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**KEY NOTE ADDRESS – DEVELOPING ASSETS
HUI TAUMATA 2005 PANEL**

Rob McLeod
Chairman, Aotearoa Fisheries Ltd

Introduction

1. The website for this *Hui Taumata* contains a stimulus paper on the subject of *developing assets* alongside two companion papers addressing the topics *developing people* and *developing enterprise*. The website also contains a number of commentaries on the three stimulus papers. Together, these documents make a valuable contribution to gaining insights into how to maximise the economic and social progress of Maori.
2. I have thought about this topic in three segments. The first is the extent to which general economic and commercial principles of asset management apply to Maori. The second segment focuses on identifying the key elements of standard economic and commercial frameworks that apply to Maori assets. The final segment addresses specific Maori issues.

The relevance of general economic and commercial models to Maori assets

3. Maori comprise 15% of the New Zealand population, which is sufficiently large to mean that the wellbeing of both Maori and non-Maori New Zealanders are inter-dependent. Policies and strategies that promote the general interests of one group at the expense of the other will harm both groups in the long-run.
4. New Zealand society is diverse and pluralistic. Apart from ethnicity, the same can be said today of Maori society. So do the general economic and commercial models operating at the national level place Maori at a relative disadvantage? If so, can Maori be more successful by changing their mode of participation? General Maori performance still lags that of non-Maori in health, education, income, employment and crime. Reparations for breaches of the treaty reflect the fact that many Maori were wronged in the transition from a pre-European society.

5. Sir Apirana Ngata believed that Maori success was dependent on Maori adaptation and flexibility. He did not see this as conflicting with the retention of Maori culture. Ngata's famous *whakatauki* to a young Maori child reflects his counsel on these issues:

*Grow tender shoot for the days of your world
Turn your hand to the tool of the Pakeha for the well being of your
body
Turn your heart to the treasures of your ancestors as a crown for
your head
Give your soul unto God the author of all things*

6. Other Maori leaders then and today have different views and different strategies. That is to be expected. To me however, developments over time have been kind to Ngata's strategy because Maori have greater economic freedom today to choose between various pathways than was the case in Ngata's time. Maori in general had less choice about work, education and where to live in the late 19th century. People are apt to forget that most countries and people get progressively poorer and riskier as one travels back in time. The modern society has expanded choice and this has been and will be the key ingredient to Maori economic and social progress. Freedom for young Maori requires the same things as for non-Maori, namely functional homes that give access to base necessities, such as health and education. This can only be delivered on a mass scale by a strongly performing national economy.
7. My view is that the ingredients of Maori social and economic success are not unique to Maori. It is not necessary to prescribe, nor discourage, a particular Maori form or mode of commerce or economics. Maori people and organisations should be encouraged to experiment with different ways of doing things. The successful experiments will take root and the unsuccessful ones will not. That is the key role of entrepreneurs in any economy. But predicting winning formulas in advance cannot be done on a consistent and mass basis. The markets for innovation operate on a trial and error basis.

General economic and commercial models

Definitions and frameworks

8. We should start with what we mean by *assets*. The Encarta World English dictionary defines an asset *as property that is owned by a particular person or organization*. I regard that definition as accurate but prefer that it be made clear that property includes both *tangible and intangible property* The key point however is that the term *asset*, which is synonymous with *property*, is of very wide import. For example, it would include *taonga*.
9. Assets are important because of their nexus with wealth and income. Wealth and income give people access to a desired quality of life. The

concepts of wealth and income, like assets, are also not narrowly confined to tangible property such as money. A natural person's income can be defined as an increase in their net assets over a period, (usually a year) prior to (or gross of) any consumption during the period. Net assets are measured as the difference between a person's assets and liabilities (or debts). The term *net assets* is synonymous with the terms *wealth*, *equity* and *net worth*. People either save or consume their income and savings add to a person's wealth.

10. Income can be characterised as the fruit of an asset. That relationship is often analogised to the fruit and the tree. In the capital markets, that relationship is borne out by the fact that the value of an asset is a multiple of the income that it generates. For example, consider a bank bond that costs \$100 and promises to pay 5% in perpetuity or \$5 per annum. The bond value is therefore 20 times the expected income stream. Now imagine that market interest rates for that kind of bond rise to 10% such that a \$100 bond can now generate \$10 per annum - a multiple of 10 times the expected income. The market will now value the original \$5 annual income stream at a multiple of 10, being \$50. This example demonstrates that there are two key elements that determine asset values, namely the amount of expected income on the one hand, and the markets expected rate of return for that asset on the other.
11. The term *capital* is often used in two senses. In one sense it means assets, but in another it can mean *equity* (or wealth, net assets and net worth). Net assets are the residue of assets after subtracting liabilities (or debt). Accountants generally use the term *capital* to mean *equity*, which together with debt are the only two financial sources for acquiring assets. On the other hand, economists generally use the term *capital* to mean assets.

Asset Decisions

12. There are two decisions that must be jointly addressed in relation to assets, namely the portfolio decision, and the financing decision. The portfolio decision addresses which assets should be divested or acquired. The financing decision addresses how to raise the funds to purchase an asset. These decisions are confronted by people or by organisations on behalf of people.

Individuals, Organisations and Economies

13. We should distinguish organisations from individuals. Most people spend their lives as participants in various organisations, whether as a family members, employees or as players for some sports-club. Assets are economically owned by people but are often managed by organisations. Organisations can be thought of as management agents for their beneficial owners. Because organisations can hold shares in each other, it is important to focus on those ultimate natural persons (*individuals*) that beneficially own the organisation. Along with

organisations comes the concept of governance, the purpose of which is to achieve an alignment of the objectives of organisational managers on the one hand with the objectives of beneficial owners on the other.

14. Because organisations exist for people, the ultimate focus of asset and wealth creation should also be on people. Public companies, such as Telecom, are beneficially owned by their individual shareholders. Assets and income that are owned and generated by such companies are beneficially owned by their individual shareholders. Although individual shareholders will characterise their investment in any such company as *shares*, from an economic viewpoint, those shares represent part economic ownership of the underlying net assets of the company.
15. The value of a person's beneficial interest in an organisation is equal to the net present value of the future cash or benefit flows that that person derives from that interest. In the case of shares in a public company, there are three standard cash flow categories, namely cash paid to acquire shares, cash received from dividends, and cash received from the sale of shares. An internal rate of return can be calculated from these cash flows which will typically be unique to each shareholder, depending on when they acquired or sold their shares.
16. Organisations perform key roles in any economy. Economists typically divide economies into two segments, namely a *supply* segment and a *demand* segment. Organisations on the supply side (often referred to as *firms* or *businesses*) are seen as primarily focused on producing and selling goods and services. Organisations on the demand side are dominated by family units (often referred to as *households*) that buy goods and services produced by Firms. Firms rely on three key inputs, which they rent from households, namely labour, capital, and natural resources (principally land).
17. The above model demonstrates how Firms economically serve people in their family settings. Firms convert scarce economic resources into those goods and services that will generate the greatest profit. Profit maximisation provides the best discipline on ensuring that scarce resources are devoted to their most valued use. Firm revenues come back to families as wages, rents and profits.

18. Firms are established by people to achieve specialisation and economies of scale in the production and distribution of goods and services. These two elements combined with trade have been the greatest engine of economic performance in modern performing economies.
19. To complete this model, we must add the non-profit non-family sector, which includes government. It is generally accepted around the world that private Firms are more effective at generating most economic goods and services than governments. It is also generally accepted however that there are some goods and services, known as *public goods*, that require government production, (such as defence and a legal system) including the provision of a safety net to those in need. Governments achieve their purpose by regulating, taxing and spending. A general world problem is that governments tend to transcend their proper role at a material cost to economic productivity. Governments can restrain economic performance but cannot replace that economic performance. Government has a key social responsibility to create the right environment for economic performance to flourish.

Individuals Acquiring Assets

20. People acquire their key asset at birth, namely their natural endowment of human capital. They can nurture this asset through education and training. Beyond this, people can acquire assets from their own income and capital base, their family or the government. The income concept includes growth in the value of assets held. People also acquire assets indirectly if they are the beneficial owners of organisations that generate income.
21. Most New Zealand families are not lucky enough to inherit material wealth. A key reason for this is that most spouses consume their income over their combined lifetimes, leaving little to their children. The general experience is that people's post-retirement consumption is typically constrained rather than liberated by wealth limits.
22. It is impossible for government to be a source of assets and income on any mass scale. In this context, people are inclined to exaggerate the economic significance of treaty settlements. For example, there are approximately 600,000 Maori and treaty settlements to date have cost around \$715 million. This represents a one-off sum of about \$1,200 per Maori. At an after-tax rate of return of say 4%, each Maori recipient could generate \$48 per annum from such a payout. It would cost \$60 billion for each Maori to receive \$10,000. At an after-tax rate of return of say 4%, each Maori recipient could generate \$400 per annum from such a payout. The message is clear. Government, let alone treaty settlements, cannot be a source of material wealth for the Maori population.
23. This leaves one final option, about which we can be more optimistic. The fact is that Maori will have to generate wealth from their participation

in the market sector. The starting point for this is the natural endowment that each Maori has – being his or her personal human capital. A moment's thought will reveal that most families finance their assets over the working lifetime of parents from wages.

24. I set out in Annex A the economic position of a young Maori school leaver who commences work at age 16 at \$10 per hour which increases by \$1 per hour until he reaches 25 when it plateaus at \$20 per hour. I will assume that these rates are real inflation-adjusted rates and that wage increases up to age 25 reflect increased productivity. I calculate that the lump sum equivalent value of such a wage stream sustained until age 65 is around \$647,000. This demonstrates that this person's human capital will certainly be his most valuable financial asset at the start of his working career, and will remain so for much of his working life.
25. In Annex B, I calculate the effect of a lump sum increase in after tax income of around \$10,000 to such a person from age 25 until retirement at age 65. The lump sum equivalent value of that increase over the person's working life is around \$225,000, an increase of around 35% in the value of the person's human capital.
26. In Annex C, I compare the position of a young Maori professional who studies at a tertiary institution for a professional qualification and generates a readily achievable income schedule starting with around \$35,000 at age 25, and steadily climbing to \$100,000 by age 30 and \$250,000 by age 40. Compared with our first person's wage schedule in Annex A, the *additional* value of this person's human capital is calculated at around \$1.7 million.
27. These annexes demonstrate a number of crucial insights, namely:
 - a. The most valuable economic asset for most people is their human capital.
 - b. The returns to investment in human capital in terms of education and training, whether on the job or in formal institutions, is very significant.
 - c. The economic power within human capital across 600,000 Maori dwarfs the relative economic power of governments and of financial capital, particularly against the background of a relatively young Maori population that is growing at a faster rate than the non-Maori population.
28. The last point can be demonstrated by the order of magnitude calculation presented in Annex D. This describes an indicative calculation of around \$41 billion of value locked up in the relative under-performance of Maori in employment (via a higher unemployment rate) and in income generation (via a lower average household income). The calculation can be explained as follows.

29. First, the gap in the median 1999 total income between Maori and non-Maori was \$6,188 (53508-47320). Unemployed Maori earn no wage income, and are also unlikely to earn self-employment or investment income. If we therefore applied this income gap (assuming it approximates the average gap) to 172,500 employed Maori adults at June 2004, we could approximate the total annual income gap between Maori and non-Maori at \$1.06 billion. If we removed this gap with certainty, what would the market pay for \$1.06 billion per annum? If we assume that the gap prevails on average over the duration of a working life, we could capitalize the annual number by dividing it by the inflation adjusted risk free rate, say 4%. This would give a lump sum equivalent value of some \$27 billion ($1.06/.04$); or putting it another way, it would take financial capital of \$27 billion to generate a certain inflation proofed return of \$1.06 billion per annum.
30. The second gap is the gap in employment. It would take an additional 10,965 Maori to equate the unemployment rate between Maori and non-Maori at June 2004. If those Maori generated the median total non-Maori annual income of \$53,508, that would close an additional income gap of around \$587 million. Applying the capitalization method above, that gap equates to a lump sum equivalent of around \$14 billion.
31. I note that the above calculations are distorted by the fact that the average Maori worker is younger than the average non-Maori worker and can therefore be expected to be earning a lower wage.
32. The other two key ways that people can acquire assets is by raising debt or obtaining equity from investors. Debt and equity investors will demand a market rate of return comprising a riskless rate plus a premium to cover the associated risks involved. Equity capital is more expensive than debt capital because equity providers carry more risk and require a higher return than debt providers. The challenge for anyone raising debt or equity is their ability to service the associated cash demands when they fall due and to ensure that the benefits or returns from assets at least cover the costs of the debt and equity capital employed in financing them.

Organisations Acquiring Assets

33. Organisations acquire assets in the same ways that people do, namely from its internal capital or income, or from raising debt or equity. The challenge of the organisation is to generate returns on all its assets that at least meet the organisation's overall cost of capital.

Which Assets –the investment decision

34. People and organisations choose which assets to acquire in a world of uncertainty. It is also important to note that the retention decision is an ongoing investment decision. People and organisations should view

their assets as a portfolio from which they are either adding new assets or subtracting existing assets.

35. A particular asset has different performance characteristics depending on the portfolio to which it is added. In other words, particular assets will generate different synergies in different portfolios. This is because of a variety of things, such as diversification, cash flow patterns, technologies or know-how. Consider the example of a Maori fish exporting company that faces the risk of the New Zealand dollar strengthening (so that foreign sales revenue results in less New Zealand dollars). The company could remove that uncertainty by buying an asset in the form of a contract to purchase New Zealand dollars at a future date for an exchange rate that is fixed today. Now consider the value of that same contract to a UK company selling commodities into the New Zealand market. While the contract mitigates risk in the Maori company, it would exacerbate risk in the UK company by increasing its holding of New Zealand dollars at a future date.
36. Investment decisions are determined by a person's or organisation's strategy. For commercial assets, that strategy is focused on profit or value maximisation. As mentioned above, value is created when organisations meet or exceed their expected cost of capital, by either increasing earnings or reducing the riskiness (volatility) of those earnings.

Specific Maori Issues

The Maori Asset Position

37. In 2003, Te Puni Kokiri published a research paper prepared by NZIER entitled *Maori Economic Development*. The key statistical findings were that annual Maori production was \$1.9 billion and Maori value added was \$1.1 billion, being about 1.4% of GDP. Maori agricultural output was estimated as 7.4% (\$700m) of New Zealand output. Maori owned about 10% of New Zealand forests and about 37% of New Zealand quota with an annual revenue value of \$300m. Maori owned about 7% of the housing stock. I note that the Government's 2001 Tax Review estimated the value of New Zealand's housing stock at that time at \$125 billion, so 7% would give a value of around \$9 billion. These three items were estimated to account for 75% of the output of the Maori economy. Maori exports were estimated at \$650 million.
38. The Paper presented at this Hui by John Whitehead of the Treasury (which is posted on the Hui website) records at page 24 that Te Puni Kokiri estimated Maori commercial assets in 2001 to be worth just under \$9 billion. This is classified as \$5.7 billion of commercial assets within Maori businesses; \$1.52 billion in Maori trusts and incorporations; \$1.35 billion held by TOKM, CFRT, Tainui, Ngai Tahu, Poutama and Waipareira; \$145 million with the Maori Trustee and \$86 million of additional treaty settlement assets.
39. Statistics New Zealand provides the following interesting data on wealth by ethnicity.

WEALTH				
Ethnicity	Single Mean	Single Median	Couples Mean	Couples Median
Pakeha	119900	21700	369900	209900
Maori	38900	800	138800	34700
Pacific Is	46400		58500	11100
Asian	59900	3000	224600	120100
Other	67400		238600	98400
Total	97900	10300	322300	172900

40. These figures were a subject of a study by New Zealand economists Grant Scobie and John Gibson which was covered in Re-think November 2004. Interestingly the authors found that most of the differences in Maori performance could be statistically explained by their relatively young age. However, a number of interesting observations are worth quoting:

“The data showed very significant differences in wealth levels between Maori and Pakeha,” says Gibson. “For example, the mean net worth of Pakeha unpartnered individuals was \$119,900 while for Maori it was just \$38,900. And these figures are skewed by some high net worth

individuals in the sample. When you look at the median figures, Pakeha individuals had a net worth of \$21,700 compared to just \$800 for Maori individuals....

But for now, Gibson and Scobie say that the current wealth gap remains worryingly large. "We need to consider what impact this will have on future generations," says Gibson. "Some studies have already suggested that low levels of wealth in Maori families have caused their children's early exit from school. We also know that poorer groups are less able to cushion themselves against unfavourable shocks and so are more financially vulnerable."

Cultural behaviour around inheritance is also an area of concern. Gibson and Scobie found that Maori couples appear to be disadvantaged by inheritances. They calculate that every dollar of inheritance adds 67 cents to current net worth for Pakeha couples, while that same dollar actually reduces net worth by 34 cents for a Maori couple. The researchers say that an important follow-up study will be to see why wealth does not transmit as effectively across generations for Maori.

Maori Land

41. Maori land now comprises 1.3 million hectares of New Zealand's 26.9 million hectares (about 5%). It is generally accepted that Maori at the time of the Treaty of Waitangi owned land communally. For instance, in 1868, Chief Judge Fenton in the Native Land Court said in relation to the *Kaitorete* block: "The Court cannot recognise individual ownership of Native land. The strength of the tribe before the arrival of the British Government was required to maintain the title of a tribe, and the land belonged to the tribe".
42. Norman Smith, in his book *The Maori People and Us* (AH & AW Reed 1948 at page 51) states that the Native Land Court as a practical matter calculated individual titles to Maori land by basing claims on the notion of individual ownership of the subject land by an ancestor.
43. In 1862 the Crown's right of pre-emption was abolished. The Native Land Court was set up in 1865 to establish individual titles based on the English system. This mobilised land sales and over time, and retained land became more fragmented amongst a greater number of owners as *tenants in common* through the process of inheritance. This has promoted a number of perverse outcomes, such as the problems of co-ordination and co-operation amongst many owners, raising finance on the security of such land, increasing incentives to sell, and reducing incentives by individual owners to develop the land.
44. The Te Turi Whenua Act 1993, in response to these issues, works in the opposite direction to the historical Maori land statutes by trying to make it

easier for Maori to aggregate Maori land and providing more choices for the communal ownership and management of land.

45. Dr Bill Robertson, a previous Director General of the Department of Survey and Land Information and NZ Surveyor General, presented a Paper in October last year addressing the problems of Maori land tenure. He identified one of the major problems as a lack of reliable ownership information, which is largely achieved in respect of general land by virtue of the land transfer system and the doctrine of indefeasibility of title. Dr Robertson advances the view that a dedicated tenure system for Maori land is required.
46. Sir Apirana Ngata mitigated these various problems in his time through the use of management organisations (typically co-operative stations). He complemented these with both purchase and supply co-operatives, such as the Waiapu Farmers Co-operative Company. The co-operative format is essentially a large partnership which, like companies, can achieve economy of scale and specialisation. Like partnerships, co-operative ownership is confined to participants in some defined commercial activity, such as farming.
47. I speculate that in Ngata's time, relative to today, he would have had the advantages of his *mana* to achieve co-ordination and co-operation, fewer decision-makers over Maori land, and a relatively heightened focus on the economic use of land. Today, most Maori live away from their tribal *rohe*.
48. It seems to me that in order to maximise the productive potential of that Maori land which is fragmented amongst many owners, a statutory title will need to be vested in some management entity. This could require the agreement of a minimum percentage of owners (in terms of land area), or the entity could become a compulsory acquirer of ownership interests that fall below some minimum threshold. If the management entity were to be a company, land ownership interests could be replaced with shares in that land owning company. Such an approach would enable land to be transacted by an agent for a group of owners based on a creed of maximising the interests of all owners. Such a reform would be controversial in respect of any compulsory elements. For that reason, the reform would be best focussed initially on creating choice or options for owners to aggregate under-performing economic units.

Trusts versus Companies

49. There are two primary organisational models for the management of commercial assets, namely companies and discretionary trusts (which I will simply refer to as trusts). The key difference between them is that under the standard company model, ultimate ownership and control are in the same persons, namely shareholders, whereas under the standard trust model, ultimate ownership and control are split between trustee managers on the one hand and beneficiaries on the other. It is important to distinguish between how control is allocated in any structure on the one hand and how capital and income rights are allocated on the other.
50. Although a wide variety of structural options are possible, such as partnerships, co-operatives and trust boards, and while they can be combined, such as with corporate trustees, all structures must come back to either the corporate or trust format at the ultimate ownership level. A good example is provided by the current configuration of Te Ohu Kai Moana, which is structured as a trustee company. Te Ohu was primarily established as a governance structure over the commercial assets of Aotearoa Fisheries Limited. Any assets that come within Te Ohu are subject to the trust model. Ultimate beneficial ownership of AFL goes back to Te Ohu as to 20% (a trust model) and tribes as to 80% (principally trust based models), whereas control of AFL is held by Te Ohu but ultimately traces back to tribes via an electoral college.
51. The key rules regulating a company are determined by its enabling legislation and by contract with the shareholders. Three key characters dominate the internal affairs of a company, namely shareholders, directors, and the CEO. Shareholders appoint the directors and auditors. The former appoint a Chair, and a CEO, and the CEO appoints the rest of the management team. The management team is accountable to the CEO, who is accountable to the Board. The Board, along with the auditor, are accountable to the shareholders.
52. The key advantages of a company include:
 - a. Limiting shareholder liability to the amounts unpaid on shares.
 - b. Raising risk capital.
 - c. Clearly defined roles and accountabilities for shareholders, auditors, directors, and management.
 - d. General familiarity of the concept amongst people.
 - e. Negotiable ownership rights (namely shares).
53. A trust is an equitable relationship between a settlor, the trustees and the beneficiaries under which enforceable rights and obligations arise. The settlor transfers property to the trust to be administered by trustees for the benefit of beneficiaries. The settlor will also identify an appointor who has the ability to remove and appoint trustees and beneficiaries. The rights and obligations of the trustees and beneficiaries are determined by its founding documents (being principally the deed of

trust), relevant legislation, and the judge-made law of equity. A company or an individual can be either a settlor, trustee, beneficiary or appointor.

54. A fully discretionary trust confers discretions (usually on the trustees) over:
 - a. The appointment and removal of beneficiaries.
 - b. Whether to distribute particular trust assets or income, and if so, to whom.
55. The key distinction between standard companies and trusts for the purposes of this discussion is that trust beneficiaries have diluted property rights compared to a shareholder in a company. Indeed, beneficiaries in a discretionary trust typically have no role in decision-making by the trustees. This can lead to a dilution of effective accountability of the trustees and a misalignment between the interests of the beneficiaries and trustee decisions. It can also promote excessive conservatism on the part of trustees as beneficiaries receive all the benefits of successful risk taking, whereas the trustees attract the costs of unsuccessful risk-taking.
56. These problems are generally mitigated in closely-held settings by the fact that the settlor usually retains *de facto* control of the trust or passes that control to a related person, such as a spouse or adult child. In this context, the settlor or a delegate retains the economic ownership of the trust assets and matters can proceed materially unchanged. In a more widely-held or public setting, the position is different. Here, control tends to be delegated to a committee comprising stakeholders that are either not beneficiaries, or are members of a very large class of beneficiaries.
57. The discretionary trust mechanism is preferred by settlors when there is uncertainty at the time of asset transfer over who should get income and capital. The discretionary trust allows the settlor to defer such decisions until a time when that uncertainty has disappeared or is greatly reduced.
58. From an economic point of view, in the absence of special factors, the corporate model is superior to the trust model because shareholders have greater leverage over assets and business managers. This is particularly so if shareholders have the power of sale, thereby subjecting an incumbent management to the risk of take-over and replacement.

Governance

59. Governance is about ensuring that organisational managers pursue the interests of beneficial owners. In a standard company, governance is generally regarded as the focus of the board of directors, whereas I consider the concept to be much broader. Under the company model, shareholders are the beneficial owners and they appoint the directors to carry out their objectives. Directors appoint the CEO, who in turn

appoints the management team. Directors are the economic agents of the shareholders, and CEO is the economic agent of the directors.

60. The concept of an economic agency, which differs markedly from the legal concept, is that an economic agent is meant to pursue the objectives of their principal. Economic transactions between people can be divided into two types, the first where a person acts as a principal, in which case that person is economically free to maximise self-interest in the transaction, and secondly where a person acts as an agent, in which case the person is not free to maximise self-interest but is meant to maximise the interest of the principal. Adam Smith, the father of neo-classical economics, was pessimistic about the idea that management agents could be relied on to maximise the interests of principals, and for that reason was not a fan of the large joint stock companies of his day. He has been proved to have been too pessimistic.
61. The relation of employee and employer, or parent and child are examples of economic agency, whereas a person buying a newspaper for self-consumption is an example of a standard principal-based contract. Another example of a principal contract is an agent negotiating the terms of the actual agency contract, such as employment contract or appointing a real estate agent.
62. In practice, the key agency risk is that agents pursue or prioritise other interests, including self-interest, at a cost to their principals. In a standard company model, the shareholder objective is generally accepted as being to maximise the shareholder's economic returns (being a combination of dividends and enhanced share price).
63. Governance in a trust setting requires the trustee to meet the requirements of the trust deed and law. Economically, the implications of trust governance require analysis on a case by case basis. The settlor may be the economic agent or particular discretionary beneficiaries may be the focus.
64. The above framework sets a relevant scene for considering the recent debates about the nature and role of nepotism in Maoridom. The Encarta World dictionary defines *nepotism* as *favouritism shown by somebody in power to relatives and friends, especially in appointing them to good positions*.
65. The key differentiated feature of *whanau* is the relatively strong force of altruism, which is one of the various forces that will cause an agent to pursue the interests of their principal. The prospect that family members will adopt the interests of one another is far more likely than is the case between strangers. There is generally a strong, albeit informal, code of ethics governing family relationships. The other key feature is the intimacy of family relationships, and the relatively deep personal knowledge that each member has about each other in terms of virtues, vices, preferences and skills.

66. Altruism is a key concept in this context. I would define altruism by stating what it is not. The key element for me is the absence of opportunism in the relationship. By opportunism I mean taking advantage of opportunities without regard to external costs that are imposed on others. The force of altruism diminishes as we move from the family to firm to country and then to the world. This is a progression through a spectrum of intimacy, which accompanies a parallel progression from non-market settings to market settings. We move from voluntary co-operation within families and firms, to competitive markets at the country and global levels.
67. It is clear that the likelihood of opportunistic behaviour is higher between strangers than intimates. We observe that societies and institutions try to mitigate opportunistic behaviour in a variety of ways, some private (such as by culture, religion or reputation), and some public (usually by punishable laws). In my experience, managers of economic and social institutions prefer that their institutions have a reputation for altruism amongst its stakeholders, as this is usually conducive to maximising institutional efficiency.
68. Although it is generally true that specific institutions prefer an altruistic and ethical reputation, they will and do act opportunistically. Firms are motivated to avoid taxes. Monopolists are motivated to set monopoly prices and quantities. Employees generally take less care of a company car than they do of their own. Many drivers are willing to clog traffic flows by jumping queues. And fraud is still apparent in institutional life.
69. The qualities that typify family relationships are more germane to closely-held institutions than they are to large organisations, general economies and societies. I perceive that there is a crucial distinction between the design of specific institutions, such as firms, and the design of economic systems. The two designs are likely to be contrasting in various key respects. For example, the family unit essentially adopts a socialist model, and yet it forms a crucial component of the wider capitalist economy. This reflects the fact that the nature of transactions differ between intimates and strangers. Just as it takes diverse notes to compose a melody, I perceive that those differences are complementary and conducive to human welfare.

Tribal versus Corporate Structures

70. There has been a perennial debate from both within and outside Maoridom about the pro's and con's of tribal organisational structures. Most tribal structures adopt the trust rather than corporate format. Even where companies are used, the question is whether the ultimate share ownership resides in a trust or company. My viewpoints about this matter are reflected in my observations above.

71. An even more critical view is advanced by Dr Gareth Morgan, which was published in a media article in February 2000:

But the Maori societal model presents a substantial barrier to its members' economic emancipation. Its eschewing of private property rights in particular, like all communal alternatives, dilutes and even excludes the motive of self-interest as a vehicle for individuals' economic progress. The economic futures of too many are beholden to what is little more than a feudal structure. No matter how many resources are poured into these communities, the gridlock of that societal model ensures a dysfunctional economy. Nowhere have tribal models ever been able to deliver more than loin-cloth rewards.

So in summary reducing the gaps is a fine sentiment but for these areas the answer does not lie simply in handouts, whether via income supplements or make-believe job schemes. Neither unfortunately is achievement of better health and education outcomes sufficient. There is a huge adjustment required by the Maori societal model in the form of its democratisation and development of individual property rights. Unless a way is found for Maori itself to adjust without compromising its culture and identity, then unfortunately the gaps will widen.

72. Like it or not, Governments are and have treated with tribes in the settlement of treaty matters, and in the process has often placed assets under tribal management by statute. This can then remove choice over the ownership model. For example, in the case of the fisheries settlement, *Te Ohu Kai Moana* was charged with statutory obligations that circumscribed the ability to create individual free title to assets. I agree that at the beginning of negotiating settlements, tribes should consider whether they want to directly allocate capital settlements to individual tribal members. This will typically invoke an issue for the Crown over the durability of the settlement. Another issue for both parties will be whether unborn generations of Maori have an interest in that capital that is best addressed via tribal ownership. Market thinkers are likely to prefer the view that parents are better agents for their children than tribal managers. But is that true in relation to great grandchildren? If the tribe does manage assets, the second question is whether it ought to adopt a trust or corporate format.
73. Tribal structures are continuing to evolve and that evolution is currently accelerated as a result of fisheries allocation legislation, which imposes minimum standards of governance and representation.

The Stimulus Papers

74. The stimulus paper recommended that two key themes underlie the topic *Developing Assets*, namely a movement from passive to active

participation in all levels of business, and an improvement in the quality of decision-making and decision-makers.

75. The transition from passive to active identified the issues of people, information, investment and diversification, and business participation. Improving decision-making identified governance, tribal structures, statutory bodies, and the Maori Land Court. Improving decision-makers listed leadership, education and training.
76. These raise very relevant issues and stimulates the question, how do we achieve these normative outcomes? A productive way of addressing the issues is to try and determine what incentives are currently holding back progress on these fronts, and what incentives might be able to be developed to promote such outcomes. It is essentially with this focus in mind that the New Zealand Business Roundtable is undertaking a study of a diverse range of Maori institutions with a view to identifying those factors that explain their progress or lack of it.
77. A key and vital contribution that is still in a state of infancy is good statistical and economic literature on current and past Maori social and economic performance. The Waitangi Tribunal has been provided an excellent resource of Maori social history, but there is really no counterpart in the field of historical Maori economics and statistics.