This issue of AI begins with the third in our series of interviews with eminent New Zealand economists: Grant Scobie interviews Sir Roderick Deane. The regular contributions follow from Grant Scobie (‘2B Red’), Stuart Birks (‘Frames’), Paul Walker (‘Blogwatch’), Mark Holmes (NZEP) and Motu. In this issue, ‘Fine Lines’ is contributed by David Fielding. The subject of the ‘Five Minute Interview’ is John Gibson. News of the Government Economics Network (GEN) is again included, and the economics department at The University of Auckland provides this issue’s report of Research in Progress.

Interview with
Sir Roderick Deane

Sir Roderick Deane was appointed a Knight Companion of the New Zealand Order of Merit in the Queen's Birthday and Diamond Jubilee Honours 2012 for services to business and the community. He is currently a Director of Woolworths Limited in Sydney, Advisor to Pacific Road Group in Sydney, Chairman of the New Zealand Seed Fund, Joint Patron with his wife Gillian of NZ’s largest voluntary welfare charitable organization, IHC NZ Inc., Chairman of the IHC Foundation, Patron of the Employers’ Disability Network (EDN) and is on the Board of the Anaesthesia and Pain Medicine Foundation in Melbourne. He is a Trustee of the Deane Endowment Trust. This trust provides financial assistance to a wide range of arts and culture organisations.

Sir Roderick was the Government appointed Lead External Reviewer for a major Value for Money Review of the New Zealand Defence Forces which was completed in mid 2010 and also Chairman of an Advisory Group on the Review of Special Education, whose work was also completed in 2010. He was previously Chairman of Fletcher Building Ltd, and its predecessor Fletcher Challenge Ltd, Telecom Corporation of NZ Limited, ANZ National Bank Ltd, Te Papa Tongarewa (the Museum of New Zealand), and the City Gallery Wellington Foundation. He was also a Director of the Australia and New Zealand Banking Group Ltd in Melbourne and President of IHC NZ Inc.

Sir Roderick was involved in the executive branch of Government, as Chairman of the State Services Commission, effectively head of the New Zealand public service, Deputy Governor of the Reserve Bank, and Alternate Executive Director of the International Monetary Fund in Washington DC. He was also Chief Executive and Managing Director of Telecom NZ Ltd, Chief Executive Officer of the Electricity Corporation of NZ Ltd, Chairman of TransPower Ltd and Chairman of PowerDesignBuild Ltd. He has been Professor of Economics and Management at Victoria University of Wellington, a Director of TransAlta Corporation in Canada, a member of the NZ Board of AMP, Chairman of the Mayoral Business Advisory Group in Wellington, a member of the Prime Minister’s Enterprise Council, a Board Member of the Centre for Independent Studies, the leading Australian think tank based in Sydney, and a Trustee of MOTU Economic and Public Policy Research, a non-profit research group based in Wellington. He founded the MOTU Research and Education Foundation.

Sir Roderick is a Distinguished Fellow of both the Centre for Independent Studies in Sydney and the New Zealand Association of Economists. He was the inaugural NZIER Economist of the Year in NZ, and has been CEO of the Year, Chairman of the Year, and Executive of the Decade in the NZ Management Awards. As part of these awards, he was also given a Special Leadership Award. He was named a

Wellington City Icon in the Wellington City Gold Awards, is a Laureate of the NZ Business Hall of Fame, and with his wife Gillian was honoured with the Patronage Award by the Arts Foundation of NZ. He was an Honorary Member of the New Zealand Business Roundtable and is a Foundation Honorary Member of the New Zealand Initiative. He is a Life Member of IHC NZ and of the Victoria University of Wellington Alumni Association. He received the New Zealand 1990 Commemoration Medal, a medal which was instituted by the New Zealand Government to commemorate the 150th anniversary of the signing of the Treaty of Waitangi. He was awarded an Honorary Doctorate of Law from Victoria University of Wellington.

Q: Let’s start at the beginning and think about your earliest formulation as an economist. What were the ‘dinner table conversations’ when you were growing up that might have shaped your outlook and your thinking?

A: Well they didn’t really relate to economics per se, but I think the upbringing that I had involved discipline, respect for one’s elders and generosity to others. My parents were interested in mathematics but there was never really any academic pressure from my parents. We didn’t tend to talk about the things that I did at school other than my father helping me with mathematics. There was always a tradition of newspaper reading in the family – a great competition between my father and myself.

Q: You mentioned mathematics, and your initial intention had been to go on and pursue that. What made you change your mind?

A: Oh, that was really just a pipedream. The truth is I just was not good enough at it, and at New Plymouth Boys High School, the Headmaster very generously gave me additional help. I enjoyed mathematics hugely and I worked at it a lot. But I didn’t want to just be a mathematics teacher, I realized that there’s only one or two in New Zealand who might become real mathematicians... if that.

Q: So when you went on to Victoria and enrolled in a BCom, essentially in accounting, to start with. Was that a deliberate choice or, like so many beginning undergraduates, just a default option?

A: Yes, it was really a default. It was my father’s active choice, because he thought that would give me a good trade. He said, ‘well this will give you the opportunity to do some mathematics, and you should do accounting as well’. So I went to university to study accounting, but I really was still in the process of discovering what it was I wanted to do. I didn’t have any plans to study economics. In fact I only did economics because it was a compulsory part of the BCom degree.

Q: So what was it that then sparked your interest in economics?

A: My first lecturer in economics was Frank Holmes, and by the end of the first lecture, I knew what I was going to do with my life. It was as simple as that. I was just so switched on by his introduction to economics. I had purchased Paul Samuelson’s
textbook; I read it right through and I read it over and over. I ended up majoring in both accounting and economics, and while I didn’t enjoy the accounting very much, I was determined to do well in it, because my father wanted me to do accounting.

Q: What was it about that initial course in economics that sparked your interest? Was it the applied aspects as Sir Frank wasn’t a theoretician was he?
A: No, he wasn’t a theoretician. It was definitely a more applied dimension, but it was the fact that this was trying to understand people’s behaviour and firms’ behaviour and how they interacted together with the role of government in the economy. For some reason or other, that fascinated me. The fact that economics also facilitated the further development of some interest in mathematics was a wonderful bonus.

Q: You mentioned Samuelson’s text, but was there any other particular book or paper that you read that had a significant influence on your early thinking in economics?
A: I think rather than the things I read, it was probably the people I interacted with at university, such as Les Castle and John Zanetti and Peter Lloyd, who helped stimulate my interest. I don’t recall any single book. I read a wide range of books, including Charles Kindleberger’s International Economics.

Q: The mention of Kindleberger leads me to ask you why you made a decision to stay in New Zealand to do your PhD? Because at that stage, it was far more common for people to go overseas, and you could have gone to Harvard or MIT, and worked with Kindleberger, I guess.
A: I did get the scholarships necessary to do that...

Q: And you could have worked on a New Zealand problem, because I know you were interested in doing that. But what made you decide to stay here rather than take the opportunity to go over to the US?
A: In the first place I was in love with Gillian and I didn’t want to be away from her. It would have meant shifting when she was completing her degree. And also, there were financial reasons; I didn’t have a house, but I knew that I could generate a reasonable income (I had three jobs) while I was doing my PhD. But above all I wanted to do some research on New Zealand, and the topic in which I was interested would require a large amount of empirical work for which I felt I’d have easier access here. Involving Kindleberger was my idea. The university didn’t think he would undertake the role, but Frank Holmes wrote to him and he was willing. So in the end he actually helped me right through the whole process.

Q: So he was much more than just an examiner?
A: Oh yes. I corresponded with him very regularly, and sent him all the drafts of the chapters in the thesis, such that when I had the oral exam, he’d already been through it all in great detail. It really stimulated my academic career in a major way.

Q: Were there particular aspects of your economics training that, in hindsight, were central to your subsequent questioning of the regulatory theory that pervaded New Zealand economic policy prior to 1984? What was it about your economics training that then led you to the way you thought about those regulatory issues?
A: Again, I think it was really the people I encountered and worked with. I started working in the commercial world, and spent three years at the Union Steamship Company, which at that time was the largest company in New Zealand, and I enjoyed that hugely. And then I decided I wanted to be a ‘professional economist’, so to speak, so I moved to the Reserve Bank where I encountered Phil Conye (he was Jeremy’s father, the NZ cricket captain) and Chief Economist at the time. He was a wonderful economist, an exceedingly modest understated man, who read all of the major economics journals. He was very much of the view that New Zealand was very seriously over-regulated, across a whole range of its economic policies. I then had the opportunity to work at the Reserve Bank of Australia for a time, where I met Austin Holmes who was head of their Research Department. He was a fantastic economist, very blunt and very Australian. I saw a lot of him as he volunteered to drive me to work every day. He was very much into the role of markets, very reserved about governments trying to do too many things. So every morning in the car I had the equivalent of an economics lecture and every evening driving home I had a lesson in the pitfalls of governments trying to do too many different things with regulatory policies.

So it was people like that whom I encountered. Very early in my career, I was able to meet people like James Duesenberry, Harry Johnson, Lawrence Klein, John Hellwell and Milton Freidman. Several of them came to NZ, or Australia while I was working there. I met Lawrence Klein at the Wharton School and worked with him on the econometric modelling we did at the Reserve Bank. All of those interactions led me to think that people who were regulating things often didn’t really know what they were doing. Working in the Reserve Bank, I had the great benefit of exposure to a lot of regulatory structures which we were administering, and it was abundantly clear to me that we were administering these things with a very incomplete understanding of the consequences. Gillian sometimes says she doesn’t quite know where I got the evangelical element of...

Q: The High Priest of Monetarism... as Muldoon called you on one occasion...
A: Oh did he?!

A: Ah, how splendid.

Q: Economics has broadened a lot since the days that you completed a PhD (1967). From today’s perspective, what sort of subsequent developments have you observed in economics that would have been helpful to you?
A: I think the most helpful aspect of economics for me has been that, somewhat like mathematics, it provides a framework of thinking to help one frame up any topic that one is addressing. What is the big picture? What are the elements within that picture? How do they interact? How can we influence the outcome? Should we even try to do so? If we do so, what are the second round effects?

Q: Well, in fact, that leads me directly to the question about the extent to which your background in economics was useful to you as you moved into the corporate world?
A: It was hugely useful. I discovered the remarkably wide applicability of that framework of thinking combined with understanding the cyclical nature of economic activity, learning more about the role of markets and learning about the too frequent incompetence of governments. While, initially thinking that macroeconomics mattered so much, one came to realize that, of course, macro is just a sum of the micro and that microeconomics is really the place that one should learn about the incentives and sanctions and how they worked. Later when I left the Bank and went to the State Services Commission I became deeply immersed in management, and that fascinated me. But again, it was like a branch of economics in some respects, as it involved understanding people and their behaviours. When I went back into the commercial world - (most people had forgotten that’s where I actually emerged from and those three years were instrumental in developing a love of working in the private sector) – I don’t think a day went by where I was not conscious of the fact that I was thinking about something using the tools of economics and the framework that had emerged from my economics training. And I think that’s something that a lot of young professional economists underestimate - just how applicable economics is in private sector activities. Certainly, young policy wonks in public policy in some of the Ministries who have never worked in the private sector in their lives, but think they know how to regulate it, would do well to spend a few years in the commercial world and really understand it.
Q: There are not many economists with formal training at the PhD level who finish up having been both professional economists and leaders in the NZ economic sector.

A: And there should be a lot more. I think also, a lot of the modelling work that I did at the Reserve Bank was surprisingly useful in the private sector, whether it be the modelling of the power system at the Electricity Corporation, or the corporate models that we used in other companies, or the quite simple but very interesting modelling that we did when I first joined Telecom on customer behaviour and understanding commercial outcomes. And I think all the staff with whom I worked in the private sector were surprised to find they had a CEO who really enjoyed the modelling side of work. Modelling is such a convenient way of pulling together one’s assumptions. These can be debated and the team can then put some judgements around them. So the type of thinking that arose from econometric modelling work was frequently helpful to me.

Q: I presume at the time you entered the Bank, there wouldn’t have been a strong background or culture in economic modelling, and yet you were able to build up a very strong team and do a lot of modelling work. What were the factors that lead you to be able to do that in the Bank?

A: When I entered the Bank, I was astonished at the openness of the thinking. As a youngster in my mid-twenties, I had access to the Governor, the Deputy Governor and the Chief Economist. Often because I’d have written a paper I’d be taken along to meet with Muldoon in his early days as Minister of Finance after Harry Lake died. I’d sit in the back row and I’d have to take the notes. The Governor Alan Low, the Deputy Governor Ray White and Chief Economist Phil Coney were intensely interested in economics. They were wonderfully open to conversations around, what are the latest trends in economics and economic thinking and the tools of economic policy and how might we try to incorporate them in our thinking? There was a whole stream of thinking going on in the Bank alongside what was actually happening in the very controlled, very regulated governing of financial institutions. So the most senior people in the Bank were willing to discuss issues such as ‘how do we go about freeing up the markets in the financial sector?’ There were lots of conversations around that and a number of people, particularly led by Phil Coney, delved deeply into the theoretical and applied literature. But when we realized that people overseas were endeavouring to pull together their economic data and the economic theory into econometric models, we talked about ‘well could we do this?’ I played around with some minor equations and took hours to compute them on a calculator. Then it was suggested I go to the Reserve Bank of Australia where they had a team working on models. So the Bank seconded me to the RBA, where I actually facilitated the first simulations of their model which they hadn’t been able to get working. I returned to New Zealand with a plan to build the first macroeconometric model of the New Zealand economy. That’s when I decided to go on a recruitment drive. The Bank supported me to set up an improved framework of remuneration and career structures: it was all facilitated effortlessly. And the experience in choosing people was great training that served me well in later life. The development of our research and modelling capacity was embraced and welcomed by the Governors of the Bank, and they would talk to me regularly about it. They were very proud of the fact that we were endeavours to establish a research base, and supported publications on the work. Now I wouldn’t want to overrate the role of econometric models, but they’re very useful tools for bringing together one’s assumptions, testing policy options and simulating alternatives. They’re tools that help one think more deeply, help one to assemble a large amount of data in a more orderly way, and make assumptions explicit.

Q: You mentioned the RBA, but you must have established a lot of other links to other scholars and institutions, to draw on the global intellectual capital?

A: Yes, we had strong links with the central banks in the Netherlands and Scandinavia, and I had the great good fortune to have very useful links with a number of the Federal Reserve Banks, particularly St. Louis, which was doing a lot of modelling work and monetary policy analysis, a la Friedman. We later had contact with Paul Volcker as Chairman of the Fed, with James Tobin on monetary issues, George Stigler on regulation, later Lucas’s work on rational expectations and Arthur Lewis on development economics. Those were the sort of people who were read a lot, wherever we’d get the opportunity we’d correspond with them. I had a huge correspondence… I dictated, so I was good at writing letters, there was no internet. Then the Canadians, particularly John Hellwell, were very strong influences on us via the RDX series of models. Very early on, I arranged for him to come out here, which then happened several times. I had the good fortune to meet other people – we got Friedman out to NZ and in Australia I met Harry Johnson from Chicago. And then, of course, the Wharton School were fantastic helpers, particularly Lawrence Klein. In fact we became part of the international modelling project, Project Link, drawing together models from a range of countries. So, we had lots of interaction like that. The Bank was very good at facilitating bringing out international speakers, and we would help to pay their fee or their transport costs or whatever and then we’d work with them and they’d do presentations. We would arrange for presentations both within the Bank and with wider groups, including particularly the universities and the Treasury who did not have the funding resources of the bank for modelling research work but who were enthusiastic participants in that process. The Bank and the Treasury had very strong levels of interaction.

Q: There are many examples of your work that were actually presented at conferences, particularly in the New Zealand Association of Economists conferences, and I gather that the Bank was encouraging and supportive in presenting work from the Bank at these professional conferences?

A: The Bank was wonderfully supportive, yes, and I was always encouraging other members of my team to present as well. The trick always was to get the balance right between what we really thought about policy, what we could say in public. It was important to get a different world then, so in a lot of sessions one could rely on ‘Chatham House Rules’, and you could have a free and frank exchange, which wouldn’t be leaked. Indeed it didn’t leak, and so things one said then one would never take for granted today, I guess. Henry Lang, the then Secretary of the Treasury, protested on a couple of occasions to the Governor, Alan Low, that I was overstating the mark, but I always continued to have Alan’s support.

Q: I’m going to wrap up the economics part of our discussion. Is there any example of your thinking in economics, about which you subsequently changed your mind?

A: Yes, I changed my perspective especially with respect to the importance of macro versus micro economics. During my early career I thought monetary economics and fiscal policy were hugely important. True, they were important; but I came to realise that fundamentally microeconomics and microeconomic policy were really overwhelmingly important. So that’s why I became more and more reserved about the pervasiveness of regulation, and worried about the lack of real economic analysis and understanding around regulation – that too often, regulation is just a political or a populist reaction. The costs of regulation, the second round effects of regulatory interventions, and the burden on the private sector are seldom fully understood. It is the individual behaviour of firms and households and how they respond to the incentives and sanctions created by policy that really matters.

Q: I’m going to switch to some questions about policy. You were obviously in a rare position to directly influence policy and, reflecting on the many instances of changes in which you were involved, is there a single one that stands out?

A: Floating the dollar, which stands out because it was filled with such high drama, and I had the great good fortune to be right.
in the middle of it. Of course, we had the foreign exchange crisis in mid-1984 at the time of the election, and we didn't float the dollar until May 1985. We had a second foreign exchange crisis just before we floated and Richard Prebble on the political side, and myself on the economics side, were the two who endeavoured to get everybody, particularly the Treasury, up to speed. When it was decided that we really had to move to a float because the markets were reacting so sharply, I was sent off to London to persuade David Lange as Prime Minister who said "well, I had expected to see you on this subject months ago". He wanted me to stay on and accompany him to the Oxford debate. I said "I don't know about that", and while we were having that conversation, Roger Douglas rang up and said "what's Roderick doing, he's meant to come home again?", so that's what I did. I was in London for 24 hours. The drama around the election in mid-1984 would stand out equally. I can remember I dictated in my dining room at base at 3 a.m. some of the papers which we wrote to the government when the election was announced.

Q: To what extent did you feel any sense of conflict between the need to support Ministers’ positions, while at the same time disagreeing with government policy and advising changes and serious reforms?
A: I didn't feel conflict. I felt frustration, at times a bit irritated. But

Q: What were the fundamental reasons that induced you to leave the Bank and a very successful career as a professional economist, and delve into the morass of public sector management by going to the State Service Commission?
A: Well first, I had missed out on being Governor on two occasions because Muldoon overrode the unanimous recommendation of Bank's Board. Secondly, I had become fascinated by management because I'd had the good fortune as Deputy Governor to be in effect the Chief Operating Officer of the Bank. Both Governors I worked with while I was Deputy, Dick Wilks and Spencer Russell, were fantastic, they were going to the extent of wanting to be appointed Governor, and I knew I had a splendid successor in the form of Donald Hunn. The temptation of re-entering the commercial world again in a hands-on way, was an attractive, exciting opportunity.
Q: We talked about what contribution economics made to your thinking in the private sector, and now I want to turn it around and ask about lessons were there for economic policy that you would draw from your experience in the private sector?
A: First, politicians often induce a great deal of uncertainty by speculating about what they’re going to do, and speculating around regulatory possibilities. That’s very damaging for private sector companies. They also create uncertainty by changing and changing their policy stances from time to time, and that leads to variability in economic activity...

Q: And discourages investment?
A: Yes. For example, there’s been speculation around regulatory structures on building product pricing which would be very damaging. Telecom was a really interesting case because initially the government decided that they would not go down the route of unbundling and announced that as formal policy position. But a year or so later, they changed that completely, and on the day that was announced, three billion dollars was written off the share market value of Telecom overnight. Uncertainty and inconsistent policy decisions overtime are very damaging for the private sector. Secondly, I think having seen it from the private sector view, the cost of regulatory interventions are almost always underestimated by politicians and government officials. Moreover, they also are not good at recognising all the side effects of regulatory structures, which invariably leads them to more rather than less regulation.

Q: You refer here to the unintended consequences?
A: Yes. The unintended consequences can sometimes be mind-blowing. I think my advocacy would be for a lot more thoughtfulness and a lot more economic analysis around proposed regulatory interventions. It’s not, as some people might portray me, that there should be no intervention. I’m not in that position at all. It’s just that when regulatory interventions seem warranted, they need to be thoughtfully considered, and have good economic analysis underpinning them - and that’s rare. Too often they are done for popularist reasons, and then when problems emerge, more regulations are introduced, and then you just start to lose the plot completely as to what are the true impacts. So I have become an evangelist around reduced intervention, and while I might sound like an extremist, it’s because I can just give you so many anecdotes, so many examples, of where regulations have been very costly in time and effort and dollar terms. For example, the costs to Fletchers of all the climate change work over almost three years was huge. Then the government abandoned the policy that it was going to pursue, and adopted something else. Furthermore there is the costs of delays in reaching decisions – up to five years in some cases.

Q: In terms of your intellectual curiosity, what other areas apart from economics have interested you?
A: I think one of the major ones would be technology. The development of the internet has fascinated me, and I’ve had the great good fortune to work extensively in the area. I’ve got the most amazing array of friends, and that’s a huge strength in my life, and accounts for the fact that we still live in Wellington. We’ve often had propositions to move elsewhere with very interesting jobs, but have always chosen to remain here. And developing an interest in the arts and music was a great driver for me for a long period of time. That was enabled by Gillian, no question. For example I used to be quite reserved about ballet, but now I just love going and we’ve been able to support some ballet dancers to further their studies.

Q: You’ve said that your association with the IHC was perhaps one of the most rewarding things you’ve done in your life. Can you expand on that?
A: Yes, it may have been the biggest driver of all, outside of economics. It was special because it’s so people-oriented and it’s so rewarding to see how one can improve circumstances for people with disabilities. When I became involved with the IHC, it was in terrible shape financially and I helped to get that resolved. And later, it had another crisis where it almost went bankrupt, but today it’s in strong and sturdy financial shape, thank goodness, and that’s partly because we took some very tough decisions around how to make that happen and because the government’s got a regime now for disabilities that’s much more sensible than it had been. But, the real driver for me was when I visited almost all of the psychiatric institutions in New Zealand where people were in effect incarcerated in these so-called ‘hospitals.’ I was a participant in the process that had them all closed down, and moved everybody into the community. The IHC borrowed $35m with initially minimal security to buy 700 houses. Beyond that, one of the big drivers for me was when I realized that in New Zealand, we were the last country in the Western world to provide by statute a free education for all children. I just couldn’t believe that we didn’t provide free education to all children. So, it meant that lots of kids with disabilities were being denied school. Muldoon told me personally the government would withdraw a substantial amount of funding from the IHC if we continued to advocate a change in the Education Act. At an even later stage, getting the Labour government to change the Education Act was tough work. I saw senior ministers all the time… in fact they probably got sick and tired of hearing me go on about the Education Act. It didn’t get changed until the late 80s, and the final turning point really, was when I wrote an open letter to David Lange when I was Chairman of the State Services Commission, and then I spoke to him about it - he had not really realized how serious it was. He said he’d commit to getting it changed. I can still remember him walking around the office with the letter saying “hey this is not New Zealand!” In the end being part of working with wonderful people to have the Education Act changed. Getting kids into regular school, having people moved into regular houses in the community, creating work for intellectually handicapped people along with an interest in rare disorders, has been the most emotionally satisfying things that I’ve ever done in my life.

Q: Finally what advice would you give to a young economist at an early stage of their career?
A: I think my advice to any young person seeking a career would be to try to do really well at that you’re doing, and not to fret too much about the future career structure, because if you do your present job really well, then the career takes care of itself. That’s been my experience, and that would be my advice to a young economist as well: get the highest level of qualification you can, develop your talent to the greatest extent you possibly can, get the best training you possibly can in economic analysis, learn about the role of markets and try to get a sense of balance about the role of markets and the role of government. Finally, understand that economics applies to every walk of life, and that it’s just as important in the private sector as in the public sector. Don’t think that just because you’re an economist you can’t have just as much fun with economics in the private sector. You can migrate between the two, as I had the great good fortune to do.