiders sell their ability to influence legislation and regulation to corporate interests. I talked off the record to a couple of MPs about Espiner's findings and they admitted that the top lobbyists were influential on the margins – they can stop something or get it over the line if it's a close call. But they insisted that the most important actors were the industry associations: specialised lobbying groups that allow an entire sector to act as a collective – like the Forestry Owners Association.

Much of the lobbying is overt: delivered

via presentations to select committees and media coverage. The \$160 million subsidy for the video game development sector in the 2023 budget followed a sustained publicity campaign by Conor English, a well-connected lobbyist for the industry.

For Olson, the impact of all this is gradual, imperceptible: a slow rot as legislation and regulation are systematically tweaked and finessed to favour opaque transfers and rational vandalism instead of transparent government contributing to the collective good. Over time and across different industries, the costs of these transfers accumulate, aggregating into a government that is large, expensive, complex and ineffectual because it's designed to benefit the tiny fraction of the population who are close to political power at the expense of everyone else.

Olson's distributional coalitions are a very deep problem: they operate at a more profound level than the usual political disagreements over the state versus markets. If a sector in a free-market economy generates profit, a distributional coalition will try to break that market: to lock out new entrants and allow the incumbents to price-gouge consumers and suppliers – much as our supermarket duopoly seems to do.

If the state allocates funding – for education, health, infrastructure, for instance – distributional coalitions in both the public and private sectors will attempt to capture as much of the value as possible, diverting

it away from the public and towards themselves (while loudly insisting that more funding is needed). Back in 2021, then-health minister Andrew Little complained: “We’ve put so much extra funding into the [health] system since we’ve been in government and the same pressures that were evident three years ago are evident now. So, what I’m saying is how can we possibly have pumped in billions of extra dollars and it not appear to have made a difference?”

Most of our peer democracies have extensive regulation around lobbying because the threat the industry poses to the integrity of the political system is obvious. New Zealand has nothing. There are many valid reasons to lobby the government, but very few reasons to do so in secret. Shortly after Espiner’s stories were published, the government announced it was “cracking down” on lobbyists by removing their swipe-card access to parliament and initiating a voluntary code of compliance. It was, as commentators noted, the least it could possibly do while seeming to do something.

BRANDING AND REBRANDING

Last December, Dame Karen Poutasi, a former director-general of health, released an interagency report into the murder of a five-year-old child and the interactions that the public-sector agencies tasked with child protection had with the victim. Poutasi’s report noted there had been at least 33 reviews and reports into child abuse and deaths in 30 years. Her recommendations were similar to most of the others, which successive governments had largely failed to implement. Oranga Tamariki, the primary agency for child protection, used to be called the Ministry for Vulnerable Children, but was renamed in October 2017 after the change of government. Earlier, it was Child, Youth and Family, or CYF; before then, a division of the Ministry of Social Development, reintegrated in 2006 after the failures of Child, Youth and Family Services (CYFS). Before it was CYFS, it was the Children, Young Persons and their Families Agency, and before then the Children and Young Persons Service.

The 30-year period of the Great Centrist Drift sees the transformation of the public service into a prelate that’s deeply preoccupied with knowledge work and with itself; with generating reports and papers, and with branding and rebranding and restructuring and renaming and merging ministries and departments, with the creation of new commissions, agencies, enterprises, entities and executive boards.

Slowly, over time, the attention of the state drifts away from the public and towards implementing conceptual frameworks, hosting conferences, building websites and apps, delivering mega-IT projects (or, not infrequently, spending the money, but not delivering the websites, apps or IT projects). With marketing and public relations, internal communications, legal analysis, business and management consultants, attending meetings and sending emails become the primary vocations. All of this highly credentialled and well-remunerated work – some fraction of which is doubtless worthwhile – takes priority over the more pedestrian chore of delivering public services.

THE STONE WALL

When Anna Fifield was editor of the then-*Dominion Post*, she wrote about the explosive growth of the public sector’s “communications industrial complex” over the previous 20 years. I think you have to live in Wellington to appreciate the sheer scale of modern public-sector comms – I doubt the total cost is less than a quarter of a billion dollars a year, it could easily be twice that. And most of the time, its purpose is not to inform the media or the public but to conceal and obfuscate, to prevent anyone from finding out how the government works or what it’s doing.

Fifield wrote: “Perhaps the most alarming, and certainly the most prevalent, trend I’ve noticed is the almost complete refusal of government departments and agencies to allow journalists to speak to subject experts.

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“... Instead, all questions go through the communications unit, and almost always via email. That means we have no opportunity to ask for clarification or follow-ups or even to get answers in plain English. We often just get insufficient answers written in bureaucratese ... There’s no opportunity to ask them to explain the background to a decision. There’s certainly no chance to ask them anything like a probing question. That, of course, is the whole point of this stonewalling.”

The internationally experienced Fifield wants New Zealanders to understand that this is *not* normal, that the other democracies she’s reported on just don’t work like this. I don’t think it’s an accident that the public sector became less transparent as it turned inwards. Chief executives and other mandarins naturally prefer to operate in secret if they can and to produce their own internal propaganda to promote themselves rather than be held to account. Why wouldn’t they?

Stuff’s press gallery reporters recently flagged a story published by the Ministry for the Environment’s comms team on its website: a hagiography of departing chief executive Vicky Robertson, whose proudest achievements were the introduction of flexible work hours and growing the size of her staff from 320 to 1200, and who congratulated herself for the altruism she showed in taking a role with a \$518,000 salary.

One of Espiner’s stories described the chief executive of Pharmac commissioning an external comms agency to promote her personal brand in the media; staff at her agency lied to journalists to try to protect this media strategy. In 2021, Ministry of Health officials were caught massaging statistics about deteriorating mental health services. No one thinks government should work like this (other than public service bosses and the comms consultants), but it does because for the past 30 years, no one with any power looked at these trends and thought there might be a problem.

THE CAPTURED STATE

It’s hard to write about politics without moralising everything. It sounds as if I’m writing about bad property owners, bad people at bad companies, bad public servants, bad politicians. Surely, if we replace them with some good people, all will be well?

Olson warned that this way of thinking solves nothing. As an economist, he believed we understand things by paying attention to systems and incentives. There is no group of good people you can recruit to run things who will never defect from a collective action if it’s rational for them to do so.

All you can do is build systems that reward pro-social behaviour and penalise defectors – which means you need a coherent idea of what those systems are for and what they’re supposed to deliver.

Another economist, Mariana Mazzucato, likes to say that when the state doesn’t stand for anything, it can be captured by anyone.

I’m writing this a few months after Jacinda Ardern retired from Parliament.



Thwarted legacies?
Past prime ministers
Sir John Key, left, and
Jacinda Ardern.

Her final speech generated much debate about whether she was a great prime minister. There were moments in her career when she was obviously great, but if you examine the policy legacy – well, it’s not nothing: the “families budget”, fair pay agreements, school lunches ... But no one could call it great.

There was a similar reckoning on the Right when John Key stood down in 2016 for the same reason Ardern gave: “nothing left in the tank”. His government partially privatised the power companies; negotiated the bulk of treaty settlements; built some “roads of national significance” and the ultra-fast broadband network; rebuilt Christchurch. Again, this isn’t nothing, but nor was it the economic step-change Key promised.

These are symptoms of the Great Drift. Political change becomes harder; delivering it is exhausting for even the most talented politicians and parties.

Our markets aren’t configured to deliver the kind of growth Key wanted – they are, in countless ways, designed to prevent growth and innovation in favour of rent-seeking incumbents.

Ardern wanted government to be kinder, but it’s hard to deliver kindness or anything else via the state because most of the resources you allocate will be captured by the distributional coalitions embedded within it. Political leaders can still do stuff: the state kind of works and it can work well

in moments of crisis. But almost everything positive it tries to do is against the current.

SCLEROSIS AND DECAY

The three problems I’ve written about – that wealth is earned by creating scarcity rather than value, the rising power of the lobbyists and the inward turn of the public service – aren’t unique to New Zealand but they seem especially acute here. By some metrics, our housing affordability was the worst

The organised few will always triumph over the disorganised many. ... The drift continues until history intervenes.

in the world; our lobbyists are among the least regulated in the OECD; our key markets are among the least competitive; our public sector is unusually opaque. These are problems that are theoretically solvable – markets should be efficient, companies should create value, the state should serve its citizens. We could regulate lobbying, fix the tax system, get money out of politics, introduce public-sector transparency and accountability, measure outputs, regulate markets properly, build state capacity. But

the wider public is not especially interested in solving any of these abstract problems and the distributional coalitions that profit from them are extremely interested in keeping them unsolved. The organised few will always triumph over the disorganised many.

How does the Great Drift end? I’ve lived in Wellington for two decades. It’s a nice place that gets a little less nice every year. It has fallen apart gradually. Now, there’s sewage bubbling up through cracks in the streets, streetlights falling onto the footpaths. The public transport system is broken. It’s still nice in various ways, but it’s not a place I’d recommend anyone move to. Aucklanders have a slightly different litany of complaints: floods, ram raids, the prospect of endless rates increases to maintain crumbling infrastructure. My prophecy is, as Auckland and Wellington, so the nation. The capital and the super city are the avant-garde of sclerosis and decay: the rest of the country will follow. Things will stop working, slowly, gradually. We barely notice or, when we do, we just grumble about it. The drift continues until history intervenes. One day, there’s a currency crisis or a financial crash; perhaps a political crisis; regional war; extreme climate event or some combination of these. And then, suddenly ... ■

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