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SEVEN DEADLY ECONOMIC SINS OF THE TWENTIETH CENTURY

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In addressing the theme of business in the twenty-first century, there is surely no more appropriate way to begin than by recalling the optimism with which, a hundred years ago, the Western world hailed the arrival of this century. The nineteenth century had witnessed an unprecedented period of peace, expanding international trade and investment, and growing prosperity. There was no reason to doubt that these trends would continue. The vision of a truly integrated and interrelated humanity, shared in different versions by Marxists and liberal internationalists alike, seemed within reach.

That optimism now seems naive, even poignant, because, as we subsequently learned, the seeds of the movements that were soon to threaten civilisation itself had already been sown. In the economic sphere, partly because of ill luck but partly because of the influence of erroneous doctrines, the world experienced mass unemployment for the first time, inflation (sometimes hyperinflation), and a return to mercantilist policies. Since the end of World War II, we have gradually and painfully been thinking and working our way out of these false doctrines, and been greatly encouraged in recent years by the demise of communism (at least in the Soviet bloc) and the end of the Cold War. Now, the wheel has come full circle: we stand once again at what may be the threshold of a truly global economy, with the possibility of ending mass poverty once and for all.

Is the promise as illusory as the one of a century ago? Of course we don't know, but the experience of the twentieth century has surely chastened and alerted us to some of the things that can go wrong.

This lecture, "Seven Deadly Economic Sins of the Twentieth Century', owes its inspiration to a recent essay by the British writer Paul Johnson which he called 'The Seven Deadly Sins of the

Twentieth Century'. Johnson is optimistic that we can eliminate at least some of this century's sins and recover the high moral and material improvement standards of the nineteenth century. His seven sins are: violence, the growth of the state, social engineering, the belief that the market can be suppressed or even abolished, the belief that trade unions are benevolent and necessary, moral relativism, and lastly materialism, or the denial of the role of spirituality in human life. I wouldn't quarrel with this list, except perhaps the inclusion of trade unions. It is true that for much for this century trade unions did enormous damage to the interests of workers and the unemployed, and to the prosperity of nations in which they were dominant forces. However, the problem was not trade unions as such, but the legal privileges that misguided politicians gave them, and which enabled them to abuse their powers. In any event, trade unionism is in decline worldwide and unions seem likely to have only a minimal role in the next century as firms and their employees find better ways to structure their working arrangements.

In drawing up my own list of seven deadly economic sins, I have included one of Johnson's more general ones: the growth of the state. My others are: collectivism, protection, lobbying by special interests, inflation, unemployment, and the welfare state. All of these have flourished in the twentieth century as never before. However, at the end of the century they are all in decline, and if they can be finally eliminated or reformed I believe we can be optimistic about the twenty-first century.

1 Collectivism

The twentieth century has been, above all else, the age of collectivism - the so-called socialist century. The English jurist Albert Dicey defined collectivism 80 years ago as:

> ... government for the good of the people by experts or officials who know or think they know what is good for the people better than any non-official person or than the mass of the people themselves.

Every society has a collectivist element; some things have always and rightly been undertaken by central agencies like the state on behalf of its citizens. But in the twentieth century the state has grown beyond its necessary but limited range of tasks and taken on an ever-widening agenda, such that some modern governments recognise no principled limits on their activities at all. All varieties of collectivist thinking accord the state a quasi-divine status: all-knowing, all-powerful, and all-caring. Herein lie the perils of state power. Adam Smith, referring to the exercise of power by public regulators, said that "regulatory authority is nowhere so dangerous as in the hands of any man who is foolish and presumptuous enough to fancy himself fit to exercise it." This is the central fallacy, error, and sin of the twentieth century, from which the six other sins follow.

The observation that the twentieth century has been the century of collectivism highlights the flaws in the popular 'left versus right' categorisation of politics. The extremes of right and left - Nazism and fascism on the one hand, and communism and full-blown socialism on the other - were equally dedicated to the total management of society by the state. During the Cold War, the Western democracies generally promoted a less absolute version of collectivism than did their communist opponents: it went under names like 'social democracy', 'corporatism' and 'the mixed economy', but it was collectivism nonetheless. 'Communitarianism' is the latest version of the species. Similarly, within Western democracies conservative and socialist parties have differed not so much over how much collectivism to introduce, but how fast they should adopt it. Even then, the difference was often slight: in the 1980s, the decade in which collectivism reached its peak but also revealed its fatal weaknesses and started to recede, New Zealand was being crushed under interventions such as the 'think big' programme of the Muldoon National government, which resembled nothing more than the huge, wasteful schemes undertaken in the Soviet Union and the developing countries that came under its influence.

I was recently in Cambodia, where the last of the twentieth century's state-organised mass murders were perpetrated in the name of some collectivist dream which turned into a hideous nightmare. I discovered that Pol Pot was a name assumed by the infamous leader of the Khmer

Rouge, and was derived from the idea of 'political potential'. The killing fields outside Phnom Penh and the economic devastation of that sad country stand as a true symbol of the potential of politics to wreak disaster. The Andertonistas of the world have still not learned that lesson.

In Western countries, collectivism has thankfully taken less malign forms, but notwithstanding the demise of communism it survives, not just in the persistence of big governments but also in the widespread mentality that prefers things to be done by the state than by individuals, whether alone or in their voluntary associations. The worst still tend to rise to the top in such systems, as F A Hayek pointed out. They require for their operation a political class which does not shrink from using the coercive powers of the state to run the lives of ordinary people - the despised lumpenproletariat.

Even in New Zealand, where collectivism went further, but has also more lately retreated further, than in most Western democracies, a sentimental attachment to big government remains strong. It has been inspired by a mixture of well-meaning but naive utopianism, ignorance, envy, a desire to avoid personal responsibility and also an erroneous conviction that collective action is motivated by altruism and morally superior to individual action, which is equated with selfishness. So although the inescapable rigours of international competition are likely to continue to roll back the growth of collectivism, lapses, such as those being experienced now in France and Australia, and even to some degree in New Zealand, remain a clear and present danger.

2 The Growth of the State

The expansion of the state has been the central monument of twentieth-century collectivist thinking. The differences with the nineteenth century are startling. At the turn of the twentieth century, government spending typically accounted for about 10 percent of most advanced economies. Now, the equivalent figure ranges in the Western democracies from about 35 percent (as in New Zealand) to nearly twice that level (as in Sweden). As well, modern governments have extended regulations into more and more areas of life. Purely economic regulation has retreated somewhat, but social regulation - governing matters like the environment, the securities market, consumer standards, occupational health and safety, and the treatment of disadvantaged groups - has expanded. Even privatisation has been accompanied in many countries by new regulations governing utilities.

It is impossible to defend this growth of the state in terms of either efficiency or equity. The necessary activities of the state - such as maintaining law and order and providing essential social infrastructure - could be undertaken at much lower levels of tax. The same is true of redistribution: a simple and much less expensive safety net would do more to eliminate poverty, and enable the poor to move up the income ladder, than the multiple spending programmes that recycle huge amounts of money, putting much of it back in the pockets of the taxpayers from whom it was originally taken.

A recent study for the IMF has concluded that the expansion of government that has taken place since 1960 has done little if anything to improve welfare. In *The Growth of Government and the Reform of the State in Industrialised Countries* (1995), Vito Tanzi and Ludger Schuknecht conclude that:

> ... social indicators improved the most between 1870 and 1960 when the welfare state was still in its infancy. The expansion of public expenditure and of the welfare state during the last three decades has yielded limited gains in terms of social objectives while possibly damaging the countries' economic performance. Today, countries with small governments and the newly industrialised countries show similar levels of social indicators but these are achieved with lower expenditure, lower taxes and higher growth than countries with big governments.

The argument against the growth of the state, then, is not an argument about the goals that government has set itself. It is about the size and scope of government that is necessary to realise those goals.

Perhaps the best way to grasp the cost of the growth of the state is through the imagination, and to think of the unknown activities that have been forgone to make room for the state. The growing state has conscripted resources to promote collective goals that would otherwise have been used to promote private goals. Civil society has been impoverished and stunted as a result. We can never know precisely how education, for example, would have fared had it not been monopolised by the state. But the chances must be that it would by now be performing much better than it is, since society would have retained the means to conduct innumerable private experiments, allowing better methods to eclipse worse ones as they do in any competitive market. Where the state goes beyond its necessary sphere, it is very likely to perform worse than civil society, since it is not subject to the disciplines and constraints that ensure that mistakes are corrected. If there is one area where we can safely forecast a withdrawal of state intervention in the twenty-first century, it is education, since the state's failures in this area are so starkly manifest, and too much is at stake to allow them to continue. This may still seem unthinkable to many; but how many people, 20 years ago, would have believed that by the year 2000 most of New Zealand's state-owned trading enterprises would have been privatised?

3 Protection

Of the many forms that state intervention has taken, protection has been specially significant in New Zealand and Australia. Our countries have been far more protectionist than comparable countries in Europe and North America, and the impact has been that much greater because of our small size.

Protection is now disappearing in New Zealand, but the damage it has done is incalculable. In the first place, it is the prime reason why New Zealand, which at the start of the century had one of the world's highest standards of living, was to slip back so far. Only now are we catching up by developing a range of competitive, outward-looking industries that can stand on their own feet in world markets.

Second, protection began the cancer of interventionism that spread throughout the entire economy. Once the principle had been conceded that domestic manufacturers could be sheltered from international competition, it was difficult to deny similar protection for everyone else. The result was disastrous, since protection all round simply increases costs all round, and drags the whole economy into a downward spiral of underperformance.

But perhaps the most insidious effect of protection has been a moral one. It created a false sense of security by suggesting that change, and the burden of adapting to change, could be avoided indefinitely. Of course, that's impossible. But when the change did come, it found us psychologically unprepared and it was therefore much more traumatic than it needed to be. The United States is again demonstrating just how great the rewards can be for successful and continuous adaptation to new technology and new markets. But to reap those rewards we must continuously adjust; we must test and extend our abilities and acquire the self-confidence that views change as an opportunity rather than a threat. Protection confines us to our existing capacities and so makes us fearful of change.

Fortunately, the dragon of protection really does seem to have been slain in New Zealand. Certainly we are doing better than our trans-Tasman neighbour, where it is staging something of a comeback, even though it can't for long hold off the necessary changes that Australians will have to make.

4. Special-interest Lobbying

The sin of special-interest lobbying is closely linked to the sin of protection. Lobbying is the political mechanism that spreads protection throughout the economy.

As we all know, democracy is a form of government that is supposed to advance the interests of the entire community, not those of privileged minorities. But in practice, special interests have been able to organise and pressure governments for protection, subsidies and other favours that can come only at the expense of the community as a whole. Governments are always tempted to concede such favours because organised special interest lobbies are typically vocal and influential blocs of voters, while the general public is an unorganised and silent mass and may know little or nothing of the costs its members are being made to bear. But gradually the costs of lobbying become unsustainable and something has to be done to control them.

Let me be frank about the involvement of business in committing this particular sin. A range of businesses were the primary beneficiaries of protection and they lobbied long and hard to maintain and extend the favours they received, while others bore the costs. Ultimately, most came to realise that the accumulation of special privileges was destructive of business as a whole, and they progressively changed tack and backed the open economy. Things have come a long way: soon after the formation of the present coalition government, we witnessed what must be a unique form of reverse lobbying when the government proposed to spend $100 million on a range of business assistance schemes, only to be rebuffed by a united front of business organisations which argued for lower spending and lower taxes instead.

But plenty of special-interest lobbying still goes on, not just by business, but also farmers defending their marketing boards, teachers and other public servants defending their terms of employment, and superannuitants defending universal pensions. Yet it remains a curious fact that people are rarely very satisfied with special favours when they manage to obtain them; it is as if there is a dim recognition that such rewards are undeserved and that lobbying is sinful. Time and effort have to be expanded to maintain them - you can rent a privilege but you can't buy it in perpetuity. The result is a society that is disgruntled and divided. Critics of the economic policies of the last dozen years like to say that the reforms have destroyed our sense of community and turned New Zealand into a nation of self-seekers. On the contrary: that is an apt description of the sort of society that widespread lobbying produced. In my experience, the world of commerce and mutual gain embodies more goodwill and trust than the world of lobbying, which can never be other than a game with a few winners and lots of losers. The community overall is a net loser from such unproductive activity.

Lobbying is a sin that no democracy has been untainted by, and none has found a permanent solution to it. We have tried, with genuine innovations like the Reserve Bank Act and the Fiscal Responsibility Act, which make it harder for governments to concede to pressure from special interests. But, as the recent budget with its many benefits to better-off groups has demonstrated, these devices are not sufficient by themselves. MMP seems to have increased the tendency of some politicians to see their role as being to 'bring home the bacon' to their voting constituencies, not to pursue overall community interests. Only an acceptance of the case for a much smaller role for the state will curb the contest for spoils. Ultimately, what is required is a public that is alert to the costs of special favours and to the benefits of policies that promote genuinely shared interests. There are signs, to put it no more strongly, that New Zealanders are learning this lesson.

5 Inflation

Most people living in New Zealand today came to assume that the normal pattern was for prices to go up, as if of their own accord. Yet that has not been the case for most of human history. A favourite statistic of economic historians is that a loaf of bread in England cost the same in 1914, when World War I began, as it did in 1813, when the Napoleonic wars ended. But after World War I the gold standard was abandoned and the world has been plagued by inflation more or less ever since. The price level has doubled many times this century. Even an apparently low inflation rate, like 5 percent a year, will double prices every 13 years. Just now inflation is in abeyance, but there will have to be a very long period of stable prices before we can be confident that it is unlikely to return.

Inflation is sinful because it not only does great economic harm but is deceptive and fraudulent as well. We fell for its temptations because it seemed to offer a solution to the chronic mass unemployment of the Great Depression of the 1930s. But even J M Keynes, the economist who more than any other is responsible for weakening the intellectual constituency for sound money, knew that inflation could have that effect only by fooling people. Since trade unions wouldn't accept the wage cuts necessary to put the unemployed back to work, he reasoned, we should cut wages indirectly by expanding the money supply and letting prices drift upwards. Since the workers wouldn't notice a bit of inflation, we could even increase their money wages a little and let them think they were better off, while in fact cutting real wages by enough to enable the unemployed to price themselves into jobs. Thus, the workers would be fooled by the so-called 'money illusion' and full employment would be possible. If printing money was ineffectual because of the 'liquidity trap', the Keynesian prescription was increased government spending instead - hence the support for Roosevelt's 'New Deal'.

Keynes's temporary expedient was at least understandable at the time, because unemployment was severe and politicians were not about to end the trade union privileges that exacerbated it. But, after World War II, governments got into the habit of making the temporary permanent; and the trade unions eventually got over their money illusion and started to make wage demands that took inflation into account. By the 1970s, inflation was accelerating, causing havoc to the plans of fixed-interest savers, but unemployment was rising as well. At the same time, the pervasive long-term damage done by inflation to market economies dependent on reliable price signals was becoming clear.

Inflation - or a rise in the overall price level - encourages inefficiency in a myriad of ways. It creates uncertainty in interpreting changes in supply and demand. Long-term planning becomes hazardous. Unanticipated inflation rewards borrowers and penalises savers. Don Brash, Governor of the Reserve Bank, has often told the story of how his uncle's life savings, which were invested in fixed-interest securities, were effectively confiscated by inflation. Without any parliamentary sanction, inflation automatically increases government revenues by pushing money incomes into higher tax brackets.

Stable prices, conversely, encourage efficiency and honesty. Since a rise in costs cannot be covered by rising prices, firms that want to stay in business have to keep their costs under control. Employees who want to keep their jobs have to earn their pay rises with higher productivity. Fund managers have to work hard to achieve the real returns that investors demand. Governments are under pressure to keep their spending and their debt under control to avoid having to seek parliament's agreement to raise taxes. This encourages them to quit activities they shouldn't be involved in, like running business enterprises, and to concentrate on ones that taxpayers are prepared to fund.

New Zealand has, of course, gone a long way towards entrenching price stability in a constitutional way: the Reserve Bank Act 1989 makes the central bank responsible to parliament for achieving it. Yet our high real interest rates suggest that lenders and borrowers are not convinced that inflation has yet been defeated. After all, the inflation target band was recently widened from 0-2 per cent to 0-3 per cent, and who is to say that a future government looking for soft options won't widen it further? Some countries in the European Union have debt burdens that are so large that some commentators fear that their governments will once again be tempted by the inflationary escape hatch.

But we end the century having lost all our illusions about inflation: no one argues any more that it is a sustainable way to achieve growth and full employment. The United States is currently showing that stable prices are consistent with impressive economic growth and an unemployment rate which is the lowest in a generation (currently 5 per cent). The intellectual defeat of inflation gives some grounds for hope that the twenty-first century will see sustained price stability.

6 Unemployment

Unemployment is closely linked to inflation as a twentieth-century sin.   It has always existed in some form, but did not come to be viewed as a problem until last century. But even then a rise in unemployment was usually a very temporary effect of the business cycle: in pre-Keynesian economies prices adjusted fast and markets cleared quickly. In the first half of the twentieth century, the business cycle became more extreme and periods of prolonged mass unemployment occurred, the worst being the Great Depression of the 1930s.
After World War II governments were determined to try to keep unemployment low. For a long time they succeeded. But in the 1970s unemployment started to creep up. Now, millions of people are out of work in the Western democracies. Even if unemployment no longer automatically leads to poverty, it does lead to the tragedy of long-term unemployment - those people, including many young ones, who don't find work when the economy picks up but progressively become dependent on welfare or turn to crime, drugs, vagrancy and, at the extreme, suicide.

As we've just seen, reflation can't work any more: we can't absolve ourselves of one sin by committing another. The problem is that the policies that could end unemployment, by making labour markets more flexible and labour contracts freer, threaten the privileges of some of those with jobs. These include trade unionists who have exploited their power to restrict labour market competition and so push up wages, public sector employees with unwarranted terms and conditions of work, protected producers who can benefit more from artificially high prices and small markets than from low prices and large markets, and so on. As well, governments have gradually added to labour costs through compulsory insurance payments (e.g. for accidents) and minimum wage restrictions. Taken together, these measures have divided society between the insiders - those who already enjoy secure jobs and their benefits - and outsiders, those who can't gain access to them because they are priced out of the labour market.

As the twentieth century closes, New Zealand is among the countries that are showing the way out of high unemployment. While unemployment is at around 11-12 per cent in Western Europe and still rising, in New Zealand it has fallen sharply from around that level, although our failure to maintain the momentum of reform means we are losing ground again. The United Kingdom, the only other OECD country which has implemented major labour market reforms, has experienced a sustained fall. The United States is showing the inestimable benefits of employment in solving social disadvantage, such as discrimination, physical disability, and lack of skills, where welfare policies have failed. As labour becomes scarcer in the United States, employers are having to find and train the least employable workers, and so integrate them into the community. A society that can banish unemployment with sustainable jobs - the jobs that consumers create - can dispense with government training programmes and affirmative action policies which are not just wasteful but increase social tensions as well.

Like the other sins, high unemployment doesn't have to be with us because we know how to cure it. That, surely, is more than half the battle.

7 The Welfare State

So far, there may be a fair measure of agreement that I have been talking about sins. No one would defend inflation and unemployment; few would defend protection or special-interest lobbying; some may defend collectivism and the growth of the state, but plenty wouldn't. But for many people the welfare state is still seen as one of the icons of the twentieth century: the foremost source of protection against poverty and insecurity. To include it alongside the unambiguous sins of unemployment and inflation may suggest insensivity, if not perversity. I do so because I believe that if the welfare state ever was an effective means of helping those in genuine need, it is now deeply flawed and is holding back the emergence of superior mechanisms for meeting people's needs. The problem with the welfare state is not the welfare, but the state. The charge against it is ultimately a moral one - it is not just that it wastes money but that it destroys families and wastes lives.

The myth of the welfare state is sustained by a view of the nineteenth century that is largely false. I noted earlier that the twentieth century was greeted with optimism because there was no reason to suppose that nineteenth century progress would cease. This contrasts with the conventional, though now waning, view that the nineteenth century was socially a dark age and the twentieth century an age of enlightenment. This view reflects a vision of the industrial revolution that is sustained by the images of poverty and hardship in the novels of Charles Dickens. But social historians now agree that, in reality, industrialisation represented an enormous advance for the mass of mankind. The rising population of the late eighteenth and nineteenth centuries was a telling indicator of less disease, more and better nutrition and longer life spans.

The nineteenth century was one in which people could move from poverty to some degree of affluence within a generation, as people are doing now in the fast-growing Asian economies. The greatest motor of this progress was economic growth, but it was assisted by many private organisations like insurance companies, non-profit charities and friendly societies that provided assistance for their members during sickness, unemployment and old age. The state came to displace most private and voluntary welfare, but its bureaucracies lacked the information and incentives - the intimate personal knowledge of individual needs and the strategies to effectively deal with them - that have bedevilled so many of its other ambitions. The growth of the state in the twentieth century has been above all the growth of the welfare state, and the ultimate fatal conceit of collectivism.

Despite the huge amounts of money the welfare state now dispenses, poverty and disadvantage persist. In New Zealand and other countries, the numbers on sole parent benefits continue to rise remorselessly, regardless of opportunities for employment or the state of the economy generally. The same is true of other welfare benefits. These trends are not due to a single cause. The research evidence, however, is clear that the major economic problem with the welfare system is the perverse incentives which reward dependence and bolster the view that welfare is an 'entitlement', a right that must be respected with no questions asked, rather than (as was originally intended) a form of reciprocal help that obliges the recipient to try to become self-supporting. The major moral problem is that it undermines personal responsibility. America has recently reformed its welfare system in a way that requires recipients to seek employment or undergo training. Britain is about to embark on a similar reform and Australia is to introduce a 'work-for-the-dole' scheme. There is little doubt that welfare reform will continue along these lines in the twenty-first century. One way or the other, governments are coming to the view that young people must not be allowed to languish as many do now on welfare benefits, without obligations or incentives, and therefore without hope.

But dependency is only one of the two main ways in which the welfare state has gone wrong. The other is much more politically difficult to deal with because it involves nearly all of us. Most welfare state spending goes on people who are not poor. State services like education and health care often disproportionately benefit better-off people. The same is true of the national pay-as-you-go superannuation scheme. New Zealand was one of the first countries to imitate Germany's late nineteenth century forms of social insurance. The idea was that during their working lives people would pay into state-run insurance schemes that would finance their welfare needs when they couldn't work. Now, the age pension has become a straight transfer from present workers to present retirees, since pension entitlements are no longer actuarially related to tax contributions. One reason for this change is that people nowadays typically live much longer after retiring. Even if New Zealand's present scheme were sustainable at its present levels of benefit, it would represent a redistribution from a falling percentage of workers in the population to a rising percentage of retirees. This can only exacerbate tensions between the generations.

Next month's referendum on compulsory superannuation will probably be lost. But although it deserves to be lost, since compulsory schemes have many drawbacks, it does point towards the policies that all the Western democracies will be trying to implement in the twenty-first century, whereby individuals take on more responsibility for their own retirement needs. But this will only be possible if the tax burden of the welfare state is cut back so that individuals have the means as well as the incentive to save.

Overall, I believe awareness of the harmful moral and financial effects of the welfare state is likely to see it gradually replaced by private and voluntary approaches in all the major areas: income support, education, health care, accident insurance and pensions. Its proper role is to supply a safety net as a guarantee against the failure of personal effort and private welfare. The official aspirations of the welfare state can hardly be faulted. But the limitations of the state's welfare monopoly are now depriving us of the potential benefits of alternatives. It is a sin to flatter ourselves for our good intentions when the consequences are so obviously harmful.

Conclusion

I have argued that the twentieth century has been characterised by economic sins that were largely unknown or successfully avoided in the nineteenth century. But I've also tried to show that the tide has turned and that, on present trends, they are likely to diminish in the twenty-first century. Yet the optimism of a hundred years ago was likewise based on the benign trends of the previous century. Why should my optimism not also be mocked by events?

Perhaps it will. But there are at least two related reasons for remaining sanguine. Both have to do with differences between the late nineteenth century and the late twentieth century. First, as New Zealanders we have surely learned from our experience of collectivism, which at its height in the recent past was more extreme than in any other Western democracy and closer to that of Eastern Europe. Just as we attracted world attention in the early decades of the twentieth century as a model of democratic socialism - even communism according to George Bernard Shaw - in recent years we have attracted attention as a model of retreat from collectivism. Such changes are long-term ones which are likely to continue, even if on the surface they appear from time to time to falter, as seems to be happening now. At the very least, by rejoining the world economy we have made the costs of our economic sins very clear. The recent loss of fiscal discipline has immediately registered, and business and consumer confidence has predictably fallen. Economic sins are punished faster and more severely today than they were a century ago. The basic human traits of wishful thinking, fear of insecurity, envy and a desire to evade personal responsibility will remain, and no doubt they will find unpredictable and troublesome outlets. But the sobering experience of the twentieth century seems likely to put an end to naive socialist dreaming for a long time to come.

Secondly, unlike in the late nineteenth century, Western civilisation is not the sole bearer of progress. Talk of the decline of the West has been overdone - the United States, at least, remains the world's most entrepreneurial and innovative economy - but other civilisations are emerging into prosperity. Just as they have learned from the West, so the West will learn from them. The pre-eminent non-Western civilisation is the Confucian-Buddhist one of Asia. The non-communist Asian economies have, by and large, succeeded without committing our sins. Some do share our protectionism and special-interest lobbying (in a form that we call 'corruption'). But many are overcoming these sins. Their state sectors are strong but considerably smaller than Western ones, and are not credited with any quasi-divine or magical powers. Perhaps most importantly, the Asian countries have no welfare states promising cradle-to-grave security. Although some state welfare does exist, the main sources of welfare remain individual self-help and reciprocal support among family members.

What this all amounts to is a genuinely unprecedented international consensus on the broad lines of economic and social policy to which New Zealand, by shifting decisively over the last dozen years to a new policy regime, has made a disproportionately large contribution. If we continue along that path, we can be confident of reaping a disproportionately large reward.