FROM COMPETITION TO COHESION: THE CHANGING FOCUS OF ECONOMIC DEVELOPMENT IN NEW ZEALAND[1]

Paul Killerby
Department of Economics, University of Otago, Dunedin, NZ.

Joanna Smith
NZ Institute of Economic Research, P.O. Box 3479, Wellington, NZ.

ABSTRACT Governmental power in New Zealand has historically been highly centralised, and regional economic development has not been a high priority. Post-1984 neo-liberal reforms resulted in a major reorganisation of regional and sub-regional institutions in the absence of an over-riding regional development framework. Over the same period, economic performance in rural areas has been relatively poor. The result is a fragmented regional governance environment coupled with significant socio-economic disparities. Since 1999, central government has committed itself to a regional development programme involving modest levels of intervention, through a partnership approach with local government, community trusts, Maori organisations and the business community. This paper describes the transition from central government's traditionally top-down approach to governance and economic policy, through its post-1984 policies of decentralisation and non-intervention, to its recent bottom-up approach to regional development. In so doing, it highlights an intermittent focus on regional development planning in response to changing political imperatives. The paper argues that central government's new Regional Partnership Programme has significant potential for raising New Zealand's long-term rate of economic growth, based on the fostering of local commitment to development activities and initiatives. Implications are discussed in the context of international evidence on the link between social capital and economic performance.

1. INTRODUCTION

The structure of this paper is as follows. Section 1 presents a brief historical overview of New Zealand's approach to regional development issues. Section 2 describes changes in the regional and sub-regional institutional environment resulting from post-1984 reforms. Section 3 discusses recent central government attempts to facilitate a more coherent and sustainable regional development framework, and Section 4 illustrates this by describing the processes and outcomes of the Northland Economic Strategy. Section 5 discusses the conceptual background to the new bottom-up approach in the context of international literature on the link between social capital and economic

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performance. Section 6 provides a brief summary and conclusion.

2. REGIONAL DEVELOPMENT IN NEW ZEALAND

Until the late 1960s, New Zealand was recognised as having a relatively high average standard of living and low income inequality. Due to such features as the country's small population, central wage determination, and uniform pricing of commodities, there was little concern about disparities in regional economic performance. Governmental power was highly centralised and economic policy tended to be interventionist.

Social problems associated with regional depopulation and unemployment began to emerge after the recession of 1967-68, resulting in considerable debate over the appropriate policy response. In the early 1970s, central government established a top-down Regional Development Programme to stimulate growth and expand local industries. An attempt to strengthen regional government was overturned in the mid-1970s when the incoming National government substituted a proposed new regional government structure with relatively weak United Councils (McKinlay, 1990).[2] The continuation of a top-down approach was exemplified by central government's reaction to the world oil price shocks. "Think Big" infrastructure projects were initiated in the late 1970s as part of a drive towards greater national energy self-sufficiency. The Think Big projects were also intended to kick-start the utilisation of resources in specific regions (Karagedikli, Maré and Poot, 2000, pp 326-327).

The economic failure of the Think Big projects and other forms of top-down regional and industry intervention provided justification for the extensive policy shift that subsequently occurred. Since the election of the Fourth Labour Government in 1984, successive governments have pursued a wide-ranging programme of economic and institutional reform aimed at enhancing allocative and productive efficiency through greater reliance on market forces. The programme encompassed an array of "Washington consensus" initiatives (Williamson, 1994), including increased fiscal discipline, redirection of public expenditure priorities, tax reform, exchange rate reform, industrial and labour market deregulation, privatisation of public assets, and trade liberalisation.

[2] At the time, local infrastructure was provided and maintained by a wide range of sub-regional authorities with limited powers of governance. These included city, county and borough councils, and special purpose authorities such as catchment boards, harbour boards and electricity supply authorities (McKinlay, 1990).

Table 1. Key Regional Development Indicators, 1996 Census

Region[1]	Usually Resident Population	Median Male Income (NZ$)	Lack of Formal Qualifications (%)[2]	Unemployment Rate (%)
Auckland	1,068,645	24,401	28.2	4.8
Wellington	414,048	25,480	26.6	5.0
Canterbury	468,042	21,418	32.2	4.2
Waikato	350,124	21,620	35.5	5.2
Manawatu-Wanganui	228,771	19,772	36.0	5.2
Bay of Plenty	224,364	20,211	36.4	6.2
Otago	185,085	19,216	31.6	4.6
Hawke's Bay	142,788	19,927	37.9	5.0
Northland	137,052	16,356	37.5	6.3
Taranaki	106,587	21,961	39.7	4.9
Southland	97,098	22,457	41.9	3.6
Gisborne	45,786	17,874	38.0	7.0
Nelson	40,278	21,835	31.7	3.8
Marlborough	38,397	20,577	34.6	3.6
Tasman	37,971	19,646	34.2	2.8
West Coast	32,511	18,521	41.5	4.7

Source: www.stats.govt.nz.

Notes: (1) Auckland and Wellington are primarily urban areas, while the remaining regions comprise a mix of urban and rural areas.
(2) Proportion of usually resident population aged 15 years and over with no formal qualifications.

In keeping with its broader agenda, the central government approach to regional development in the post-1984 era was non-interventionist. Reflecting this, in the early 1990s the Minister of Regional Development became the Minister of Business Development, and Business Development Boards replaced the existing network of Regional Enterprise Boards. The accepted wisdom was that market forces would ensure the benefits of national economic growth trickled down to the regions (Karagedikli, Maré and Poot, 2000, p 324). However, based on subsequent evidence (refer Table 1) this assumption has come under scrutiny. Increased regional differences in average income have been confirmed by the Population Monitoring Group (1989) and, more recently, by Smith (2000) and Karagedikli, Maré and Poot (2000). Smith found considerable spatial variation in various measures of poverty at the regional level. Karagedikli, Maré and Poot report evidence of a dichotomy between income trends in the Auckland and Wellington urban areas and trends in more rural regions.

There has been conjecture that regional socio-economic disparities have increased in the past two decades as a result of labour market changes due to tariff reductions and globalisation, technological advances, increased urbanisation, and agglomeration in the private sector. The effects of post-1984 economic restructuring appear to have had a particularly negative impact on rural areas that were highly reliant on primary output and manufacturing (Karagedikli, Maré and Poot, 2000, p 327). Brownie and Dalziel (1993) present evidence that New Zealand's poor export trade growth in the 15 years prior to 1984 was due to its over-reliance on primary production. Hence, the correction of this structural maladjustment may have been a key driver of subsequent regional disparities.

In recent years central government policy has been supplemented by concerns for social cohesion and regional development. Strategic advice to the incoming government in November 1999 noted that a "cohesive society" is one of six key elements that should be at the heart of national economic policy (Treasury, 1999). Over the past two years, central government has committed itself to modest levels of economic intervention (including regional development) through the establishment of a Ministry of Economic Development. The new Ministry's responsibilities include a portfolio centred on Industry and Regional Development, which provides funding and assistance through its operational arm, Industry New Zealand. Programme delivery is carried out through partnerships between Industry New Zealand, territorial authorities[3], non-governmental economic development agencies, regionally-based central government agencies, Maori organisations, and industry.

3. BACKGROUND TO THE CURRENT INSTITUTIONAL ENVIRONMENT

The post-1984 paradigm that was applied to public sector reform was a synthesis of public choice theory, principal-agent theory, institutional economics and neo-classical macroeconomics (Wallis and Dollery, 2000, p 2). A central feature was that the public sector should only own or manage assets that are necessary to fulfill its core functions. The subsequent "disengagement" of central government from a wide range of non-core functions resulted in an *ad hoc* devolution of service provision (McKinlay, 1990)[4]. The resulting gaps were filled by a mix of agencies, including private enterprise, non-profit organisations and, often by default, territorial authorities. Over the same period, employment, income support and other central government services have been regionalised to increase their responsiveness to local issues. In addition, the potential of Maori tribal and sub-tribal organisations has been revitalised through the restoration of land and other resources as settlement for historical grievances against the Crown. The result is a dynamic and fragmented institutional environment (refer Table 2).

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[3] Territorial authorities (otherwise known as city and district councils) are sub-regional governing bodies.

[4] McKinlay (1990) notes that devolution has not characterised all of central government's reforms, with some (e.g. health reforms) alternating between decentralisation and recentralisation.

Table 2. New Zealand's Regional Development Environment

Institutions/Agencies[1]	**Number[2]**	**Functions**
Territorial Authorities	74	Provision and maintenance of physical infrastructure, land use regulation, recreational services, and promotion of overall community wellbeing and development.
Regional Councils	12	Management and regulation of effects on the physical environment, along with land transport planning and contracting of passenger services.
Economic Development Agencies	55	Provision of funding, information sharing and other initiatives for the promotion of regional and sub-regional development.
Community Trusts	35+	Investment and distribution of funds for local charitable, cultural, philanthropic, recreational, and other purposes, including economic development.
Maori Trusts and Incorporations	36+	Promotion of Maori social and economic development.
Ministry of Maori Development	13	Promotion of higher socio-economic achievement for Maori.
Department of Work and Income	13	Delivery of employment-search and income support services.

Sources: www.lgnz.co.nz; McKinlay, 1999; www.govt.nz; www.stats.govt.nz; www.edanz.org.nz.

Notes: (1) A wide range of additional government and non-government agencies contribute to regional development through their impact on the social and physical environments. (2) Figures in the central column are the national number of institutions/regional offices. The figure for economic development agencies is the membership in EDANZ (discussed below) and includes the business development units of a number of territorial authorities. The figure for community trusts is based on McKinlay (1999). The minimum figure for Maori trusts and incorporations is based on the national number of major tribes and sub-tribes (Statistics New Zealand, 1998), but the actual figure is likely to be considerably higher.

Since the late 1980s, institutional and economic reforms have facilitated stronger governance powers for regional and sub-regional authorities. The Local Government Amendment Act 1989 resulted in significant amalgamation in the local government sector (refer Figure 1). Twelve regional councils and 74 territorial authorities were created from the 600-plus authorities that existed previously (including 22 United Councils, more than 200 city, county and borough councils, and a wide range of special purpose authorities) (McKinlay, 1990). Unitary authorities with the powers of both a regional council and a territorial authority serve four of these regions (namely, Gisborne, Marlborough, Tasman and Nelson). In the remaining 12 regions, the regional council boundary encompasses between 3 and 12 territorial authority areas. The architects of the Act tried to ensure the new configuration encompassed identifiable communities of interest (Wallis and Dollery, 2000, p 10)[5].

Figure 1: Regional Council Boundaries

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[5] Consideration of the term “communities of interest” is beyond the scope of this paper. Excellent discussions from a New Zealand perspective are contained in Britton, Le Heron and Pawson (1992) and McKinlay (1999). A wide range of overlapping “regions” served by central government agencies and non-governmental organisations are illustrated in the *Atlas of New Zealand Boundaries* (Kelly and Marshall, 1996).

Reorganisation of the local government sector was characterised by a concern that regional councils should not become so powerful that they overrode the interests of territorial authorities. Hence, the responsibilities of regional councils were narrowly defined, though not completely excluding the potential for involvement in economic development activities and initiatives. In contrast, the 1989 Act gave territorial authorities a broad mandate to "contribute to the social, economic and infrastructure development of their communities" (Wallis and Dollery, 2000, p 8), along with considerable discretion in terms of rating policies, level and range of services provided, and methods of service delivery. In response, the more proactive territorial authorities began to play a greater role in economic development on behalf of their communities[6]. Many have formed tourism promotion agencies and business development units, either as a division of the territorial authority or as a separate entity (e.g. a trust or incorporation). Economic development at the regional and sub-regional level has been formalised to some extent through the inception of EDANZ, the association of economic development agencies in New Zealand. EDANZ was established in November 1996 and now has a membership of 55. The association promotes regional alliances through networking and information sharing, and lobbies in support of regional development issues.

Activities and initiatives undertaken by independent economic development agencies and territorial authorities include tourism-focused CBD upgrades, the development of district and city slogans and brands, coordination of marketing efforts, facilitation of industry clusters, promotion of inward investment, support of events, and provision of information on sub-national social and economic performance[7]. There is a strong possibility that the economic development role of territorial authorities will be further strengthened as a result of a current review of the local government sector. This review opens the possibility that powers of general competence may be bestowed on local government (Department of Internal Affairs, 2001)[8]. In effect, this means that territorial authorities would have greater scope to choose the activities in which they are involved and the ways these are undertaken.

In addition to territorial authorities and regional councils, newly formed community trusts have become an important part of the regional governance environment. The purpose of a community trust, as defined in the Community Trusts Act 1999 (section 12), is to apply the proceeds from its assets for

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[6] There has been a post-reform polarisation in the approaches of different territorial authorities. Although many are now more active in terms of serving their communities' social and economic interests, others have pursued a minimalist approach characterised by the divestment of assets in favour of purchasing services from the private sector. This divergence has been driven by local choice rather than by necessity (McKinlay, 1999, p 15).

[7] A range of case studies is summarised in Local Government New Zealand (2001a), available on the Internet at www.lgnz.co.nz/bookshelf/submissions/EDGuidebook.pdf.

[8] Updates of the review of the Local Government Act may be accessed on the Department of Internal Affairs website: www.dia.govt.nz.

"charitable, cultural, philanthropic, recreational, and other purposes … that are beneficial to the community principally in the area or region of the trust." Section 11 of the Act ensures that the trust remains established in the same geographic area. The community trust model arose from a distinctive feature of the New Zealand approach to economic reform, namely that allocative and productive efficiency should be pursued "in the interests, as perceived by government advisors, of maximising taxpayer wealth" (as opposed to government wealth) (McKinlay, 1999, p 8). This philosophy was reflected in Treasury's 1987 brief to the incoming government, which argued that the proceeds from the privatisation of public assets should accrue to the "true owners" (e.g. individual taxpayers or ratepayers) by way of a share giveaway. Community trusts have subsequently been formed as a result of deregulation and corporatisation in the banking, electricity distribution, transport, and local infrastructure sectors, as described below.

Prior to 1988 the New Zealand banking sector included 14 trustee savings banks that were locally governed and community focused. Each had an exclusive regional franchise and the benefit of a government guarantee. The post-1984 deregulation of financial markets put a number of trustee savings banks under pressure due to increased competition, a lack of scale and, in some cases, poor asset management (McKinlay, 1999, p 24). As part of a drive to reduce central government's exposure in the financial sector, the trustee savings banks were subsequently corporatised, with ownership vested in community trusts as a proxy for the true owners (i.e. present and future depositors). A series of mergers resulted in rationalisation of the trustee savings banks to three companies: Trustbank, TSB Bank and ASB Bank. In 1996, the 11 community trusts with a stake in Trustbank accepted a takeover bid from the Westpac Banking Corporation, resulting in a windfall gain (McKinlay, 1999, pp 24-31). The majority of these trusts have now diversified their investment portfolios and, in most cases, divested themselves of involvement in the financial sector.

Additional community trusts have been created through reforms in the electricity distribution sector (McKinlay, 1999, pp 42-62). Prior to restructuring, electricity distribution was undertaken by sixty supply authorities that included a mixture of local authority involvement and special purpose electric power boards. After much debate and political pressuring in the late 1980s and early 1990s, these authorities were permitted to pursue their own preferences for ownership arrangements, subject to public consultation. The result was a diverse range of ownership structures, including community trusts with an initial 100 percent ownership in their energy companies, trusts with part ownership in their companies, and a number of structures involving mixed ownership by trusts and territorial authorities.

The foundation for additional community trusts was also laid in the late 1980s with the compulsory corporatisation of ports, whose shares were initially vested in local harbour boards. Upon disestablishment of these authorities, the port companies (and proceeds from the sale of shares in these companies) were allocated primarily to regional councils[9]. The Local Government Amendment Act 1992 subsequently required that regional councils apply any funds from the sale of port company shares to debt reduction and operating costs, with the remainder vested in community trusts (McKinlay, 1999, pp 40-41). A significant divestment of shares was made in 1996 by the Northland Regional Council to fund a community trust for economic development purposes.

According to McKinlay (1999, pp 62-72), the community trust model for devolving public wealth may have reached its limits with the formation of the Auckland Regional Services Trust (ARST). In 1992, substantial infrastructure and property assets were passed from the Auckland Regional Council to the ARST, including water and waste services, land transport services and an 80 percent shareholding in the Ports of Auckland Ltd. The unforeseen financial success of the ARST, coupled with the terms of its trust deed, meant that it was essentially duplicating the functions of the ASB Bank Community Trust. Hence, through yet another amendment to the Local Government Act, central government disestablished the ARST and distributed its assets amongst six territorial authorities and a new corporate body known as Infrastructure Auckland.

The total value of assets held by community trusts in New Zealand is now in excess of NZ$5 billion, and returns are distributed regularly in the form of grants, scholarships and gifts for community development purposes. Each trust has autonomy to manage and distribute its funds in accordance with the terms of its deed, and a number have become directly involved in economic development initiatives. McKinlay (1999) notes the tensions created by the overlapping responsibilities of territorial authorities and community trusts. He argues that community trusts are now an integral part of the local governance environment, and the funds vested in these trusts should therefore be managed more consistently with local government expenditure. Although territorial authorities and community trusts conduct their strategic planning separately, it is not uncommon for them to act as partners in terms of capital expenditure and ongoing maintenance of specific local developments.

In recent years, Maori trusts and incorporations have also become an important part of the regional development environment. Prior to European settlement in the 19th Century, New Zealand's natural resources were managed by Maori tribes and sub-tribes in accordance with traditional usage. The Treaty of Waitangi, signed in 1840, laid the foundation for the relationship between Maori and the British Crown. In return for the concession of governance to the Crown, the Treaty guaranteed full authority to Maori over their land and other resources. However, over the subsequent 150 years the principles of the Treaty were dishonoured, and it is only in recent decades that central government has re-committed to its obligations. In 1994, a NZ$1 billion appropriation was established for the settlement of historical grievances, and the Office of Treaty

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[9] An exception was the Canterbury Region, which contained two harbour boards with significantly sized ports. These were vested in separate territorial authorities within their former harbour districts (McKinlay, 1999, pp 36-37).

Settlements was subsequently set up to enable claims to be settled.

The Maori commercial asset base is now worth an estimated NZ$5 billion (Horomia, 2000). The restoration of assets (including land, fisheries, geothermal and other resources) has prompted a significant and growing number of trusts and incorporations undertaking local development activities. Although utilisation of these assets continues to be hindered by resource fragmentation and a lack of strategic direction, greater coherence is being fostered through the initiatives of Maori organisations and central government agencies. Maori organisations have a unique vested interest in regional development initiatives, and legislation imposes minimum requirements on territorial authorities and other agencies to consult with Maori on development issues. For instance, the Resource Management Act 1991 gives Maori a political status and formal stakeholder interest in natural resources, and consultation has been tentatively identified by case law as a principle of the Treaty of Waitangi (Hayward, 1999).

Apart from the institutions discussed above, a process of regionalisation has occurred in recent years in the delivery of specific central government services, in a drive to become more responsive to regional differences. Of particular note, the Department of Work and Income was formed in October 1998, amalgamating income support and employment services within a single government department that operates across 13 geographically defined regions. The Department of Work and Income is the single largest central government agency, administering more than NZ$13 billion of transfer payments each year. The Ministry of Maori Development, established in 1992, also plays a significant role in regional development through its connection with local Maori organisations. A range of other central government agencies contribute to regional development less directly, for example through their impacts on overall social and economic wellbeing, and their involvement in regulating physical development (including infrastructure).

4. THE REGIONAL PARTNERSHIP PROGRAMME

The cornerstone of central government's new approach to regional development is the Regional Partnership Programme administered by Industry New Zealand. The goal of the programme is to develop around 20-30 "economic development regions" characterised by a common strategic vision (refer www.industrynz.govt.nz). Following the inception of the Ministry of Economic Development, self-defined communities of interest were invited to submit expressions of interest for the programme. At the time Industry New Zealand became operational in October 2000, 137 applications had been received. These ranged from specific local facilities and initiatives (e.g. airport development), to Maori business development strategies, tourism strategies, industry clusters and infrastructure upgrades.

The Regional Partnership Programme was initially piloted in the Tairawhiti (Gisborne/Hawke's Bay) and Northland regions, on the basis of identified socio-economic need. Priority has subsequently been given to applications focusing on

Table 3. Regional Partnership Programme Approvals to October 2001

Regional Council Area (approx)	Economic Region	Funding to Date (NZ$)
Northland	Northland	200,000
Auckland	Auckland	100,000
Waikato	Coromandel/Hauraki/Matamata-Piako	88,000
	Waikato (sub-region)	30,375
	Waitomo/Otorohanga	55,000
	Taupo	92,500
Gisborne	Tairawhiti (East Coast)	155,000
Bay of Plenty	Rotorua	200,500
	Mataatua (Eastern Bay of Plenty)	120,000
Hawke's Bay	Hawke’s Bay	199,688
Taranaki	Taranaki	94,000
Manawatu-Wanganui	Wanganui/Ruapehu/Rangitikei	100,000
	Kapiti/Horowhenua	51,187
	Manawatu	135,000
Wellington	Wairarapa	162,500
	Wellington (sub-region)	70,000
Marlborough	Marlborough	100,000
West Coast	West Coast	100,000
Canterbury	Canterbury	200,000
Otago	Otago	100,000
Southland	Southland	100,000
Other	Chatham Islands	60,000

Source: www.industrynz.govt.nz

the development of collaborative regional strategies. The funding component of the programme involves a one-off payment of up to NZ$100,000 per region for strategic planning, a further NZ$100,000 for capability-building once the strategy has been developed, and up to NZ$2 million for implementation. Regions are also required to find funding from other sources. As at October 2001, a total of 22 communities of interest had received funding worth $2.5 million for strategic planning and capability building (refer Table 3). This figure will increase considerably over the next two years as each economic region qualifies for Stage 3 (i.e. implementation) funding.

5. THE NORTHLAND ECONOMIC STRATEGY

This section illustrates the application of the Regional Partnership Programme by describing the processes and outcomes of the Northland Economic Strategy. By way of background, Northland was one of the earliest parts of New Zealand to be settled, by both Maori and Europeans. It was the site of the original state capital and the signing of the Treaty of Waitangi. The region's eastern area now includes a thriving tourism industry, while residents in the more isolated western area have a relatively low average socio-economic status. Primary industries are a major contributor to the local economy, which made the region vulnerable to adverse economic trends in recent decades (Britton, Le Heron and Pawson, 1992, p 241). Northland's three territorial authorities (refer Figure 2) each has a different level of commitment toward local economic development, and have rarely co-operated towards development at the regional level. The Northland Regional Council Community Trust (NRCCT) channels the proceeds of its NZ$13 million fund into economic development through two subsidiaries, Destination Northland Limited (regional marketing and visitor promotion) and the Northland Grow Trust (industry support). In addition, there are a wide range of Maori trusts and other non-governmental organisations undertaking sub-regional economic development activities.

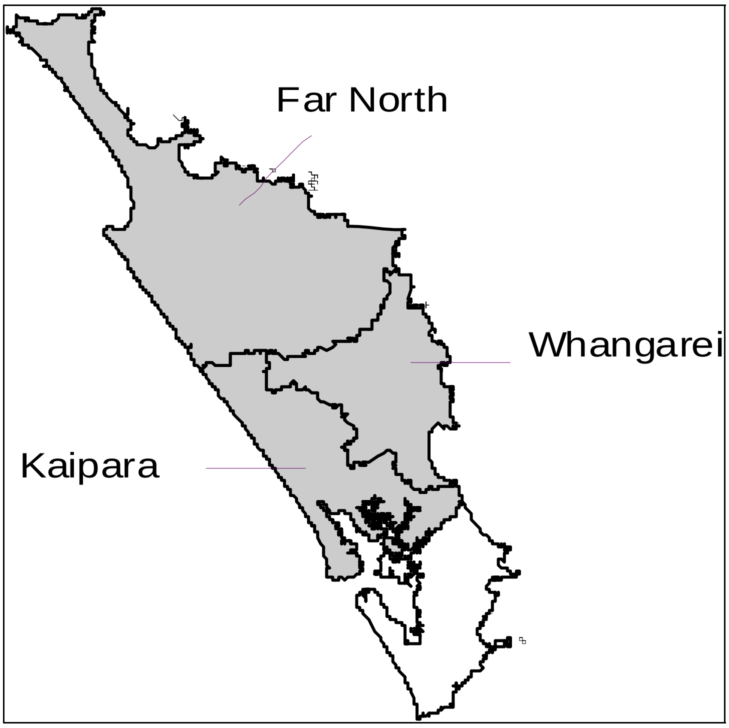

Figure 2*:* Northland Territorial Authority Areas

In mid-2000, the NRCCT initiated plans for an over-arching regional development strategy, and was subsequently successful in its application for additional funding through the Regional Partnership Programme[10]. A major public consultation process was undertaken during the first half of 2001, culminating in a comprehensive strategy with a high level of input (and buy-in) from key stakeholders. The strategy development process was guided by a Steering Group comprising nominations from the Northland Regional Council, each of Northland's territorial authorities, the regional office of the Department of Work and Income, business leaders, Maori nominations, and a representative of the Ministry of Economic Development. With the assistance of the regional office of the Ministry of Maori Development, a Maori Task Group was formed to work alongside the Steering Group, to ensure Maori were fully involved in the process. The strategy progressed under the auspices of a Mayoral Forum, resulting in political commitment at the regional and sub-regional levels.

The formation of a lead agency for regional development was identified as central to the success of the strategy. Functions of the new agency will include lobbying on behalf of regional development issues, facilitating inward investment, regional marketing and brand development, information brokerage, and industry coordination. The proposed structure for the agency is a modification of the NRCCT and its subsidiaries. The newly constituted trust will operate through three management units based around (1) regional marketing and visitor activity, (2) industry development, and (3) Maori development, and will have formal links with economic development agencies at the territorial authority level. Funding for the new agency will come from local government, central government, the business sector, and the funds currently vested in the NRCCT (Northland Strategy Steering Group, 2001).

The application of an inclusive and deliberative consultation process resulted in a coherent regional vision and a strategy that integrates social, economic and environmental goals. The strategy document addresses a broad range of issues and action plans, and stipulates lines of responsibility, timeframes for implementation, and performance measures (refer Table 4). The strategy is currently in its early stages of implementation, and capacity-building funding from Industry New Zealand is being used to facilitate the integration of regional and sub-regional development. Specifically, the NRCCT is undertaking further stakeholder consultation to assist in modifying its annual business plan, and

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[10] Note that development of the regional strategy was scheduled to proceed regardless of whether or not central government funding was received. Further information about the Northland Economic Strategy is available on the Internet at www.northlandstrategy.org.nz.

additional strategic planning is being undertaken by territorial authorities and other sub-regional economic development agencies.

Table 4. A Selection of Action Plans from the Northland Economic Strategy

Issue	Actions	Agencies	Timeframe	Performance measures
Negative local attitudes.	Promotional programme on community strengths (role models and success stories); Proactive relationship with media.	Regional development agency (coordinate); Central government agencies; Territorial authorities.	Year 2 & ongoing	Survey programme to benchmark attitudes and measure on a regular basis.
Inadequate health and other social services.	Opportunity for central government to apply resources to unique Northland programmes/pilots.	District Health Board; Regional development agency (lobby); Health service providers; Central government; Territorial authorities.	Year 2-5	An overall lift in wellbeing by Northland people as determined by official statistics.
Need to develop Maori business skills.	Scholarships for Maori.	Maori trusts and incorporations; Ministry of Maori Development.	Year 1 & ongoing	Scholarships established and promoted.
Lack of suitable marketing/information publications providing a positive profile of Northland.	Creation of a flagship Northland profile; Work with immigration consultants to attract skills.	Regional development agency (regional marketing unit); Sub-regional economic development agencies.	Year 1	Preparation and production of material completed.
Need to attract new business ventures.	Identify obstacles to new investment (e.g. required infrastructure changes).	Regional development agency; Sub-regional economic development agencies; Chamber of Commerce; TRADENZ; Business leaders; Industry New Zealand.	Year 1	Inward investment strategy confirmed and implemented.
Business practice is difficult to support with current telecommunications and power infrastructure.	Inform telco companies of opportunities; Acquire statement of intent from telco and power companies.	Regional development agency (lobby); Sector groups; Territorial authorities; Sub-regional economic development agencies.	Year 1	IT issues defined and action plan agreed for the region.

Source: Adapted from Northland Strategy Steering Group, 2001.

The formulation of the Northland Economic Strategy depended on a commitment to inclusive and deliberative consultation, and the ability of the Steering Group, Maori Task Group, central government representatives and other stakeholders to work collectively. The process was facilitated by an independent consulting firm following emerging best-practice guidelines (refer Killerby, 2001a; Local Government New Zealand, 2001b). Industry New Zealand has subsequently incorporated elements of the process into its recommendations for other economic regions.[11] Feedback to date indicates that Maori, industry, local government and central government are in support of the strategy and are working collaboratively to attain its objectives. With Northland and other regions approaching eligibility for Stage 3 funding, interest is now turning to the next phase of the Regional Partnership Programme which involves funding for specific major initiatives.

6. REGIONAL PARTNERSHIPS AND SOCIAL CAPITAL

Central government's new regional development approach differs markedly from both the top-down interventionist policies of the 1970s and the non-interventionist policies of the late 1980s and 1990s. The assumption of the post-1984 reformists was that regional economic problems should not be any different from national problems in a freely operating market economy, and that capital and labour mobility should ensure convergence in regional economic performance. Given that this expectation has been disproved, and with top-down intervention no longer a popular option, regional policy makers turned to the international economic literature in search of a new approach (Carpinter, 2001). The Regional Partnership Programme has a strong emphasis on institutional collaboration and extensive public consultation, reflecting a general upsurge of interest in the economic impact of social capital (i.e. social cohesion and effective governance).

Central government's interest in social capital theory has been motivated by the fact that national economic performance since the reforms has been only moderate.[12] Furthermore, some commentators have argued that the narrow focus on allocative and productive efficiency, coupled with the "blitzkrieg" tactics of the reformers, may have begun to undermine the social foundations of economic activity (Department of Internal Affairs, 1997; Hazledine, 1998; Wallis and Dollery, 2000). Wallis and Dollery (forthcoming) contend that the capacity of central government agencies to co-ordinate their activities and collaborate with external agencies (including regional and sub-regional authorities) may also have been diminished, due to the adoption of institutional arrangements based on a

[11] Refer http://www.industrynz.govt.nz/regional/docs/rpp_framework_011005.doc.

[12] Galt (2000, pp 8-9) reports that New Zealand's per capita GDP growth rate since 1987 has been only 0.67 percent per annum on a peak to peak basis. Rodrik (1996, pp 29-30) notes that there is a lack of empirical support for the "conventional wisdom" that reforms have a negative effect on growth in the short-term. In other words, the counterfactual (no reforms) may have produced worse results.

strict application of the principal-agent model.

A broad definition of social capital encompasses social cohesion, quality of governance, and interactions between citizens and the institutional environment. Social cohesion is reflected in the prevailing level of social trust, norms of reciprocity and co-operation, and networks of association (e.g. membership in voluntary organisations). The quality of the institutional environment may be assessed in terms of, for instance, transparency and accountability, bureaucratic efficiency, and control of corruption. The extent to which democracy is participatory rather than merely representative indicates the connectedness of civil society and the institutional environment[13]. The common aspect of these cognitive, relational and institutional features of society is that they all have the potential to facilitate collective action. Alternately, low levels of social trust and civic association, coupled with a dysfunctional institutional environment and lack of confidence in government, will impede economic activity by limiting the range of viable transactions (including the exchange of ideas).

The results of national-level and cross-country empirical studies suggest that social capital facilitates increased economic performance through a range of mechanisms, including investment in physical and human capital, reduced transaction and monitoring costs, and greater levels of innovation and technological progress (Killerby, 2001b)[14]. In addition, social capital can produce increased investment in public infrastructure, improved management of common property resources, and lower social costs (Knack and Keefer, 1997). Theory and case study evidence also suggest that the long-term sustainability of development is enhanced through local "ownership" and commitment to activities and initiatives (Ostrom, 2000). Social capital is now a central theme in New Zealand's overall approach to economic development (Treasury, 2001), and the regional partnership approach is a component of this.

The empirical research of Putnam (1993) is particularly relevant to the New Zealand situation. Over a period of more than two decades, Putnam accumulated evidence of the effectiveness of local government reforms in Italy in terms of institutional and economic outcomes, and found that the results for each region were dependent on the underlying levels of social trust and citizen participation. Using regression analysis, Helliwell and Putnam (1995) showed that regions of Italy with higher levels of civic engagement had higher rates of economic growth over the period 1950-90. Indices of civic community, institutional performance and citizen satisfaction were introduced as explanatory variables, with real per capita income as the dependent variable. Civic community was measured as a composite index of newspaper readership, the prevalence of sports and cultural organisations, turnout at referenda and the incidence of preference voting.

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[13] There is increasing interest in participatory forms of governance, due in part to a pervasive international trend towards declining confidence in the institutions of government. For a good review of the evidence and possible causes refer to Pharr and Putnam (2000).

[14] A wide range of empirical findings can be accessed via the World Bank's social capital home page: http://www.worldbank.org/poverty/scapital/.

Institutional performance was measured on twelve dimensions, including legislative innovation, timeliness of budgets, and responsiveness to citizen requests for information. Citizen satisfaction was calculated as the proportion of respondents in a number of large sample surveys who were "very" or "rather" satisfied with the activities of their regional government. Subject to data limitations, Helliwell and Putnam found that each of these measures helped to explain regional variation in economic growth.

Karagedikli, Maré and Poot (2000, p 323) note that New Zealand has traditionally been a country with a strong sense of social responsibility. Webster (2001) presents results from the 1998 New Zealand Study of Values that show the average New Zealander's core values to be far more socially-oriented than the *homo economicus* archetype. A key result is that 47 percent of survey respondents felt "most people can be trusted" (Webster, 2001, p 203). This compares favourably with measures of social trust in other countries based on the 1995-97 World Values Survey (Inglehart *et al*, 2000). Comparable figures include Finland 48.8%, Japan 42.3%, Australia 40.0%, and the United States 35.9%. Empirical evidence also indicates a high quality of governance in New Zealand. Kaufmann, Kraay and Zoido-Lobatón (1999) use an unobserved components model to measure six dimensions of governance for a sample of more than 160 countries (including the OECD group) based on 1997-98 data from a large number of sources. New Zealand is ranked in the top five countries in terms of control of corruption, rule of law, political stability/lack of violence, and regulatory framework, and is ranked in the top 15 countries in terms of government effectiveness and voice and accountability[15].

Enhancement of the transparency and accountability of central and local government was one of the main objectives of the post-1984 public sector reforms. For instance, the Local Government Amendment Act 1989 resulted in separation of the governance and management functions of regional and sub-regional authorities, and the Local Government Amendment Act (No. 3) 1996 required the preparation of long-term financial strategies subject to public consultation. The devolution of governance responsibilities, coupled with increased accountability requirements, resulted in increased interest in inclusive and deliberative public consultation strategies. MacLennan (2000) undertook a recent survey of territorial authorities that showed extensive use of participatory decision-making processes[16].

The key implication of social capital theory for regional development is that the alignment of individual and institutional incentives serves to facilitate

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[15] These rankings are subject to relatively large margins of error, as discussed in Kaufmann, Kraay and Zoido-Lobatón (1999). Research findings and data on governance and economic performance may be found on the Internet at www.wordbank.org/wbi/governance/wp-governance.htm, including links to the Kaufmann, Kraay and Zoido-Lobatón dataset.

[16] Refer to McKinlay (1999, pp 80-85) for a general review of accountability requirements in New Zealand's public sector. Refer to Cousins (1999) for a discussion of minimum requirements for public consultation by local government.

collective action and hence raise economic performance. Although a top-down approach and/or financial inducements might produce a semblance of increased regional co-operation, it could equally undermine the spontaneous nature of genuine social capital (Fukuyama, 1995; Department of Internal Affairs, 1999). Hence, top-down intervention is inconsistent with both the neo-liberal agenda and the approach of social capital advocates. The critical aspect of the Regional Partnership Programme is not, therefore, the level of funding provided, but the process by which development initiatives are formulated and implemented. Central government's new approach is one of facilitation rather than intervention, and inclusive community consultation is a key criterion for the assessment of Regional Partnership Programme applications.

7. SUMMARY AND CONCLUSION

Central government's approach to regional development has historically been intermittent, and since the mid-1980s has been characterised by a policy of non-intervention. Over the past two decades, changes in the economic environment have contributed to increased regional disparities. Over the same period, institutional arrangements at the regional level have altered considerably, and the power of sub-regional authorities has been strengthened.

Social capital theory has begun to fill the post-1984 policy void in relation to economic development. Until recently regional development initiatives have been uncoordinated, with different agencies planning and implementing initiatives for overlapping communities of interest. Through the Regional Partnership Programme, central government is attempting to facilitate a more coherent framework, including greater strategic co-operation between territorial authorities, regional councils, government agencies, Maori organisations, community trusts, and industry. This collaborative approach is critical from the perspective of social capital theory, because a top-down policy could undermine the level of local commitment to development activities and initiatives.

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