The Context for Māori Economic Development

A background paper for the 2005 Hui Taumata

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The Context for Māori Economic Development – a background paper for the 2005 Hui Taumata

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Executive summary

Māori economic development and the growth of the New Zealand economy are closely intertwined. Improvements in one will have positive benefits for the other. Both are underpinned by the same key drivers: skills and talent, innovation and technological change, investment, entrepreneurship, and sound institutions.

Economic development has positive benefits for the material wellbeing of individuals but can also benefit society by enhancing social connectedness and cohesion. The challenge in a diverse society is to find an approach to economic development that is inclusive, sustainable and dynamic.

Economies grow as a result of the actions of individuals and enterprises. Enterprises are the engines of economic development. They bring together people, ideas, technology and capital to develop, produce and distribute goods and services. Individuals contribute to economic development through their participation in the labour market and through their role in improving the productivity of enterprises.

The economic activities of individuals and enterprises can be either supported or discouraged by the rules, systems and institutions that exist in society. There is a need to focus on these institutional "foundations" for economic development, and ensure that they provide an environment in which people and businesses have incentives to improve their economic participation and productivity. Governments play a key role in this regard, but so do the formal and informal rules, systems, values and institutions that exist within Māoridom.

There is as much diversity among Māori as there is commonality. Māori economic activity is undertaken by individuals in the labour market, people who own their own businesses, and by tribal and pan-tribal Māori entities such as trusts, authorities and incorporations. Given this diversity, it is likely that a strategy for Māori economic development will need to have many pathways and many vehicles. A strategy that focuses primarily on the development of Māori physical asset base, for example, is unlikely to be the most effective route to economic prosperity for all Māori.

It is people – whether they are employees, owners, governors, managers or kaumätua –and whether they are acting individually or collectively – who are the cornerstone of Māori economic development. The most significant contribution to Māori economic development over the next 20 years is likely to come from improving the education and skills of Māori people. The effects of such improvements are likely to be wide-ranging and long-lasting. They include increased access by Māori to employment and higher incomes, the effective governance and management of Māori enterprises, and the sustainable development of Māori commercial assets.

The Context for Māori Economic Development

Introduction

E ngā mana, e ngā reo o te motu, tēnā koutou katoa.

This paper has been prepared in response to a request from the Hui Taumata 2005 Steering Committee. The Treasury welcomes the opportunity to contribute to this important event, which will play a key role in steering the course of Māori economic development over the next 20 years.

The Treasury is the Government's lead advisor on economic and financial policy. Our work is aimed at helping governments achieve higher living standards for New Zealanders. In this sense, what we do is highly relevant to the theme of this conference.

The purpose of this paper is to provide background that will help inform discussion and stimulate debate among those involved in the Hui Taumata. It is intended to complement the stimulus papers and research papers commissioned by the Hui Taumata Steering Committee. The paper does not give advice or recommendations to the Hui Taumata Steering Committee or the Government. Rather, it focuses on providing some contextual information, clarifying key concepts, identifying factors that drive economic development, and raising issues for further consideration.

The paper starts with a discussion of the concept of economic development, the factors that contribute to it, and how it is measured. It then looks at the link between economic growth at the national level and the economic activities of individuals and organisations. Following that is a detailed discussion of what matters for Māori economic development. Among other things, it looks at how institutions influence the way people, enterprises and assets contribute to economic development. The paper concludes by summarising the key points from the preceding discussion.

Understanding economic development

A useful starting point for considering Māori economic development is to understand what "economic development" means. We can then ask why it is worth pursing, whether it is occurring and if so, how progress can be measured.

Defining economic development

In broad terms, economic development is a process that involves adapting and changing institutions, processes and policies in order to create and support economic opportunities for individuals, families and communities, thereby improving their quality of life. Implicit in the concept of economic development is the idea that economic participation is a key means by which people can enhance their wellbeing.

Economic development is not new; it is characteristic of how communities, peoples and nations are formed. For example, it is likely the Polynesian explorers embarked on their journey to these islands in search of new land and resources to improve the wellbeing of their people.

Most people are familiar with the terms "developing economy" "transition economy" and "developed economy". These wrongly imply that economies move towards a static end state of being "developed". In fact, all economies continue to grow, develop, adjust and evolve over time. Nor is economic development a linear or separate process. It involves shocks, troughs, peaks and waves, and is integrally linked to the social, cultural, physical, civic and political development of peoples and places. Urbanisation, for example, is an important physical and social development that is closely associated with economic development.

As the Nobel prize-winning economist, Amartya Sen, has emphasised, economic development is not an end in itself, but is a means to other ends. Sen regards the overarching goal of development as the maximisation of people's opportunities and capabilities[1]. For Sen, development is freedom – freedom for people to lead the kind of life they value. This is analogous with the Māori concept of tino rangatiratanga, or self-determination.

While economic development has positive benefits for the material wellbeing of individuals, it also has wider effects on society as a whole. By increasing the opportunities for individuals to actively participate in the economy and in social relationships though the labour market, economic development can enhance social connectedness and cohesion. Conversely, some pathways to economic development can have a negative impact on individuals and communities and increase social division; for example, economic restructuring may cause job losses. It is not always possible to predict such negative effects. However, they suggest a need for policies that alert people to, and lessen, any negative effects resulting from structural adjustments to the economy.

1 The Treasury (2001).

In thinking about economic development, it is important to ask "economic development for what"? What are the wider social, cultural, political and personal aspirations to be achieved through economic development? Defining these aspirations has important implications for the way in which economic development is pursued. For example, the New Zealand Government has expressed its desire to *"grow an inclusive, innovative economy for the benefit of all*". This goal has clear implications for both the process and the objectives of our economic development as a nation.

Defining the aspirations to be achieved through Māori economic development is a task that is primarily for Māori to lead. It is likely to be driven by a desire to preserve and sustain (and, in some cases, adapt) uniquely Māori concepts, values and priorities, while at the same time developing a basis for Māori to successfully engage in the complex and inter-dependent global society in which they live.

Measuring economic development

How do we know whether an economy is developing and at what rate?

At national level, one important test of the success of an economic development programme is the level of, and rate of growth in, the country's total economic activity. This total economic activity is usually measured by the country's Gross Domestic Product (GDP). GDP measures the value of the final goods and services produced in the country during a given period of time (usually a year). Growth in GDP *per capita* means growth in the goods and services produced per person.

Growth in GDP per capita is a critical means of improving the welfare of individuals and raising living standards. There are several reasons for this.

Firstly, as the economy grows, new employment and investment opportunities are created. This increases the demand for labour and particular skills, which in turn improves the material wellbeing of individuals by increasing their income. This improved material wellbeing gives people more choices and opportunities for self-determination in the way that they live their lives.

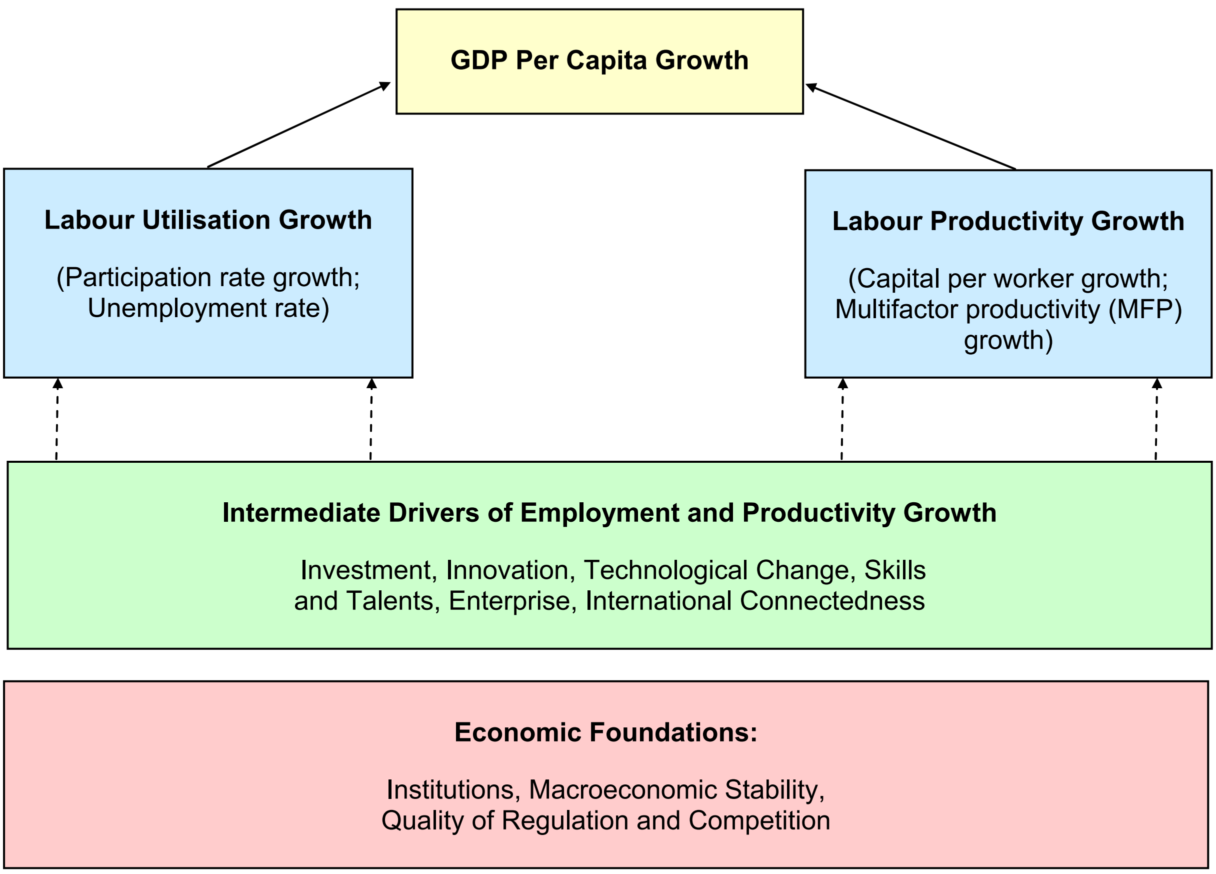
Secondly, increasing GDP per capita provides the means by which we can improve our social and cultural wellbeing as a nation. A higher GDP indicates that a country can better fund the alleviation of social problems, invest in infrastructure and provide valued social and cultural programmes, such as health, education and broadcasting services. In addition, a higher GDP can also assist in achieving other social and environmental goals. Many of these things in turn, have benefits for the economy. For example, factors such as health status and social cohesion are positively associated with economic performance.

Per capita GDP does not measure everything that is important for wellbeing. It does not indicate how fairly a country's income is distributed, or measure unpaid work within families and communities. Nor does it account for other things that contribute to standards of living and quality of life, such as the quality of the environment. And because it is an overall measure across the whole of society, per capita GDP cannot be used to assess the economic development of a particular group within the population, such as Māori. This point signals the importance of identifying other measures of Māori economic wellbeing and progress.

Nevertheless, per capita GDP is the best measure of economic development that we have for comparing economies internationally. It is also hard to imagine cases where a country would see falling per capita GDP as a cause for celebration.

The determinants of economic development

Figure 1 – Contributors to Economic Growth



In order to improve economic performance we need to understand the factors that drive it. The following diagram (Figure 1) is a way of identifying and organising the factors that help to improve GDP per capita.

As Figure 1 shows, a country's overall material living standards are increased in two ways: by improving labour utilisation and by improving labour productivity.

Labour utilisation is the total amount of labour in the economy. It is made up of three key elements:

- the size of the working age population (typically, people aged 15 to 65 years);
- the proportion of people working; and
- the number of hours these people work.

Labour productivity refers to the value of what is produced per hour that people work. It is determined by two key elements. The first is the amount of capital available for workers to use. This is called the "capital to labour ratio". The ratio reflects the extent to which firms[2] invest in items that can improve the productivity of each worker. These items include plant, equipment, information technology, transport and infrastructure.

The second element of labour productivity is "multi-factor productivity" (MFP). Broadly, MFP can be thought of as the way in which labour and capital are combined or used. It refers to a range of processes that result in more output, or better-quality output, being produced with the same amount of input. Examples of these processes are changes in workplace organisation, improvements in people's skills and qualifications, and technological and process innovations.

A good historical example that illustrates MFP is the development of the electric motor. When electric motors first replaced steam engines as the source of power in factories, the investment in these new motors represented an increase in capital per worker and resulted in an increase in output per worker. Later, when a separate electric motor was attached to each machine (the unit drive), factories were redesigned to arrange the machines according to the flow of production. Previously, factory layout had been driven by the placement of the steam engines. Only when this restructuring was completed, was the full potential of electric power in factories realised, and Henry Ford's automated assembly line made possible. This redesign of factories, which was a new way of using existing capital (machines), represented an increase in multi-factor productivity[3].

The sources of growth presented in Figure 1 can be summarised into three key points. Firstly, the overall performance of the economy is directly determined by the economic activities of individuals through their participation in the labour market and the hours they work; by firms, in their role as employers and producers of goods and services; and by the efficiency with which individuals and firms combine with each other and with technology, in producing those goods and services.

Secondly, some processes and factors are important "drivers" of improvements in the economic activities of individuals and firms. These include such things as capital investment, innovation, and technological and organisational change.

Thirdly, at a more fundamental level, the economic activities of individuals and firms are underpinned by the wider context in which they occur, including how society is organised, the rules by which it operates, and the systems in place to support or discourage economic activity. These rules and systems are often referred to under the umbrella term "institutions". These are discussed in greater detail in the next section.

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2 By firms, we mean businesses or enterprises that produce goods and services for consumers (including individuals, government and other firms). It includes all forms of firm size and ownership; for example, a small one-person operation, private firms, not-for-profit service providers, publicly listed companies, urban Māori organisations and iwi-based Māori trusts, authorities and incorporations.

3 Lipsey (2001).

Institutions and economic development

In the context of economic development, the term "institutions" refers to the norms, values, regulations, policies and organisations that set the formal and informal rules that support economic activity.

Institutions have an important influence on economic performance because they form the incentive structures of societies[4]. This means that, by changing institutions and policies, it is possible to create incentives for people to innovate, invest, employ, or be employed. Over time, these actions should lead to goods and services being produced and distributed more effectively and efficiently.

Institutions exist at different levels and as different types. There are embedded institutions, such as customs, traditions, norms, values and religion; "rules of the game", such as legislation, regulations and policies; the governance arrangements of public institutions and private organisations; and the way in which everyday transactions in the market are organised and carried out. There are also interactions between these types and levels of institutions.

These different types of institutions tend to develop and evolve over different time periods, in response to changing circumstances. For example, customs, values and traditions tend to evolve over decades or centuries, whereas routine market activities are evolving day to day. Similarly, organisations adapt and change at different rates, depending on how much they value and reflect deeply embedded customs and traditions.

Whether institutional change happens gradually or rapidly, it is necessary and inevitable. Institutions that do not change will ossify and become outdated, to be superseded by new, more relevant institutions. In some cases, however, inefficient institutions persist for a long time. This may be because they are propped up by vested interests. They may also persist if there is a trade-off between efficiency and fairness, and a greater value is attached to the latter.

Not all institutions exist to serve the needs of the market economy first and foremost. The fact that a particular institution is needed for markets to do their work does not imply that that institution serves only that purpose. Religious institutions, which define norms of trust and reciprocity that affect economic behaviour, are an example of this in some societies.

There is general agreement that some basic institutions are fundamental for economic development. In particular, participatory democracy has been described as a "meta-institution" for building other good institutions, and the rule of law is considered essential to the effective functioning of society. Other important institutions for economic development have been identified[5] as:

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4 The Treasury (2004).

5 Rodrick (2000).

- **Property rights.** Without adequate control over assets, people lack incentives to accumulate and innovate to improve their return on those assets. In this context, exchange institutions, such as contract law, are also important.
- **Regulatory institutions.** These prevent and counter market failures.
- **Institutions for macro-stabilisation**. Fiscal and monetary institutions, such as the Reserve Bank in New Zealand, perform stabilising functions that create confidence in the economy.
- **Institutions of conflict management.** These minimise social conflict which creates uncertainty and diverts resources away from economically productive activities.
- **Institutions for social insurance.** These ensure that the market economy is accompanied by social stability and social cohesion, which are in themselves important for economic growth. These institutions are not necessarily state-provided and include faith-based and community organisations and whānau.

In addition, "rules about changing the rules" are an important institutional foundation for economic development. An example of these is the rules about constitutional change.

Within these broadly defined types of institutions, there is wide scope for variety. It is possible to develop quite different institutional arrangements that still underpin economic growth. Whatever institutions a society adopts or develops must be appropriate for its own set of circumstances. For example, American-style capitalism takes a slightly different form from Japanese-style capitalism. This suggests that wholesale importing of one set of institutions without regard for local conditions may not always be successful (though this does not mean that we cannot learn from institutional arrangements elsewhere). And while the cultural legitimacy of an institution is a pre-requisite for it to be effective, it does not guarantee it.

Institutions are the key means by which governments influence the economy. A primary role of government is to provide the institutions and policy settings that facilitate economic growth, thereby improving the material wellbeing of individuals.

Many of the fundamental institutions that exist in New Zealand affect Māori and non-Māori in similar ways. For example, the institutions that influence how the labour market works (such as employment law) are relevant to Māori economic development. This is because many Māori are employed in mainstream businesses, and because Māori businesses are largely subject to the same legislation, regulations and policies that affect all New Zealand businesses.

There are, however, some institutions that are unique to Māori, or which have a particular effect on Māori. It may be useful to consider their potential impact on Māori economic development. For example, tikanga Māori provides a particular set of norms and values that organise and structure the relationships and behaviours of Māori people and their organisations in particularly contexts. Iwi and hapū are important structures for many Māori, while for others they are background affiliations that may be activated on rare occasions, if at all. However, the momentum is clearly towards using these structures as ways to engage collectively with Māori, and as vehicles for Māori economic participation and development.

The Treaty of Waitangi (and the legislation and policies that relate to it) is an institution that affects all of New Zealand society, but also affects Māori in particular ways. The settlement of historical Treaty claims, for example, can provide a useful gateway to Māori economic development. Government requirements relating to post-settlement entities (which are intended to safeguard the ability of stakeholders to exercise their interests and determine the future shape of those entities) exert a powerful influence on the way in which these entities are organised, their accountability arrangements, and the way in which they manage their economic activities.

The pace and sustainability of economic development depends to a large extent on establishing the right institutions within society. The form of the institutions put in place will also influence other aspects of wellbeing. This suggests the need to critically reflect on the kind of institutions that will facilitate Māori economic development into the future, and that will also support desired social and cultural objectives. This involves looking at the wider institutions that underpin New Zealand as a society, as well as those that are specific to Māori.

The relationship between the New Zealand economy and Māori economic development

The growth performance of the New Zealand economy has improved significantly since the early 1990s. From mid-1991, the economy grew strongly, and was particularly strong during the period from 1993 to 1996. The Asian crisis and drought conditions across large parts of the country caused the economy to contract in 1997/98[6]. However, considering the size of these shocks this slowdown was remarkably mild, thanks in part to the greater resilience and adaptability of the economy. Subsequently, the New Zealand economy has experienced broad-based growth and continues to grow strongly[7].

The economic wellbeing of Māori is inextricably linked to the health of the New Zealand economy. Professor Ralph Love emphasised this point in his closing speech to the 1984 Hui Taumata:

> "Our fate as a people is intertwined with the economic development of New Zealand. We believe that growth in the economy is essential. If there is no growth we realise we will slip behind further and that our people will be the major sufferers. Our urgent requirement is growth in the economy[8]."

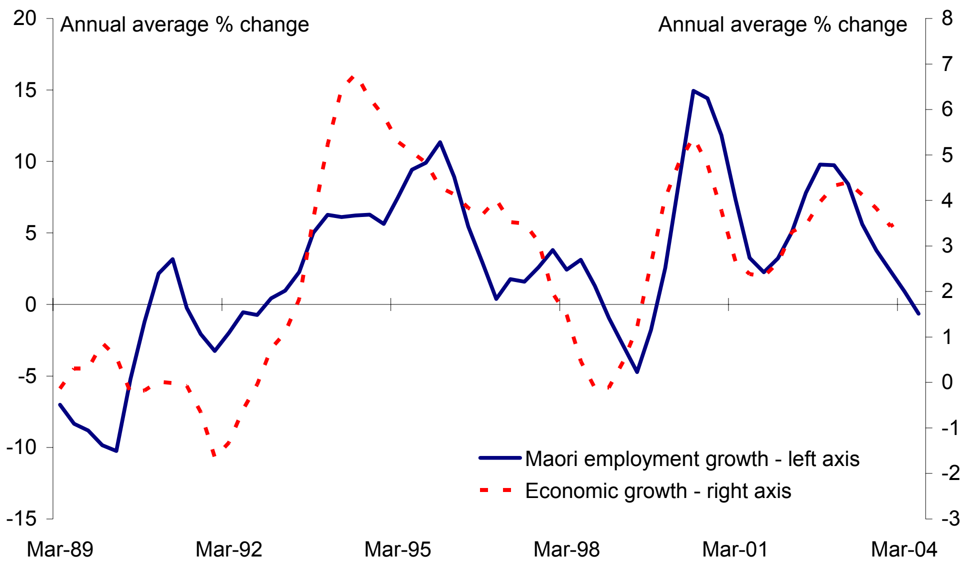
This is usefully illustrated in the following graph (Figure 2), which shows the growth in Māori employment since 1989, alongside the growth of the New Zealand economy.

6 See http://www.treasury.govt.nz/nzefo/2004/economy.asp for an overview of the performance of the New Zealand economy in the post-war years.

7 See http://www.treasury.govt.nz/forecasts/befu/2004/befu04-1.pdf for the Treasury's most recent economic outlook

8 Māori Economic Development Summit Conference (1984).

Figure 2 – Economic growth & Māori employment



Sources: HLFS, Statistics New Zealand (Department Of Labour, 2004)

Figure 2 shows the close correlation between economic outcomes for Māori and the performance of the New Zealand economy. Māori are highly integrated into the wider New Zealand economy at all levels and make a significant and vital contribution to it, as workers, owners, investors and consumers.

At the same time, however, Māori are also affected by economic trends in specific ways. This is because these trends can differ across regions, sectors of the economy and types of job. This was evident in the economic restructuring of the late 1980s and early 1990s, when Māori were adversely affected to a greater extent because of where they were concentrated in the labour market and industry sectors (for example, in the manufacturing sector and in low-skilled occupations). Since then, both the economy and Māori employment levels have recovered and improved, with neither returning to the depressed levels of the late 1980s and early 1990s.

Consistent with the trends in employment, the income levels of Māori have also changed over the last two decades. The average incomes of employed Māori increased by 8% in real terms over the period 1997/98 to 2002/03 (16% across all working-age Māori) [9]. The relative position of Māori has also shown signs of improvement. Māori household income was 67% of the national average in 1984, declining to 64% in 1992, and increasing to 72% in 1998[10]. There is also evidence that income inequality among Māori is decreasing[11].

9 Some caution is needed when interpreting statistical data about the Māori population. This is because the way that ethnicity is defined has changed over time and can differ across studies. This makes the analysis of trend data somewhat problematic, and also complicates matters when comparing the results of different studies. In addition, the composition of the Māori population is also changing, as indicated by the fact that growth in the Māori population is greater than the biological (fertility less mortality) increase.

10 Podder and Chaterjee (2004).

11 Podder and Chaterjee (2004); Dixon and Mare (2004).

Since 1998, income inequality between Māori and non-Māori appears to have either levelled out or increased, depending on the measure used[12]. The reasons for this are unclear and are worth investigating further. For example, it may be that the increase in Māori participation in tertiary education is having a negative short-term effect on Māori labour participation and average Māori incomes. Changes in household structure (for example, the increase in sole-parent households) may also play a role.

Serious economic disadvantage is often multi-dimensional and persists through time and across generations. Disadvantage is not just a matter of low income, but is statistically associated with a variety of other factors, such as age, disability, ethnicity, family status, gender, educational attainment, work experience, and geographical location.

These factors suggest that while income disparity is associated with ethnicity, ethnicity in itself is not a significant driver of inequality. If it is not, policies designed to improve the economic position of Māori are probably better to focus on breaking the cycle of intergenerational disadvantage, and to continue facilitating access to the labour market through education and skill development. For the majority of Māori, policies that encourage skill acquisition and facilitate asset accumulation throughout life may see average Māori and non-Māori outcomes converge in the longer term. Nevertheless, there are probably differences in the way programmes can be tailored and delivered to facilitate Māori economic participation. There is also a group of seriously disadvantaged Māori who have multiple needs and require specific, targeted interventions.

12 See for example, Ministry of Social Development (2004).

Māori economic development

The Hui Taumata has three themes: Developing People, Developing Enterprises and Developing Assets. In this section we relate these three themes to the various sources of economic growth, and consider how they contribute to Māori economic development in particular.

Developing people

People contribute to economic growth and development in three key ways:

- through their skills and qualifications;
- through their participation in the labour market; and
- through demographic changes in the population.

Each of these dimensions is discussed below.

Skills and qualifications

Economists use the term "human capital" to describe the skills embodied in people through innate abilities, learned skills, accumulated formal knowledge (as measured through qualifications) and tacit knowledge. Of these, qualifications and years of education are the easiest to measure and are often used as proxy measures of human capital.

Skills and qualifications influence economic growth in two main ways: through the influence they have on an individual's participation in the labour market, and through their influence on that individual's productivity as a worker. People with higher levels of skills and qualifications are more likely to participate in the labour market and work in jobs with higher levels of pay. Skills combine with capital and technology to influence the productivity of firms.

Research evidence suggests that three broad categories of skills are most important for productivity[13]:

- **Entrepreneurial ability.** This refers to the ability to exercise judgement, identify market opportunities and respond to market shocks. It encompasses risk-taking, innovation, resource re-allocation, arbitrage and coordination.
- **Managerial capability.** This refers to the leadership and organisational skills required to oversee the effectiveness of production processes. It encompasses the ability to organise tasks, motivate people and adapt structures and processes.
- **Technical skills.** These skills enable people to undertake production tasks and take advantage of technological improvements.

[13] Durbin (2004).

In addition to their positive effects on employment, income and productivity, skills and qualifications also contribute to individual wellbeing in other ways. For example, there is evidence that education is positively associated with a wide range of other outcomes, such as health status, lower criminal offending, participation in voluntary community activities, political participation, trust and direct measures of happiness[14]. Education improves a person's ability to withstand adverse economic shocks such as redundancy, and has strong, positive inter-generational effects from parents to children.

There have been significant positive developments in the skills and qualifications of Māori in recent years. The following trends are particularly important:

- The proportion of Māori leaving school without qualifications dropped to 30% for the first time in 2003[15].
- The rate of Māori participation in tertiary education has grown exponentially in the past few years, from 7.4% in 1998 to 20.2% in 2003. It now exceeds the participation rate for all students (13.4% in 2003)[16].

These developments are worth celebrating, but there is still scope for improvement. The proportion of Māori students leaving school without qualifications remains much higher than for other students (12% for all school leavers). And while Māori are participating in tertiary education in large numbers, they are more likely to enrol in diploma and certificate-level programmes and continue to be under-represented in degree level and post-graduate programmes. As for those who are already in the labour market, about 65% of employed Māori work in semi-skilled or elementary skilled occupations[17].

International research suggests that a significant proportion of Māori people aged 16 to 65 years have levels of literacy below that considered to be the minimum "for coping with the demands of everyday life and work in a complex and advanced society"[18]. People with greater literacy skills are more likely than people with weaker literacy skills to be employed and, when working, tend to be paid more. This is so even after other job-relevant factors are taken into account.

Technological developments in the 20th century have increased the relative demand for skills. This skill bias has accelerated in recent decades, and people without technology-related skills and basic skills such as numeracy and literacy are likely to be increasingly disadvantaged in the labour market and more vulnerable to negative economic shocks. This has the potential to contribute to widening income disparities. For example, New Zealand research found a significant effect on wages for those workers who received some form of computer training. These effects persisted regardless of occupation and industry, and exceeded the wage effects of training in other subjects[19].

14 The Treasury (2001).
15 Ministry of Education (2004).
16 Ministry of Education (2004a).
17 Department of Labour (2004).
18 International Adult Literacy Survey (IALS), 1996, cited by Ministry of Social Development (2004).
19 Daldry and Gibson (2003).

There is probably little disagreement among Hui Taumata participants that improving Māori education outcomes and skill levels will be a key factor in achieving sustainable gains in Māori living standards and wellbeing. There has long been a strong culture of learning within Māoridom. In recent years this has been most visibly demonstrated in the drive and determination that led to the establishment of Kōhanga reo, kura kaupapa Māori schools and whare wānanga.

There is a need to maintain and build on the successes to date, and to reinforce learning as a lifelong process for all people from all walks of life. We know that literacy and numeracy skills are vital, particularly for improving the employment prospects of those who work in vulnerable, low-skilled jobs. We also know that technology has created an increasing demand for particular types of skills and capabilities. These include the skills to create or adopt new technologies, the entrepreneurial and management skills to identify and implement new opportunities, and the skills to work effectively in new forms of organisation.

The challenge for all of us is to establish priorities, identify what works and deliver an education that meets the needs of individuals, the aspirations of Māori and the demands of the modern economy.

Labour market participation

As the previous discussion has emphasised, participation in the labour market plays an important role in determining people's economic wellbeing and contributing to economic development overall.

At its most basic, having a job provides an income, which is a key indicator of economic wellbeing. But employment also has effects on wellbeing that are independent of, and often larger than, the direct impact on income. Having a job contributes to a person's sense of self-esteem, identity, self-confidence and social networks. Conversely, the loss of a job and the experience of unemployment can have a strongly negative impact on personal wellbeing and, sometimes, on the wellbeing of whole communities.

Of course, job quality can vary considerably, and unpaid work also has many important benefits for individuals, communities and society as a whole. But even low-wage, low-skilled jobs are usually better for individuals who are in a position to take up paid work, than having no job at all.

There is also a link between an individual's participation in the labour market and their productivity. People learn a significant amount on the job. Through experience in work, people become more efficient and effective at what they do, and are better able to innovate and transfer their knowledge to others.

As acknowledged in the "Developing People" stimulus paper prepared for the Hui Taumata, the wages and salaries earned by Māori people in the labour market are the mainstay of Māori economic activity. As such, they have a significant impact on Māori living standards. For example, the total earnings of Māori wage and salary earners have been estimated at $4,280 million annually (expressed in 1996 dollars)[20]. This compares with the total gross income of Māori trusts and incorporations of $221 million in the 1999/2000 financial year and a total pre-tax operating surplus by major Māori corporations of $17.2 million in the same period[21].

The Department of Labour's report for the 2005 Hui Taumata[22] highlights the significant improvements in Māori labour force participation, and rates of employment in the period since the last Hui Taumata in 1984. For example:

- Māori unemployment rates have fallen to their lowest since data was first collected in 1986, although they still remain higher than those of the general population (8.3% unemployment among Māori, compared with 3.6% for all New Zealanders[23]).
- Since 1991, Māori employment growth has been strongest in highly skilled occupations.
- Māori currently have only slightly lower rates of labour force participation than the wider population (63.7% compared with 66.7%).

As with all aspects of economic activity, institutions and policies play a key role in people's decisions to participate in the labour force. For example, the structure of the tax system and benefit system can create incentives or disincentives for people to work, not work, or work more hours. Similarly, the availability of services, such as childcare and eldercare (provided by the market or whānau members) can influence whether people are able to participate in the labour market. Any strategy to improve employment outcomes for Māori must take account of how institutions affect labour market participation.

In addition, research suggests that a number of individual characteristics are vitally important in determining an individual's labour force status. Key among these are education, parenthood and age. For example, a 1997 study[24] commissioned by Te Puni Kōkiri shows that:

- Māori and non-Māori who have a teacher's or nurses' certificate have the same probability of employment.
- Sole parenthood reduces the probability of a woman being in full-time employment by up to 40%.
- The likelihood of a man being in full-time employment increases by more than 25% between the ages of 20 and 40, and decreases by almost 20% between the ages of 40 and 55.

These findings suggest that, taken in combination, the strong life-cycle effects on the labour force behaviours of both Māori and non-Māori, and the different age structures of the two populations may account for some of the differences in Māori and non-Māori labour market participation.

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[20] New Zealand Institute of Economic Research (2003).
[21] Te Puni Kōkiri (2002).
[22] Department of Labour (2004).
[23] Household Labour Force Survey (Sept 2004).
[24] Winkelmann and Winkelmann (1997).

A second implication is that the higher fertility rate and incidence of sole parenthood among Māori may play a role in determining Māori labour force behaviour. However, these two factors are unlikely to explain higher rates of Māori unemployment, as people who are out of the labour market because they are caring for young children are not usually classified as unemployed.

Research consistently finds that Māori have higher income returns on their qualifications than non-Māori[25], and the gap between Māori and non-Māori earnings reduces as qualifications rise. While this is a generally positive message, it also suggests that Māori with no qualifications are particularly, and increasingly, disadvantaged with regard to employment and earnings. For example, research has shown that a Māori man without qualifications is up to three times more likely to be unemployed than a non-Māori man without qualifications[26].

Overall, most of the difference between Māori and non-Māori labour force behaviour and earnings is explained by differences in characteristics such as age and education. However these factors do not explain all the differences. Without relevant research, we can only speculate on the reasons for the remaining gap. Possible explanations include:

- That Māori are concentrated in industries and occupations where employment opportunities have been declining.
- That Māori have different attachments to the labour force, have different preferences and make different choices. For example, Māori women are less likely to move from full-time work to part-time work after they become mothers[27].
- That Māori experience discrimination by employers.
- That the poorer health status of Māori affects their labour market behaviour[28].

More research is needed to determine which of these, or any other, explanations might be correct. Until this is available, we need to focus on what we do know. And what we do know is that education and skill levels have a significant positive effect on Māori incomes and employment. Therefore, a focus on improving the qualifications and skills of Māori is likely to result in major improvement in their economic wellbeing.

Demographics

The size of the population and its age structure are important influences on the size of the workforce and the number of dependents (children and the elderly) that people of working age have to support. Therefore, they have important implications for economic growth.

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25 Maani (2002); Gibson (2000). Gibson found that a post-graduate qualification (compared with no qualification) raises annual earnings for Māori by 153%, compared with 77% for Pakeha.
26 Winkelmann and Winkelmann (1997).
27 Winkelmann and Winkelmann (1997).
28 Australian research suggests that health status is either insignificant or unrelated to indigenous labour force status in that country (Hunter and Gray, 2001).

Statistics New Zealand's report to the Hui Taumata[29] provides has detailed information on the projected changes in the Māori population over the next 20 years. Some of the most significant changes for economic development are:

- Māori are expected to make up a greater proportion of the total New Zealand labour market over the next 20 years. However, this will not happen to the extent that some commentators have observed. Māori will increase their share of the total working-age population from 14% to only 16% over the 20 years between 2001 and 2021.
- Māori of working age (15 to 64) are expected to increase from 60% of the Māori population in 2001 to 62% in 2021. Assuming age participation rates stay constant, Māori labour force participation rates in 2021 are expected to be slightly higher than those of the total New Zealand population. Continued improvements in Māori labour force participation could widen this gap further. This is good news, because more Māori of working age most likely means more Māori working and earning, thus contributing to improved economic wellbeing of Māori individuals, households and communities.
- Most of the increase in the Māori working-age population will be in the 40 to 64 age group. The number of people in this age group will increase by 62% between 2001 and 2021, whereas the number of Māori aged 15 to 39 is expected to increase by 19%. This is an important point, because people who will be in their 40s, 50s and 60s in 2021 are already of working age now. This suggests that work-based training and lifelong learning will be particularly important in improving the skills and qualifications of Māori.
- The largest increase in the number of Māori aged between 15 and 24 years will occur before 2011, six years from now. This is the age range during which people typically enter tertiary education, training or employment. This suggests that the education policies in place now and in the immediate future will have the greatest impact on the skills and qualifications of the increasing numbers of young Māori entering the labour market.
- Although Māori fertility rates are higher than those of the New Zealand population as a whole, the Māori population is still ageing (just not as quickly as the general population). The number of Māori aged 65 and older is expected to treble between 2001 and 2021, increasing from 3% to 8% of the Māori population over this period. In contrast, children will decrease as a proportion of the Māori population, from 37 percent in 2001 to 30 percent in 2021. This latter trend may have implications for the labour force participation of Māori women in future.
- By 2021, the median age of the Māori population will be 27, compared to 43 for non-Māori. As noted above, there is a link between age and earnings. Younger people tend to earn less on average, because they have built up less skills and experience in the labour market, or because they are studying rather than working full-time. As people get older, their earnings to increase as their skills and work experience accumulates. When people retire, they tend to earn less again, as they rely on savings, investments and state-provided superannuation. The difference between the earnings of non-Māori and Māori is likely to change as a result of the differences in the age structures

[29] Statistics New Zealand (2004).

of the two populations. This highlights the importance of adjusting for age when comparing the earnings of different groups.

It is hard to predict how important changes in the demographic structure of the Māori population will be for Māori economic development. However, they cannot be ignored. They are particularly relevant to labour supply and demand. Labour and skill shortages are likely to arise in most developed countries over the next few decades, because of the general ageing of the population. These general shortages might increase the demand for all categories of skills. The Māori population will be relatively young and in a good position to take advantage of a tight labour market where the demand for labour exceeds supply. However, a strategy for Māori economic development also needs to consider how demographic changes will affect other factors influencing wellbeing, such as household composition and educational participation.

Developing enterprises

Māori do not just work in the economy for wages and salaries. They also own businesses and employ people. Improvements in the economic performance of specifically-Māori enterprises, including both privately and collectively owned Māori enterprises, is an important component of Māori economic development.

In 2000/01, about 17,000 Māori were 'career entrepreneurs' (people whose main activity is running their own business) - an increase of more than 150% over the 20 years since 1981. Just under a third of Māori career entrepreneurs employed staff, with the remainder being sole operators[30]. The number of collective Māori enterprises (trusts, authorities and incorporations) is difficult to quantify, and not all of them undertake commercial activities[31]. One possible indicator of the number of such organisations that are commercially active is the 1704 Māori trusts listed on Inland Revenue's database in 2003.

Enterprises[32] matter because they are the engine of economic development. Treasury has previously commented that:

> "At its simplest, growing the New Zealand economy is about growing the individual businesses that comprise the economy"[33].

Growth in the productivity of enterprises contributes to economic development in a number of ways. It increases the total output of goods and services in the economy, thereby increasing GDP. Increased productivity can increase participation in the labour market and improve overall employment levels. Higher productivity also tends to result in higher wages for workers, thereby improving their material wellbeing.

30 Department of Labour (2004a).

31 Te Puni Kōkiri (2003).

32 By enterprises, we mean the businesses and firms that employ people (including self-employment) and produce the goods and services that make up GDP. In this paper, we use the terms "enterprises", '"firms", "businesses" and "commercial entities" interchangeably.

33 The Treasury (2004).

There are three main ways in which individual enterprises contribute to overall economic growth. These are: productivity gains within existing firms; the expansion of more productive firms and contraction of less productive firms; and the entry and exit of firms in the market. In most OECD countries, productivity gains within existing firms account for most of the growth in overall labour productivity (between 50% and 80%).

The productivity of a firm reflects how well it brings together people, skills, technology, capital and other inputs to increase its profitability and market share. The Workplace Productivity Working Group, which has recently reported to the Government, identified seven complementary and mutually reinforcing drivers that firms can use to improve productivity. These are:

- Building leadership and management.
- Creating productive workplace cultures.
- Encouraging innovation and the use of technology.
- Investing in people and skills.
- Organising work.
- Networking and collaborating.
- Measuring what matters.

While we have some information about how well New Zealand enterprises do the things that lead to improved productivity, there is very little information about practices within Māori-owned enterprises. As a result, the remainder of this section discusses New Zealand enterprises and some of the key drivers of firm productivity generally. We refer to research and specific issues relating to Māori-owned enterprises where these exist.

Capital investment

Investing capital – in people, plant and processes - is one of the key ways firms can improve productivity. New Zealand has a relatively low ratio of capital to labour compared with many other OECD countries. This has been identified as one of the key reasons for our lower level of per capita GDP compared with countries such as Australia and the United States.

There are several possible reasons for this. One might be that the plentiful and relatively cheap supply of workers (as reflected in the price of labour relative to capital) has made it more cost-effective to use more labour rather than capital investment to increase output. Given current and predicted labour shortages, this situation is unlikely to be sustainable. Māori businesses, like other businesses in New Zealand, may have to increasingly turn to capital investment, instead of the labour market, to improve their productivity.

Another possible explanation for the relatively high ratio of labour to capital in New Zealand firms is that our capital markets may operate in a way that constrains firms' access to finance, thereby affecting the extent to which they can invest. This is often identified as an issue for Māori enterprises: for example, Te Puni Kōkiri has said it is one of six key barriers to the development of Māori land[34]. The underlying issue is that the multiple ownership of land makes it difficult to use it as security when seeking finance. Quality of governance has also been identified as a factor that may impede access to finance by some Māori entities.

However, Te Puni Kōkiri has noted a 214% increase in the current liabilities of Māori trusts between 1998 and 2001, indicating an apparent increase in loans and overdraft facilities. They suggest that this supports "anecdotal reports that the banking sector is increasingly active in providing services to well-run trusts and incorporations"[35].

There is also some evidence that Māori businesses have relatively high operating surpluses per employee[36] (that is their capital to labour ratio is comparatively high). This suggests that the issue may not simply be one of access to capital, but also of how effectively the available capital is used. In addition, some Māori enterprises may face competing objectives with regard to the use of an operating surplus, such as whether to invest in productivity improvements, return it as a shareholder dividend, or direct it towards some other purpose for the benefit of shareholders.

Innovation and technology

Innovation is the dynamic process through which firms create new economic value by creating, adopting and adapting knowledge into new or improved products and services, processes and organisational arrangements[37].

In the 2003 Innovation in New Zealand Survey, 44% of New Zealand businesses reported innovation (a new product, service or process) in the past three years[38]. This rate is the about the same as the average across European Union countries. Innovative firms tend to exhibit the managerial and entrepreneurial skills that enhance productivity. They are more profitable, and they have a greater tendency to export.

Spending on research and development is one indicator of the amount of innovation in an economy, although there is evidence that private-sector research and development has more direct impact on productivity than public spending on research and development. While New Zealand's public spending on research is in line with that of other OECD countries, our reported private spending is low (though it is now growing at a fast rate).

Recent assessment suggests that Crown Research Institutes (CRIs) are well connected to industry in New Zealand but may need to build better relationships with the private sector in order to commercialise CRI-held intellectual property. Collaboration between tertiary education institutions and industry has been identified as relatively weak[39].

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34 Cited by Controller and Auditor General (2004)
35 Te Puni Kōkiri (2003).
36 New Zealand Institute for Economic Research (2003).
37 Ministry of Economic Development and the Treasury (2005).
38 Ministry of Economic Development and the Treasury (2005).
39 OECD (2002) cited by the Treasury (2004).

The overall picture of New Zealand shows there is a good amount of research and development, innovation, and technology take-up, but these are not always translated into commercial success to the same extent as in high-productivity countries.

It is more difficult to get a sense of the level of innovation in Māori enterprises. One indicator is the reported level of public funding (via the Foundation for Research, Science and Technology) for Māori-centred or kaupapa Māori research contracts. This has increased from 0.8% ($2.8 million) of the total funding in 1999 to 5% ($20 million) in 2004[40]. Given the link between innovation and an export focus, it is notable that Māori enterprises are concentrated in export-oriented areas of primary production and processing (about 60% of Māori commercial assets are reliant on international trade[41]). A recent report[42] notes that Māori individuals and organisations have proven adept at developing innovative products and services in their areas of competitive advantage, and highlights examples of innovation by Māori businesses.

The innovation challenge for Māori enterprises is the same as for other New Zealand firms – to identify, develop and then commercialise new products and approaches. Ideas alone are not enough. They need to be complemented by other skills, such as marketing, and access to capital.

Networks and relationships are often critical in this process. Through their tribal structures, Māori have unique opportunities to create networks and work collaboratively. But it is likely they will also need to look more widely and form collaborative, mutually beneficial partnerships with other non-Māori commercial and research organisations, both within New Zealand and overseas.

People and skills

Enterprises make important decisions about the number of people to employ, the skills of those people and the mix they require. In doing so, they need to take account of the capital and technology they have and are intending to use.

There are a number of ways firms can increase their employees' skill levels. These include "buying in" skilled people, funding formal training, providing informal on-the-job training, making it easy for employees to exchange knowledge informally, and offering incentive schemes. Skills development can also be built into the firm's organisational practices, for example, job rotation and the use of "trainee" or "assistant" positions.

Self-training and on-the-job training and experience are important ways people can accumulate skills and knowledge. With such training, people who did not receive formal education have another chance to obtain the skills they need to perform better and be more

40 Foundation for Research, Science and Technology (2004).

41 New Zealand Institute of Economic Research (2003). NZIER also notes that because of its export focus and strong basis in primary production, Māori economic growth appears more volatile than New Zealand economic growth more generally. Nevertheless, its growth has kept pace with or exceeded the growth rate of the New Zealand economy over the past ten years.

42 New Zealand Institute of Economic Research (2002).

adaptable. Research suggests that Māori have the same incidence of training and may receive even more intensive training than do Pakeha workers[43].

To the extent that they draw on the same pool of labour as other New Zealand firms, Māori enterprises face the same challenges and decisions about how to increase their employees' skills and knowledge. Skills shortages arising from the growth of the economy and the ageing population mean that many New Zealand enterprises may have to invest in up-skilling or re-skilling existing and new employees.

There are also potential opportunities for iwi-based and other Māori enterprises to work with industry training organisations to identify and develop the skills they need in sectors with a large Māori commercial presence and workforce. Some good work has been done in the fishing sector in this regard.

Finally, it is important to acknowledge that the majority of Māori wage and salary earners work in businesses owned and operated by non-Māori. The employment practices of these businesses and how much they invest in their staff will play an important part in the economic development of Māori over the next 20 years.

Leadership and management

Management and leadership are major determinants of organisational performance. Firms with effective leadership and management are better placed to successfully employ staff and utilise their skills. Competent senior managers can also improve a company's operating effectiveness and/or efficiency, and recognise and explore opportunities for innovation, change and growth. A number of recent studies confirm the link between the quality of management and productivity[44].

Research on the quality of management in New Zealand is limited and, given the critical role of management in improving productivity, it is important that this issue is better understood. The Ministry of Economic Development is leading government work on management capability and coordinating a public-private project aimed at improving business leadership, management capability and general business capability in New Zealand.

Leadership and management are as important for Māori commercial entities as for other businesses. Improving the managerial expertise of managers and owners of Māori authorities has been identified as a key way to improve their profitability and their ability to meet cultural and social responsibilities[45].

A recent positive development in this area is the development of two Masters-level courses in strategic business management directly aimed at Māori – one by the University of Waikato, the other by the University of Auckland. While it is too early to evaluate their

43 Gibson and Watene (2001). Interestingly, the researchers found that Pacific Island workers and those from "Other Ethnic Groups" received significantly lower level of employer-provided training.
44 Ministry for Economic Development and the Treasury (2005).
45 Kingi, Rose and Parker (1999).

success, it is encouraging that such courses are being provided and are reasonably well attended.

Governance is an important dimension of leadership and management, particularly for commercial entities with multiple stakeholders or shareholders. Governance concerns the ways in which groups of individuals arrange their collective efforts and resources in order to accomplish their objectives. It involves methods for determining how power is exercised, how decisions are made and how stakeholders have their say. Attributes of governance include authority, stewardship, leadership, direction, control and accountability.

The OECD has identified some fundamental principles of good governance, including:

- Recognition and protection of shareholder rights of ownership and participation.
- Equitable treatment of shareholders.
- Board accountability for its decisions to shareholders.
- Timely and accurate disclosure of finances, performance, ownership and other governance affairs.
- Board responsibility for effectively monitoring management[46].

Other organisations (the Harvard Project on American Indian Economic Development[47]; the Centre for Aboriginal Economic Policy Research (CAEPR) in Australia) have highlighted the importance of effective governance for the economic development of indigenous entities and communities and identified some important governance attributes. These include fair and independent ways to resolve disputes, separation of politics from day-to-day business management, a strategic orientation, and cultural "match" or "fit"[48].

These broad principles provide a useful framework for making effective governance arrangements. Within it, there is scope for diverse arrangements which meet the particular needs and functions of entities and the communities they serve.

Many Māori entities, particularly those with a commercial function, face specific challenges with regard to governance, management and leadership. These include:

- Marrying tikanga Māori with modern business concepts and objectives.
- Achieving dual legitimacy in terms of Māori customary values and practices, and the New Zealand legal system.
- Achieving a balance between commercial management skills and traditional leadership skills.
- Balancing stakeholder involvement in decision-making with the need to minimise transaction costs and respond promptly to opportunities and risks.
- Weighing the demands of current members against the need to retain and improve capability to meet the requirements of future generations.

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46 Organisation for Economic Cooperation and Development (1999).
47 See http://www.ksg.harvard.edu/hpaied/overview.htm for a summary of key findings and list of publications.
48 See Dodson and Smith (2003), for example.

- Reconciling dual accountabilities to their constituency and the Crown, where these exist.

In response to such challenges, Māori organisations have adopted a range of governance, management and reporting arrangements. This diversity is highlighted in two recent reports by Te Puni Kōkiri and the Federation of Māori Authorities, which give case studies of successful Māori organisations[49]. The reports note the importance of taking a skills-based approach when selecting people for governance positions, and for organisations to be dynamic. For example, different structures and types of skills may be required at different stages in an organisation's lifecycle and in response to environmental changes.

Good governance is not just an issue for Māori. The government plays a role in defining the governance structures adopted by Māori collective entities, through the legislation and rules that specify what models can be used. The Treasury has previously commented on the need for both Māori and the Crown to build the ability to govern effectively, alter governance arrangements to reflect changing circumstances, and enable efficient decision-making and processes[50].

Institutions and policies

While individual enterprises are the main engines of productivity in the economy, the Government plays a key role in influencing the production decisions of individual firms. This is because it sets the laws and regulations under which these decisions are taken, thereby affecting the incentives and risks firms face.

The legislation relating to the governance of Māori collective entities discussed above is one example of the ways in which government-led institutions can affect firm productivity. Other examples are:

- Competition law affecting the returns on innovations and, therefore, incentives to search out new ones.
- Legislation and regulations on environmental issues (such as those relating to land and buildings).
- Legislation and regulations on employment of labour (including health and safety, accident compensation and employment law).
- Taxation policy.
- Compliance costs.
- The openness of the economy (including border protection and trade agreements).

In general, New Zealand is considered to have very sound underlying institutions and scores well in international assessments of its political institutions, legislative framework and economic institutions. For example, we perform well in terms of the regulatory environment affecting the ability to set up new businesses, and our economy is relatively

49 Federation of Māori Authorities and Te Puni Kōkiri (2003) and Federation of Māori Authorities and Te Puni Kōkiri (2004).
50 The Treasury (2001).

open by OECD standards. Recent research indicates that compliance costs are not especially high[51]. New Zealand ranks also well on indicators such as transparency of government processes, independence of the public service from political interference, absence of bribery and corruption, and political stability.

These ratings suggest that we have in place many of the foundations for economic development. However, this does not mean that there is no room for adjustment to some of our institutional settings. If we look beneath the surface of high-level international rating systems, there is always scope to improve institutional settings to better enable the businesses that make up the economy - including Māori enterprises - to thrive and succeed.

This highlights the importance of continuing to question, review and adapt existing institutions at all levels of society – from central government to the local rünanga or trust board. The challenge is how to do this while retaining those institutional arrangements that are valued because they contribute to individual and collective wellbeing in other ways.

Developing assets

Assets can take various forms including land, machinery and equipment (physical assets), labour, knowledge and skills (human capital), and financial capital. There are also less tangible assets, such as networks and relationships (social capital) and intellectual property.

We have discussed human capital and financial capital in the previous sections and touched on the role of social capital in economic development. This section focuses primarily on the role of physical assets, particularly land, in Māori economic development.

Natural resources such as land are not a necessary pre-condition for economic development. There are many examples of countries rich in natural resources that have floundered economically, usually because they lack some or all of the fundamental determinants of economic growth. Conversely, there are also examples of countries with poor physical endowments that have been economically successful (Singapore and Switzerland are two). These countries have grown their economies by adding value to basic commodities, selling services and expertise, and developing, manufacturing and marketing new products. Such an approach to economic development is driven by innovation, entrepreneurship, international connectedness, human capital and sound public institutions, rather than the exploitation of natural resources.

This is not to suggest that natural resources do not matter for economic growth. When managed well, such assets can provide a revenue stream for individuals and organisations. They can also be used as collateral to raise capital for investment, to improve productivity and generate further revenue.

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51 Alexander, Bell and Knowles (2004).

There is no doubt that Māori own a significant physical asset base, although the exact value of these assets is difficult to quantify. Te Puni Kōkiri has estimated that in 2001, total Māori-owned commercial assets were worth just under $9 billion[52]. This can be broken down as follows[53]:

- $3.26 billion (estimate) in commercial assets used in business operations by Māori employers.
- $2.45 billion (estimate) in commercial assets used in business operations by self-employed Māori.
- $1.52 billion in commercial assets held by the 436 Māori trusts and incorporations large enough to be included in the Statistics New Zealand Annual Enterprise Survey.
- $1.35 billion in assets held by six major Māori organisations (Te Ohu Kai Moana, Crown Forestry Rental Trust, Waikato Raupara Lands Trust, Te Runanga o Ngai Tahu, Poutama Trust, and Te Whānau o Waipareira Trust).
- $176.7 million (estimate) in assets administered by the Māori Trustee.
- $145 million in assets administered by Māori Trust Boards.
- $86 million in additional Treaty of Waitangi settlement assets not accounted for in other categories of asset ownership.

Overall, the businesses owned by self-employed Māori (sole operators and those with staff) are valued at over $5.7 billion, or 63% of all Māori-owned commercial assets. The assets owned by self-employed Māori are largely invested in "tertiary" industries, such as wholesale and retail trade, property, transport, social services, hospitality and tourism. The assets owned by Māori collective entities, such as trusts, authorities and incorporations, comprise about 36% of all Māori-owned commercial assets. These assets are largely invested in the primary sector (agriculture, forestry, fishing and mining).

Collective ownership poses some challenges for the economic development of physical assets. For example, the following factors have been identified as barriers to the development of Māori land[54], which makes up about 6 percent of New Zealand's total land area (1.5 million hectares):

- **Multiple ownership.** This can cause problems and increased costs in obtaining agreement about land use, and reduce the economic return to individual owners[55].
- **Governance and management.** There is a lack of expertise in planning and making decisions about the administration of Māori land.

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52 Te Puni Kōkiri (2002).

53 It is likely that this estimate of the value of Māori assets is slightly conservative. This is because it focuses on commercial assets and does not include natural assets (some of which, such as lake beds, generate income) or taonga. It also excludes the assets (some of which may be non-productive) held by trusts and incorporations which are not large enough to be included in the Annual Enterprise Survey. On the other hand, the inclusion of assets held by Crown Forestry Rental could be questioned, as Māori ownership of them is not unequivocal.

54 Cited by the Controller and Auditor General (2004).

55 There are currently more than 25,000 separate Māori titles, with an average size of 58 hectares, and an average of 62 owners per title. In total, the ownership of Māori land is divided into more than 2.3 million interests, comparable with the number of owners of the other 94% of New Zealand's land area. As owners die and their descendents inherit their interests, the number of owners increases further (Controller and Auditor-General, 2004).

- **Access to information.** Data on the current use of Māori land is not comprehensive and it is difficult and sometimes costly to obtain information about potential use. For example, almost 50% of blocks of Māori land have not been surveyed.
- **Access to finance.** Multiple ownership of land makes it difficult to use land as security when seeking finance.
- **Access to land.** Up to 30% of Māori land is hard to access, reducing options for its use. Development becomes expensive or uneconomic, and lease options may be reduced.
- **Rating of Māori Land.** Local authorities have differing practices for collecting rates on Māori land. Some have tried to sell it or place charging orders on it to recover rates arrears.

Property rights are a fundamental institution for economic development, because they affect the ability to utilise physical assets, such as land, for economic benefit. An important aspect of property rights is how their structure affects their use or transferability.

The role of collectively-owned physical assets (particularly land) in Māori economic development is complex and sensitive, because these assets are often more than just an economic resource for their owners. Land that is collectively owned by iwi, hapū and whānau has a spiritual and cultural value as well as a commercial one. There is a presumption against the alienation of land, in favour of it's retention for future generations. This can restrict the ability to trade and use land as collateral for economic development.

A related issue is whether the current Māori land tenure framework achieves a balance between protecting land from alienation and enabling land to be managed as a commodity for sustainable economic development. For example, Te Ture Whenua Act emphasises the preservation and retention of Māori land by Māori trusts and incorporations. Similar principles have been applied to fishing quotas allocated through the Treaty of Waitangi fisheries settlement. These quotas cannot be traded with non-iwi, which reduces their value and limits the scope for iwi to diversify their assets.

Despite the challenges it poses, collective ownership is not an insurmountable barrier to economic development. For example, it is common practice for collectively-owned land to be developed or leased for economic gain, while still being retained for the benefit of future generations. Another approach is to clearly identify the purpose each asset is held for – traditional or cultural objectives, or economic purposes – and to ensure that the property rights applied are most suitable for that purpose[56]. Many Māori entities have recognised this and adopted such an approach in their governance and management structures.

The resources being returned to Māori through the settlement of historical Treaty of Waitangi claims are contributing to the economic development of a number of, but not all, iwi. Up to September 2004, $715 million had been committed to final and comprehensive settlements and several part settlements of historical Treaty of Waitangi claims.

56 New Zealand Institute of Economic Research (2003).

Settlements have ranged in size from $43,000 (Rotoma), to the three biggest settlements to date, each totalling $170 million (Ngai Tahu, Waikato-Tainui Raupatu, and commercial fisheries). Historical settlement redress can be comprised of cash payments, land, and/or other physical assets such as commercial property. Optimising the economic returns on these assets requires business, management and governance skills. One again, this highlights the importance of investing in human capital.

Some estimates are that about 20% of Māori have no tribal affiliation[57] and are therefore unlikely to obtain any tangible economic benefit from the development of collectively-owned physical assets. Furthermore, returns to Māori land are confined to a relatively small section of the Māori population - about one-third[58].

These factors, and the significant proportion of Māori assets located in businesses owned by self-employed Māori, suggest that a Māori economic development agenda that focuses solely or primarily on the development of collectively-held assets, such as through iwi-based development and/or Treaty of Waitangi settlement asset development, will not meet the needs of all Māori.

An important challenge for Māori development is recognise the diverse nature of the Māori population, and encompass a range of conditions and circumstances – not only in socio-economic terms, but also in terms of lifestyles, cultural affiliations and access to Te ao Māori[59].

57 Durie (2003).
58 Durie (2003).
59 Durie (2003).

Key considerations in developing an agenda for Māori economic development

This paper has not attempted to present an agenda for Māori economic development. Instead it has focused on providing background information and highlighting some critical factors the Hui Taumata could take into account as it develops such an agenda.

This section of the paper summarises and reinforces some of the key points from the preceding discussion.

Developing people

Māori are not a homogenous group. While they have many things in common, they lead diverse lives and have wide-ranging aspirations. It is likely, therefore, that there will be more than one pathway to improving the economic wellbeing of all Māori.

Nevertheless, the most significant contribution to Māori economic development over the next 20 years is likely to come from improving the education and skills of Māori people. The well-known proverb is as true here as elsewhere: "He aha te mea nui? He tangata, he tangata, he tangata".

The wages and salaries Māori people earn in the labour market are the mainstay of Māori economic activity. Skills and qualifications have direct economic benefits for individuals because they improve access to employment opportunities and higher incomes. The skill bias of the modern economy means that people with fewer skills and qualifications will continue to be disadvantaged in the labour market, even as the supply of labour becomes tighter.

Education has other positive effects on the wellbeing of individuals, families and communities. These include strong positive intergenerational effects, which can help break cycles of deprivation.

The qualifications of Māori school leavers and Māori participation in tertiary education have improved significantly over the past 20 years and this bodes well for the economic future of Māori. But it is also important to bear in mind that most of the increase in the Māori working age population over the next 20 years will be in the 40 to 64 age group. Therefore, an important route to improving the skills and qualifications of Māori will be to focus on those already in the labour market.

Skills and qualifications play a key role in enabling innovation and the use of technology, thereby improving the productivity of enterprises. To the extent that Māori enterprises draw on the same pool of labour as other New Zealand firms, they face similar challenges in recruiting and developing skilled employees.

Developing enterprises

Enterprises are the engine of economic development. A number of complementary factors are important for improving productivity at enterprise level, including leadership and management, capital investment, innovation and the use of technology, investment in people and skills, and networking and collaborating.

Available information about how well Māori-owned and kaupapa Māori enterprises do these things is limited. It is likely that practices are as wide and varied as they are across New Zealand businesses generally. Nevertheless, some Māori enterprises (especially those involved with owning and managing collectively-held assets) face particular challenges. Improving their governance and management skills is often identified as an important step in improving the efficiency and effectiveness of such organisations, including their ability to access finance. The governance models prescribed by statute and regulation have also been identified as a possible constraint on the economic development of collectively owned Māori enterprises, and are worthy of further attention.

Given current and predicted labour shortages, Māori businesses, like other businesses in New Zealand, will have to focus on lifting labour productivity through capital investment in equipment, technological improvements and skill development. Maximising the productivity gains from these investments often also requires fundamental organisational change.

The majority of Māori are employed in privately-owned businesses or are self-employed. Institutional change that enables these businesses to be more productive and profitable will play a key role in improving the economic wellbeing of Māori.

Developing assets

The settlement of historical Treaty of Waitangi claims is providing an asset base for some iwi, which they may be able to use as a basis for economic development. However, there is sometimes a tension between the commercial exploitation of collectively owned land and other natural resources for the benefit of current generations, and its guardianship for future generations. Some iwi may choose not to use their land for commercial activities, but those who wish to should have the opportunity to do so, in accordance with the wishes of their stakeholders.

In addition, just over 63% of Māori commercial assets are owned by Māori who have their own business, with the remaining 36% in collective ownership arrangements such as trusts, authorities and incorporations. This suggests that growing the collectively-held physical asset base, while important, may not be the key to economic prosperity for Māori.

Optimising the economic returns on both private and collectively held assets requires business, management and governance skills. Once again, this reinforces the critical role that knowledge, skills and qualifications play in economic development.

Institutions

The pace and sustainability of economic development depends to a large extent on the development of the right kinds of institutions (rules, systems and organisations) in society. Many of the important institutions affecting economic development are determined by government.

While some institutions are fundamental for economic development, there is no one set of institutional arrangements that can be applied to all circumstances and all people. There is scope for Māori to utilise, build on and develop their own institutional arrangements within the context of the wider institutions in New Zealand. But it is also important that institutions are dynamic and responsive to changing conditions and opportunities.

During the 19th and 20th centuries, new and existing iwi and hapū institutions, including pan-tribal institutions, evolved with the changing circumstances. The factors that affect the shape and purpose of contemporary Māori organisations include tikanga Māori, the legislative framework, the Treaty of Waitangi settlements process, government policies and the objectives of each organisation.

At the beginning of the 21st century, Māori institutions will continue to evolve alongside the world around them. This evolution may require a reconsideration of what organisational forms and structures, processes and skills are appropriate. It is important that the legislative and policy framework enables Māori institutions to evolve and succeed.

The drivers of economic development

Economic development is brought about by individuals, organisations and governments. The underlying drivers of development are the same across all people and countries – innovation and technological change, entrepreneurship, investment, skills and talent and sound institutions.

The term "Māori economic development" can give the misleading impression that there is a large gap between the economic future of Māori and that of other New Zealanders. There is not. The economic development of Māori is inextricably linked to the economic development of New Zealand. Both the short-term effects of restructuring the New Zealand economy in the late 1980s and early 1990s, and the subsequent sustained economic growth, have been keenly felt by Māori.

What is important for the future is to ensure that Māori people and enterprises can take full advantage of the opportunities that a growing New Zealand economy presents. This means ensuring that we adopt an inclusive, dynamic and sustainable approach to economic growth, built on a broad understanding of wellbeing.

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