Public sector reform and indigenous entrepreneurship

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Abstract This paper considers the implications of the liberalization of the New Zealand economy for entrepreneurial development by indigenous New Zealand Maori tribal organizations. Since 1984 the economic objective of the State has been to create a modern market economy free of price distortions, bureaucratic management and government protectionism. One of the State’s responses to enabling tribal organizations to provide for increased self-determination and to lessen Maori State dependency was to seriously address the issue of compensation to Maori of resources that had been expropriated or confiscated during the past 150 years. While there have been difficulties in reaching agreement on appropriate or adequate allocations of Crown-owned resources or compensation, the transfer of resources to private (but collective) Maori ownership is now providing a substantial economic base to build corporate and other entrepreneurial activities. It is argued that such willingness and commitment to transfer resources from the State back to the original owners was a manifest outcome of government’s adoption of liberal economic policies.

New Zealand has gone furthest along the entrepreneurial path … In one fell swoop, New Zealand did away with its old civil service system It eliminated regulations that inhibited competition in both the private and public sectors forcing government-owned businesses … into more competitive markets (Osborne and Gaebler, 1993, p. 330).

Since 1984 the economic objective of New Zealand governments has been to create a modern market economy relatively free of price distortions, bureaucratic management and State protection or other barriers to competition. This new policy direction was a move from a predominantly welfare state and interventionist/protectionist economy to a form of market and economic liberalism. The short to medium-term transition costs of the economic reform program impacted greatly upon the Maori people who collectively feature at the bottom of all socio-economic indicators.

One of the State’s responses to enabling tribal organizations to provide for their reconstruction and to help alleviate the poor socio-economic position of Maori was to seriously address the issue of compensation to Maori of resources that had been expropriated or confiscated during the past 150 years. It is argued that such willingness and commitment to transfer resources from the State back to the original owners was a manifest outcome of successive

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Maori themselves recognized that their resources were being under-utilized
and under-developed and the way to maximize the use of resources was to
empower Maori organizations to address more adequately Maori self-reliance
and Maori economic recovery. As a result of government policy changes since
the mid-1980s, Maori organizations are now involved in the development of
commercial enterprises in the fishing industry, forestry, real estate and
banking. The purpose of this paper is to contextualise the political and
economic environment in New Zealand to demonstrate that the resolution of
indigenous grievances through the redistribution of State-owned assets has
facilitated Maori entrepreneurial activity. This developmental model of
mobilizing resources that have been transferred to or acquired by Maori
organizations has a potential trickle down effect on the socio-economic status
and state dependency of the Maori people.

The political and economic environment
In 1984 a new Labour government was elected into office and immediately had
to deal with a fiscal and foreign exchange crisis. Traditionally, this political
party had espoused social democratic philosophies but the economic
environment of the early 1980s required fundamental changes from the
conservative but interventionist policies of the past decade. The new
government rapidly embarked on radical economic reform policies to
restructure the economy, reduce inflation and reduce the budget deficit with the
objective of creating a modern market free of price distortions, bureaucratic
management and government protectionism (see Margaritis et al., 1994). This
was a major departure from past policies of heavy regulation, trade protection
and other barriers to international competition. A major component of the
reform package was the restructuring of the public sector. Many State activities
that were able to generate income separate from taxation were corporatized or
sold to the private sector. The machinery of government was restructured to
provide a more efficient and cost effective organizational structure.

The restructuring of the public and private sector had considerable impacts
in the area of employment/unemployment on the general population and an
identifiable sector of the population that was particularly affected by the
reforms is the indigenous Maori people[1]. Maori are 15 percent (523,371) of the
total New Zealand population[2] but their State dependency was (and is)
disproportionately high relative to the rest of the population. The disparities in
economic attainment between Maori and non-Maori in New Zealand have been
well documented (see Dalziell and Fox, 1996), and the loss of Maori property
rights goes some way towards explaining the current economically
disadvantaged position of Maori. The history of Maori land alienation demonstrates why strategies and procedures in the last decade have focused on the self-determining economic development of Maori tribal organizations.

The government’s willingness to negotiate compensation settlements for Maori grievances relating to breaches of the Treaty of Waitangi (see below) is an important component in the overall liberalization program and is consistent with the broad theoretical principles underlying the reform program. Self-determination by Maori tribal groups was not only important for the government’s attempt to reform the welfare state, but ongoing claim disputes between the State and Maori could impact adversely on the credibility and time consistency of fiscal policy. This could in turn jeopardize the government’s ability to pursue effectively, efficient contracting arrangements under the 1994 Fiscal Responsibility Act. This legislation has placed fiscal policy on a clearer contractual basis in order to increase its transparency and reduce uncertainty about future fiscal management.

**Maori resource dispossession**

New Zealand was colonized in 1840 and the sovereign political system changed from a complex tribal structure to a western liberal democracy based on the Westminster system of government. The Treaty of Waitangi was signed between the British Crown and various representatives of a number of Maori tribes which guaranteed Maori, under Article 11 “…the full exclusive and undisturbed possession of their Lands and Estates Forests Fisheries…” and equal citizenship rights under Article 111. Before and immediately after colonization Maori tribes had a thriving entrepreneurial economy operating. They had a flourishing trade in fish, agricultural produce such as potatoes, fruit, maize and onions as well as considerable trading markets for pigs. Maori owned a large number of flour mills, and a significant number of trading vessels that regularly sailed to Australia for economic activities (see Waitangi Tribunal, 1988, pp. 44-66).

The Land Wars of the 1860s resulted in the confiscation of millions of hectares of prime Maori land. Further land alienation through the individualization of collective land title, illegally purchased land, the expropriation of land through court awards or leases of Maori land in perpetuity sold to settlers (Waitangi Tribunal, 1996), quickly resulted in substantial economic deprivation. The economic base of the indigenous population was effectively eroded to a point where few were able to make a living through subsistence farming[3] (see Firth, 1972; Metge, 1976; Kawharu, 1977).

The post World War Two period was a time of accelerated social change and industrialization in New Zealand, and the possibility of gaining employment opportunities meant that a rapid urbanization of Maori took place. In 1945 only 26 percent of the Maori population was urbanized, by 1980 this figure had increased to over 75 percent (see Pool, 1991, pp. 153, p. 182). As Dalziel and
Fox (1996, p. 27) point out, a “contrived dependence” had taken place since land alienation resulted in an independent Maori labor force becoming dependent on market employment income. Furthermore, they emphasize the point that:

…historical episodes have ongoing effects; the orthodox economic model of wealth accumulation implies that the uncompensated alienation of property rights will cause a permanent loss of wealth, not only because of the lost asset itself, but also because of the lost opportunities to create income (and hence further wealth through investment and saving) thereafter (Dalziel and Fox 1996, p. 28).

**Maori affairs policies**

In a political climate of considerable Maori activism centering on the Treaty of Waitangi, the newly elected Labour government of 1984 convened an economic summit for Maori leaders to examine the socio-economic status of Maori in New Zealand. A comparison of Maori and non-Maori economic and social indicators highlighted the fact that at that time government was “negatively” spending at least $784.5 million per annum (or 2 per cent of GDP), to maintain many Maori in a state of dependency – whether in hospital, mental or penal institutions or on welfare benefits (Douglas and Dyall, 1985, p. 24). The major recommendations from this conference to government were that Maori and Maori resources were under-utilized and under-developed and the way to maximize the use of resources was to reform government spending so Maori could redress some of their social and economic problems themselves.

The efficacy of New Zealand’s welfare state policies pre-1984, as a universal, redistributive system had the effect of continued Maori State dependency rather than positive Maori self-development or self-determination. Maori policies that the State has embarked upon since 1984 are consistent with its general economic and market liberalization policies. The direction of government has been to encourage innovation, productivity and skill. Maori affairs policies have been designed to assist Maori self development since welfare assistance has not alleviated the social and economic disparities between Maori and non-Maori. The government agenda of reducing the role of the State, encouraging enterprise and deregulating the economy, corresponded well with Maori demands for more tribal control over Maori health, education, social and economic activities. The 1984-1990 Labour government initiated policies of devolution that emphasized community or tribal delivery of services rather than State delivery. Decreasing central government’s responsibilities was a major component of the public sector reform program. The 1990-1999 National (conservative) government has continued this process by mainstreaming government services and directly negotiating with Maori organizations to deliver government services and programs.

Reform was required in terms of empowering organizations to address more adequately Maori economic recovery. State policy for Maori developed in a climate that was reasonably receptive to examining past injustices that had never been resolved, with acknowledgment that the Crown did have Treaty obligations. It evolved as a result of the sustained efforts of Maori to have their
grievances acknowledged by the State. Consequently, a Treaty settlement process has taken place and has included the creation of a Tribunal\cite{4} to research and document past actions of the State. The Tribunal makes recommendations to the Crown on its investigations but is unable to enforce any of its recommendations. It does play a major role in educating the general population on the results of its inquiries. Government negotiations with Maori since 1990 have tended to use the information provided by the Tribunal but the settlements have not necessarily accorded with all the Tribunal’s recommendations. The settlements do, however, provide for the redistribution of resources from the Crown to Maori groups or tribes (see Sharp, 1997).

In December 1994 the government announced its Treaty Settlement Policy which stated the government would settle all Maori Treaty claims to a total value and limit of $1 billion. This included all negotiated agreements and research costs, lawyers’ and consultants’ fees and other undisclosed payments (see Kelsey, 1995, p. 320). While the tribes unanimously condemned this proposal, the government has nevertheless continued to insist that the total payout on Treaty claims will not exceed $1 bn. Although the Waitangi Tribunal recommendations for compensation far exceed this politically expedient $1 bn package, the State has been unwilling to enter into further discussions regarding the total compensation package. There are still many claims to be settled, by March 1997 the Waitangi Tribunal still had 633 claims waiting to be investigated. However, a fishing settlement has been reached and two tribes have directly negotiated individual settlements as part of the government’s Treaty settlement policy.

**Fisheries**

The first major economic Treaty settlement was in the fishing industry. This was a direct response to Article Two of the Treaty of Waitangi which guarantees to Maori “full exclusive and undisturbed possession of their Lands and Estates Forests Fisheries”. When fish were classified as a property right, when overfishing in the early 1980s threatened the fishing industry, fishing quota were introduced to conserve and manage the industry. Maori were disadvantaged, as they were unable to compete for the expensive fishing quotas. In practice, the new Individual Transferable Quota (ITQ), introduced in 1986, clearly advantaged the commercial operators, since quota were to be allocated to fishing operators on the basis of their reported catches over the previous years. Two Maori organizations went to the High Court for a review of the individual quota system. In a landmark decision, the High Court ruled that the quota management system was inconsistent with Article Two of the Treaty of Waitangi and that Maori had to be given a fair deal.

Maori were eventually awarded, under the 1989 Maori Fisheries Act, 10 percent of fishing quota with a further $10 million to establish a commercial fishing company, an estimated value of $174m. After lengthy negotiations the government also provided $150 million for a 50 percent share of Sealord Products Limited – the largest fishing and fish processing company in the
country; 20 percent of new species quota (valued at $22m); and a quota value of $286m (Durie, 1998, p. 159). In return the government demanded an agreement from Maori that all Maori claims to commercial fishing rights would be extinguished[5]. Currently a government appointed Maori fisheries commission is managing these assets. Once Maori tribes, Maori urban organizations, and pan-tribal organizations can agree (or the Courts decide for them) on the appropriate means of distribution[6], additional entrepreneurial activities are likely to take place. In the interim, however, limited Maori fishing developments are taking place.

According to Durie (1998, p. 170) there were no Maori tribal organizations operating fishing businesses in 1989 but by 1996 there were more than 50 Maori tribal fishing operations. Most of them have been the result of tribes leasing the Commission’s quota pending the transfer of assets from the Commission to the tribes. Maori now own nearly 60 percent of the total allowable commercial catch, which obviously provides a strong base to further develop this commercial activity. Furthermore, the last ten years have seen aquaculture develop as the largest growth sector within the fishing industry in New Zealand, and a 1995 survey of Maori in this industry indicated that only some 30-40 percent of all water space Maori have in coastal permits has been developed. There is opportunity for Maori to be significantly involved in the farming, processing, marketing and export sectors of the fishing industry by fully developing their existing water space (Ministry of Maori Development, 1997).

The Tainui settlement
The second major economic settlement came in 1996. One Maori Trust Board (Tainui) reached an agreement with the Crown over the unjust confiscation of 1.2m acres of prime land in the 1860s. A financial settlement coupled with a written apology from Queen Elizabeth provided the Tainui people[7] with assets and cash to a value of $170m[8]. While not all members of this central North Island tribe agreed with the negotiated package, over 75 percent of the respondents to a postal referendum on this issue voted positively for the deal. The settlement has provided an opportunity for the tribe to become self-determining (albeit in a limited manner) and it has provided a potential means for reducing the poverty levels of some of its members.

This tribe has been rapidly investing in land, forestry, education and commercial enterprises. In 1994 the tribe’s annual report showed its total assets value was $7.3m. In 1998 its assets are reportedly valued at over $210m, with a low debt to asset ratio of 10 percent (Waikato Times, 30 April, 1998). To manage its new assets, this tribe has been particularly concerned with setting in place structures that will not only protect its tribal lands, but also provide opportunity for investments and capital growth. It has put in place a legal structure to protect its tribal estate, which for all practical purposes can never be sold nor used as security for a loan. Additionally it has two further structures to manage its assets. One is involved in commercial property
management (retail stores, leased lands, forests, casinos, and fisheries among others) and the other is concerned with land development and the purchase of lands. Both these entities are designed as for profit operations aimed to maximize shareholder wealth. Half their profits are reinvested and the other half are distributed as tribal grants to their people. A substantial proportion of grants are distributed as educational scholarships (in 1998 over $1m was spent on education), considered a major and most important investment in the tribe’s future[9].

The disparities in education attainment between Maori and all other ethnic groups in New Zealand are considerable. Dalziel and Fox (1996, p. 4) show that young Maori are more likely to leave school with no qualifications than all other ethnic groups (35.4 percent as compared to 18.1 percent). Maori youth leave school earlier than do school leavers in general. In 1995, for example, they spent fewer years at high school, 52 percent of all leavers attended school through to year 13 (7th form) compared with only 35 percent of Maori. These disparities in retention rates for Maori and non-Maori are disturbing, hence the tribal concern to invest heavily in education. However, changes in Maori attitudes to education and increased recognition of its level of importance are beginning to take place. There is some evidence to indicate an increase in the number of Maori in tertiary education, from 5 percent in 1986 to 10.9 percent of the total tertiary student population in 1995 (Statistics New Zealand, 1996).

The Ngai Tahu settlement
The third major Treaty settlement has been long and protracted. This involved the South Island tribe, Ngai Tahu. This agreement is in respect of a long-standing breach of contract whereby the Ngai Tahu sold about 1.38m hectares of land to the Crown in a 20-year period between 1844 and 1864. This was conditional on one-tenth of the land being set aside as “reserves” for the tribal people, as well as traditional food gathering places. These conditions were never honored and for 140 years the Ngai Tahu have been continuously demanding justice.

Finally, in 1996, agreement on a compensation package was reached between the Crown and Ngai Tahu, followed by the signing of a Deed of Settlement in October 1997. The Crown is providing a settlement package worth $170m[10]. Much of this settlement is a transferal of surplus Crown assets and properties to the tribe. Although the tribe was not totally united in its support for this settlement package, most believe that it is a sufficient foundation on which to build a future for their people.

Ngai Tahu[11] has achieved rapid economic development in the last seven years. Its assets have increased from $4m in 1990, to $28.7m in 1997 (Ngai Tahu, 1997), not including the settlement package. This tribe’s entrepreneurial model is essentially based on standard commercial practices that seek to generate significant and sustainable returns to assets. The bulk of Ngai Tahu investments are in properties (56 percent), fisheries (40 percent), finance (2
percent), and a tourist venture, Whale Watch Kaikoura Ltd (2 percent) (Ngai Tahu, 1997). The objective of the tribe's corporate model – the Te Runanga O Ngai Tahu – is to operate as efficiently and effectively as any private sector business. Its goal is to maximize profits, and not to act as a welfare service or agency to its tribal members.

However, it differs from the usual corporate model in that 60 percent of net profits are reinvested annually but the other 40 percent are used for developing social benefits for Ngai Tahu members. The tribe is in the process of setting up a separate structure for its many and varied non-commercial assets.

Both the Ngai Tahu and Tainui tribes distinguish between commercial assets and assets recognized as part of their tribal estate. The tribal estate can include resources such as land, mountains, rivers, riverbeds and so forth, which are culturally significant to the tribe’s past, present and future. Both tribes are putting structures in place to ensure these assets are to be held in trust, in perpetuity, for future generations, unable to be used as collateral for finance or commercial investment.

This principle, however, is a major problem that many indigenous tribes have when attempting to move into the commercial, entrepreneurial arena. Tribes with predominantly tribal estate resources are unable to raise the equity needed for investment unless their assets are used as collateral. The New Zealand government’s Treaty settlements program, therefore, is providing a means to enable development without endangering the tribal estate.

Diversity
In the past, many Maori landowners have also had difficulty raising development finance because much of their landholdings were in multiple title, or some title records were not complete or it was not practicable to resolve the legal issues of clarifying title (see Asher and Naulls, 1987). One of the issues raised at the 1984 Maori Economic Summit was Maori concern about limited access to finance for economic development.

Following on from this concern, the Maori Development Corporation (MDC) was created in 1987 to partly address this problem. It was an initiative to promote Maori enterprise and to provide avenues for finance for medium-sized Maori businesses. As time has passed, however, MDC moved from being a provider of venture capital for such businesses, to activities that focus on merchant banking. The movement of Maori into the financial services sector has begun although there is an obvious need for considerably more investment in this area. At the same time Dalziel and Fox (1996) claim the banking industry is now making a concerted effort to target Maori entrepreneurs, in particular those associated with tribal-based enterprises.

The Treaty of Waitangi settlements present opportunities which the banking industry has already recognized; WestpacTrust, one of the country’s main trading banks for example, has established, in collaboration with several other investors, Aotearoa Financial Services to specifically target the Maori banking market.
Conclusion
Despite some considerable economic developments by two tribes and the increasing Maori share of the fishing industry Maori social and economic disadvantage is still apparent. A low concentration of Maori in growth industries such as the business and financial sectors, low representation in occupations such as professionals, administrators and managers means that the Maori challenge to participate in New Zealand's economic growth is considerable. This challenge is nevertheless, being tackled by Maori. For the first time in New Zealand's colonial history Maori are beginning to operate in the commercial world with some substantial resources to support their foray into commercial and entrepreneurial activities. Furthermore, the 1996 census data show that over 16,000 Maori are now self-employed compared to 10,000 in 1991. While this is only 4 percent of the total number of self-employed in New Zealand and does indicate a low level of Maori entrepreneurial activity, it is a positive move forward. Furthermore, the number of Maori in middle to high skilled occupations is now increasing at a faster rate than the non-Maori rate. Maori are starting to become self-determining without a paternal State deciding for Maori – rather, Maori are now taking the initiative.

Furthering Maori self-determination and economic development is in the interests of all New Zealanders. Encouraging entrepreneurial activity and fostering a climate for positive Maori initiated developments are much more likely to reduce Maori State dependency than the paternal State-led initiatives of past decades. International evidence suggests that the risk involving entrepreneurial activities of indigenous groups is typically well above normal levels. For example, Mfodwo (1996, p. 19) reports that North American indigenous groups have often found it difficult to manage successfully a conglomerate of assets that had been handed back to them by the State. In part, the problem was that many of these assets had already been performing poorly before the handover took place. There is no evidence to date which would confirm a similar pattern in New Zealand. However it is a risk the tribes need to acknowledge. In saying that, it is worth pointing out that the Maori development model appears to be formed on a well-researched commercial foundation, perhaps indicative to some extent of the quality of assets received. The tribes are using this model to pursue successfully their entrepreneurial activities.

Nevertheless, the Maori tribal development model needs to be viewed with caution. According to Loomis et al. (1998), indigenous peoples often lack good organizational infrastructures, sound governance structures and professionally qualified personnel. They argue that these three factors are critical to successful self-determined and self-managed development. Both Tainui and Ngai Tahu have placed considerable emphasis and consulted widely with their people on appropriate tribal governance structures and commissioned work on developing strategic policy direction documents. The recruitment of skilled tribal personnel has been difficult because of the lack of professionally qualified Maori. Loomis et al. (1998) argue that successful tribal development requires tribal personnel with appropriate professional qualifications to ensure
the proper protection of stakeholder rights and interests. This has already been identified as a problem for the tribes and they both regard ongoing educational developments as crucial to their future success. Currently Tainui and Ngai Tahu are having to employ non-tribal professionals to help manage their commercial operations (see New Zealand Herald, 15 July, 1999).

Maori tribes have used their resource base to position themselves where they feel quite confident given their experiences, knowledge and acquired asset base. In doing so they benefit from the country’s well developed capital markets with access to funds for investment. The government’s transparent fiscal and monetary policy framework provides the opportunity for a better judgment of the risks involved in business decisions. Furthermore, a significant portion of the business distributed profits are redirected to improving the educational opportunities for their people with apparent expected future returns in terms of increases in productivity and socio-economic status.

Notes
1. At the beginning of the reform era in the mid-1980s, Maori unemployment was 8.3 percent compared to 3.2 percent for European/Pakeha in March 1985 (these figures are difficult to interpret as they disguise effective unemployment). By June 1989 Maori unemployment had reached 19.3 percent and the European/Pakeha rate was 5.8 percent. Maori unemployment peaked in March 1992 at 27.3 percent (European/Pakeha, 8.3 percent), and by June 1996 it had fallen to 14.4 percent (European/Pakeha, 4.5 percent).

2. These figures are based on the 1996 census figures and Maori are defined as those people who stated that they belonged to the Maori ethnic group either alone or together with any other ethnic group (Statistics New Zealand, 1997).

3. In 1990 the total of Maori freehold land totaled only 1,305,698 hectares out of 26,900,000. This is only 4.85 percent of the total landmass of New Zealand (Department of Statistics, 1990, pp. 415-16).

4. The 1975 Treaty of Waitangi Act provided for the establishment of the Waitangi Tribunal, which was empowered to make recommendations on claims relating to the Treaty of Waitangi and to determine whether certain matters were inconsistent with the Treaty. It could make recommendations to government but these are not binding on the government. In 1985 it was empowered to retrospect back to 1840 (Sharp, 1997, pp. 386-7).

5. Treaty of Waitangi Fisheries Commission Te Ohu Kaimoana.

6. Tribal groups have been very concerned about the Commission’s allocation model of the fisheries assets and a lengthy and costly process of litigation has taken place. High Court action in 1995 was followed by a case to the Court of Appeal in 1996 and then the case was heard by the Privy Council in England in November 1996. The Privy Council sent it back to the New Zealand courts, to deliberate on the means of distribution.

7. According to the 1991 census, there are 40,062 Maori who identify as Tainui (Department of Statistics, 1991).

8. The confiscated land has an estimated value today of over $12 billion (Waikato Times, 20 November, 1996).


10. The estimated value of the reserved lands Ngai Tahu should have owned today is $20 billion.

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