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ROGERNOMICS:
PREDETERMINED POLICY OR 'BUREAUCRATIC COUP'?

ANDREW GEORGE BARTON

A thesis submitted for the degree of Bachelor of Arts with Honours at the University of Otago, Dunedin, New Zealand.

1 November 1989
ABSTRACT

This essay is concerned with understanding what exactly Rogernomics is in the eyes of its namesake, Roger Douglas. Under an eight-point framework the policies of Rogernomics are listed according to the two Douglas texts, *Toward Prosperity* and *There's Got To Be A Better Way!*. The essay then analyses an argument by Bruce Jesson that Douglas's policies had little to do with the fourth Labour Government's economic programme, but rather was based on policies formulated by bureaucrats. The essay in conclusion reveals that this is an erroneous line of argument in the light of overall consistency between Douglas's stated policies and the Government's economic programme.
I would like to thank three people in particular for their part in this essay. Firstly, Professor Richard Mulgan for his astute supervision and patience; and secondly, Brent Alderton for his corrections of certain dubious economic points made in the drafts, and also Michael Gibson for his help with grammar and syntax. Finally, I would like to thank those people who offered advice, at the start of the year, on possible directions this essay should take.
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INTRODUCTION

As Minister of Finance during the first term of the fourth Labour Government, Roger Douglas oversaw what many believe to be the biggest reshaping of the economy in the history of New Zealand. The reforms instituted during this time have left a permanent mark on the New Zealand psyche. Not one New Zealander can be said to have been unaffected in some way by the changes 'Rogernomics' wrought on the country, whether it has expanded their pay packet or simply left them without a job.

Roger Douglas has been firmly identified with this economic transformation, so much so that the Labour Government's economic programme has been named after him. As Colin James succinctly puts it:

... Douglas has come to be identified with the big change underway in the 1980s. People hate him, fear him, admire or even love him. He perplexes, mesmerises, even bewitches them. To some he is devil incarnate, hard and unfeeling destroyer of families and lifetimes of labour; to others he is the usher to opportunity and freedom.1

However, this essay is not an exercise in personality studies, nor is its purpose to critically analyse the relevant merits or demerits of Rogernomics as an economic strategy and its effects on the New Zealand economy. It is to compare the contents of Roger Douglas's two major publications, There's Got To Be A Better Way! and Toward Prosperity, to see whether there are any consistent themes which run through both texts.

Despite many people's identification of Douglas with the Labour Government's economic reforms, some observers, most notably Bruce Jesson, have questioned the role Douglas's ideas have played in the actual implementation of the Government's economic programme. They have instead highlighted the role

1 C. James The Quiet Revolution p.133
played by the bureaucracy in formulating economic policy.

This essay will endeavour to examine Douglas's own statements in the light of this argument to see whether Rogernomics does in fact diverge from what the officials recommended and what Jesson claims was the real basis of the Labour Government's economic reforms.
CHAPTER ONE

TOWARD PROSPERITY

This chapter comprises the bulk of the paper. Divided into three sections, the chapter aims to provide firstly, some background to Roger Douglas's life up until 1989 in order to gain some insight into the pressures and influences that drive Douglas, and to list the major achievements of his career to date. The chapter then moves on to consider the fundamentals of Rogernomics by looking at the objectives as spelled out by Douglas in *Toward Prosperity*, published in 1987. Using the same source we then look at exactly what Rogernomics is according to Douglas himself.

**Background**

Born in 1937 into a family steeped in Labour Party tradition, Douglas seemed almost destined to enter the political fray later on in life. Both Douglas's maternal grandfather, William Theophilus Anderton, and his father, Norman Douglas, were Labour Party MPs. Both were prominent left-wingers in their day, leading Collins to assert that the Douglas family had a reputation for being rebels - "promoters of radical change and temperamentally opposed to the status quo." Douglas himself talks proudly of his father plunging into the political wilderness with John A. Lee rather than compromise his principles.

After completing his high school education at Auckland Grammar, Douglas went to work for Bremworth Carpets in South Auckland while simultaneously studying towards a degree in accountancy at the University of Auckland. In 1963 Douglas successfully managed Colin Moyle's electoral campaign in Manukau, while in 1965 he entered local body politics, becoming a member of the new Manukau City Council.

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2 S. Collins *Rogernomics. Is There A Better Way?* p.2
3 R. Douglas *Toward Prosperity* p.10
In the 1969 General Election, Douglas stood successfully for the redrawn seat of Manukau, winning it with a fairly marginal majority of 800. One of Douglas's first jobs in parliament was to chair the Labour caucus economic committee. This committee looked into methods of developing new exports in the face of the British entry into the European Economic Community, policies of taxation, and also superannuation. As a result of these investigations Douglas suggested a new superannuation scheme based on contributions from employees and employers. This was a major break from traditional Labour welfare benefits.

1972 finally witnessed the return of Labour to the Treasury benches after twelve years in the political wilderness. Douglas, at the age of 34, became Minister of Broadcasting under the new Kirk administration.

Lumbered with a portfolio he had never openly sought, Douglas endeavoured to make the most of it by applying his Bremworth Carpets-inspired business efficiency to his department. As Collins observed he made "no mention of any consideration of the social or educational role of broadcasting; this was a business like any other." Douglas's main achievement as Minister of Broadcasting was the division of the old New Zealand Broadcasting Corporation into three separate competing state-owned enterprises - TV1, TV2, and radio - under a central broadcasting council. As the Committee on Broadcasting stated at the time, what was emphasised was 'self-government' and 'self-control'.

In the cabinet reshuffle following Prime Minister Kirk's death in 1974, Douglas was reallocated Housing and the Post Office. As Minister of Housing, Douglas encouraged more efficient use of existing housing rather than following the 'Kirkian' view that "if there was idle capacity in the building industry houses

4 Collins Rogernomics, p.13
5 T. Reid It Wasn't A Hard Decision To Make NZ Listener Dec. 8 1973
should be built".6

Finding himself in opposition again after the 1975 landslide defeat, Douglas committed himself to a strict regimen of economic theory, consulting experts like those in Labour's parliamentary research unit, and reading books like Peter Drucker's *Age Of Discontinuity*. Douglas also made use of the Treasury officials seconded to the leader of the opposition's office.

As the 1980s approached Douglas became increasingly uncomfortable in his role as shadow transport spokesperson. He began to question the direction the Labour Party was taking under the leadership of Bill Rowling. Sensing Douglas's growing restlessness, the Party hierarchy assigned him the task of formulating its policy towards young voters. Seizing upon the opportunity, Douglas quickly tabled a document entitled *Election Strategy and the Youth Vote*. It began: "Labour's image is of a party that will promise you anything. Few believe that Labour can deliver on its policies (I, for one, don't) . . . To gain credibility Labour must convince the electorate that it is prepared to make the hard choices. Labour should not shrink from stating that the solution to New Zealand's problems will require that some groups take a cut in their real standard of living or opportunities, at least in the short term . . . ."7 Summing up Douglas's mood toward the Labour Party, Warwick Roger wrote: "The Party has lost its direction, it no longer knows what it stands for, it has no long term strategy, it has failed to convince the electorate that it can be an efficient economic manager, it destroys the credibility of its good policies by advocating some stupid ones, that it cannot be all things to all people."8

A year prior to the Youth document, Douglas had gone

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7 Douglas *Toward Prosperity* p.22-23
8 Roger *Metro* p.74
public with his biggest rejection of Labour Economic policy by preempting Muldoon's annual Budget with his own without informing his caucus colleagues. Douglas was rewarded for his efforts with an immediate expulsion from Labour's shadow cabinet. Some months later he followed up his Alternative Budget with his booklet *There's Got To Be A Better Way! A Practical ABC To Solving New Zealand's Major Problems.*

After 'serving time' on the backbenches Douglas was reinstated to the shadow cabinet as Trade and Industry spokesperson in May 1981. Not long after however Douglas became involved in the failed leadership coup engineered to replace Rowling with his deputy, David Lange. This resulted in his deepened frustration towards the Labour Party and it was at this time that Douglas seriously considered quitting politics altogether - until Lange reassured him of his confidence in him as the future Minister of Finance.

After promising his electorate to stay on for a Labour victory in 1984, a reinvigorated Douglas tabled a 30 page 'strategic plan' for 1984 at the first Labour Party caucus meeting of 1982 which emphasised export-led growth and maximum decentralisation of the economy. In February 1982 Douglas returned to the front bench and from there strongly influenced the economic thinking of shadow cabinet colleagues like Richard Prebble, David Caygill, Geoffrey Palmer, and David Lange.

Elevated in February 1983 to the position of shadow Finance spokesperson under the new leadership of Lange, Douglas remained in that position through the 1984 Snap election and subsequently became the Minister of Finance that same year.

It was in that position that Douglas presided over some of the most tumultuous changes in New Zealand's history. In the space of less than three years New Zealand underwent a

9 see R.Douglas *NZ Labour Party Strategic Plan 1982-84*
metamorphosis that irreversibly changed its political, economic, and social institutions.

However, soon after Labour's reelection in 1987, relations between Prime Minister Lange and Douglas turned publicly sour as Lange sought to distance himself from the social upheaval wrought by Douglas's continued pursuance of market-oriented economics. After the scuttling of Douglas's proposal of a flat tax and increased hostilities between the two, Douglas resigned from Cabinet in late 1988 citing irreconcilable differences with Lange as the reason.

On the backbenches, Douglas continued to advocate ideas such as labour market reform, deregulation of social services to allow provision through private sector agencies, and more tax and benefit reform to improve incentives to work. Although not popular with the extra-parliamentary Labour party, Douglas maintained a high following among many caucus and cabinet colleagues which eventually led to his return to Cabinet as Minister of Police and Immigration in August 1989 under the new leadership of Geoffrey Palmer.

Objectives

What exactly are the objectives of Rogernomics? Douglas is at great pains to stress that the goals he has set in no way differ from those set by the first Labour Government 1935-49. The social goals of that first Labour Government are the same social goals of the Labour Party and Labour Government today:

- a reasonable standard of living;
- access to the opportunity of an adequate education and good health services, regardless of income;
- a job for everyone who can work;
- a social welfare system that allows people to reach the level they are capable of and want to achieve, based on the principle that most of the assistance provided should aim not to make those
who receive it dependent on that assistance but rather to open the way to self support;
- a society which gives people opportunities for self fulfillment.'10

Although the Labour Party has not changed its goals, the circumstances in which these goals were first enshrined have changed. The policies of the 1930s simply hold no relevance to the state of affairs in the 1980s and 1990s. Those policies worked well then but could not possibly work well now. A new route to these same goals, it is claimed, is what New Zealand now needs.

To reinforce his argument, Douglas uses the same tactics as his critics by reviving the memory of certain stalwarts of the first Labour Government such as Walter Nash and Michael Savage, implying they would be turning in their graves if they knew that 'their' welfare state was still intact in exactly the same form 50 years on.

What worked in the past does not automatically work in the future. the men and women who established [the welfare state] would have been appalled, not gratified, if they thought that the way they went about solving the problems of the 1930s was to become enshrined for time immemorial . . . If men like Nash and Savage left us a legacy, it was innovation, not traditionalism.11

In pursuit of its cherished goals of social equity and fairness for all, the first Labour Government ran budget surpluses in the years 1936-39. The current Labour Government does not yet have that luxury. For Douglas the final goal of a fairer and just society is a mere pipe dream without first rectifying the abysmal state of the New Zealand economy. Only after overhauling the economy will the Government be able to concentrate in the 1990s

10 Douglas Toward Prosperity p.236
11 Ibid p.241-242
on its fundamental social objectives. Douglas implies the pursuance of the above goals will come before all other issues, and in accordance with this task people must 'put country before politics'.

Rogernomics According To Roger

If economic growth is the answer then, how is it to be achieved? Working within the framework established by Simon Collins in 'Rogernomics. Is There A Better Way?' we will see how Douglas has set about turning the New Zealand economy on its head in order to achieve his stated objectives. The Collins framework contains an 8-point format: the establishment of a profit-making State; the fight against inflation; the opening up of the economy to overseas competition; deregulation; tax reform; the reallocation of resources; labour market flexibility; and the neutral state.

The Profit-making State

Because New Zealand is burdened by such a large public debt, the Government cannot possibly maintain the type of welfare state established in the 1930s. It is therefore imperative that the public debt does not increase and that action be taken to start reducing it. At the time Douglas was writing, this debt stood at $45 billion, or about 85 per cent of New Zealand's gross domestic product. This meant that 19.5 per cent of the Government's total expenditure was being swallowed up merely by servicing the debt i.e. making interest payments on the total debt without actually reducing any of the principal.

At the same time Douglas is adamant that the continuous run of budget deficits must be halted and the budget balanced. Every time the Government produces a deficit (the shortfall between revenue and spending) money must be borrowed to make up the balance which adds to the public debt. Again it is
vital to Douglas to control and reverse this trend as this debt is a serious social as well as economic problem. Until the budget starts to run into surplus, the Government can not afford the 'adequate education and good health services' that are implicit in Douglas's objectives. 'To continue to run Budget deficits that escalate that debt would mean continuing high interest rates'.

High interest rates affect home mortgages and especially people on low incomes. They also help reduce investment in the private sector which in turn creates less jobs and therefore higher unemployment.

By turning some state services into profit-making ventures the Government would be able to recover sufficient costs to help reduce the deficits and eventually balance the budget. Douglas says the Government can no longer afford to make all services available at reduced costs to the public. Some basic services should be handed over to non-political managers who would charge 'users' the full cost of services. The obvious outcome of this policy has been the restructuring of certain areas of the public sector into State Owned Enterprises (SOEs) through the passage of the SOEs Act in 1986.

The restructuring of public institutions away from state management (politicians make 'lousy managers') to independent state-owned enterprises which produce a profit for the Government means the Government would no longer have to bail out state services, for example, the Railways, to the tune of $90 million.

The repercussions of National's debt legacy only hit New Zealand taxpayers in the 1987-88 financial year, but Douglas optimistically states:

"It is one of the Government's major achievements that the Budget deficit remains at a lower level as a percentage of GDP than at any time in the last decade. From now on we should be able to start getting the right balance between [sic] Government's expenditure,"

12 Ibid p.238
revenue and debt to build an expanding economy, unhindered by further unpleasant surprises.\textsuperscript{13}

Cabinet undertook to review Government spending knowing that it needed to make a permanent reduction in the Budget deficit. As stated earlier, if Douglas failed to lower the deficit and carry out his economic reforms he would not be able to achieve his social goals. 'If we did not, there would be pressure to cut spending in the social welfare areas'.\textsuperscript{14} His answer was increased competition for government departments to make them more economically viable. Every area of the private sector had been given a new framework in which to operate. 'That emphasis needed to be extended to the public sector' which was 'urgently in need of reform'.\textsuperscript{15}

The 1984 Budget introduced the first moves to get the trading side of several government departments to operate in a normal commercial way. Prices for example, for state timber, coal and electricity, were to increase until they reflected what it cost to produce and supply them.

Keeping electricity prices below the cost of supply is an inefficient means of helping low income groups because the benefits of cheap electricity are not confined to those most in need . . . Only if resources are realistically priced can we ensure that investment and employment decisions yield the greatest benefit. The people who pay income tax contribute 70 per cent of all tax collected yet consume only 30 per cent of the electricity used. If electricity prices are subsidised those consumers are supporting the businesses and industries which use the major share.\textsuperscript{16}
Fighting Inflation

Douglas lists inflation as the number one evil. High inflation hits hardest those people on fixed incomes, women at home, and low income earners. The benefits of life insurance and investment in fixed savings are quickly evaporated while the export sector is severely ravaged which therefore reduces its potential to increase jobs.

Jobs would also be affected if there was a loss of confidence in the economy and associated collapse of the exchange rate that could happen if we continued to run high deficits. This would scare away international investors in New Zealand, particularly those who lend money to the Government. The cost of servicing our debt would go through the roof. Overseas investors would withdraw money from the country and there would be a rise in the already substantial numbers of skilled people who have left New Zealand.17

These are indirect negative effects, but inflation also has a direct effect on social goals as the Government fights an interminable battle to maintain government spending at the previous levels. With every hike in inflation, Douglas's goals listed above prove even more elusive.

Douglas's chief weapon in the war against inflation is monetarism which entails a strict control on the supply of money. As Collins aptly describes it, 'inflation is seen as being caused by too much money chasing too few goods'.18

Opening Up The Economy

It is the common preserve among Labour politicians and economists nowadays to describe the New Zealand economy before 1984 as one of the most protected in the world. Collins characterised the situation as a 'fortress economy'. Douglas wished

17 Ibid p.239
18 Collins Rogernomics, p.118
to alter this situation by opening up the New Zealand economy to overseas competition and achieving an export-led growth which would in turn create the surplus required to fund the objectives of Rogernomics.

The run on the dollar brought on by the speculation of a devaluation after the announcement of the 1984 Snap Election caused a massive outflow of valuable funds and a rapid dwindling of New Zealand's overseas reserves.

The extremity of the foreign exchange crisis had presented Douglas and the new Labour Government with an opportunity to introduce its planned economic reforms more rapidly. In an effort to stem the outflow of Kiwi dollars Douglas devalued by 20 per cent. As a result the price of imports increased (export prices also decreased making New Zealand products much more attractive to foreign buyers) thus protecting New Zealand manufacturers from overseas competition. This in turn gave Douglas the opportunity he needed to abolish the existing barriers that had traditionally protected domestic producers. Thus, the stage was set to raze the 'four-walled fortress' - exchange controls, import licensing, tariffs, and obstacles to foreign investment.

By October 1984 there was an increasing demand for Kiwi dollars as domestic interest rates went up. The more stock the Government issued the more it was demanded by overseas investors. 'The only logical step was to float the New Zealand dollar' 19 so that the Reserve Bank would no longer be the only institution to buy and sell foreign currency. Floating would allow any licensed exchange dealer to use New Zealand dollars to purchase foreign currency.20 By floating, the money supply would be insulated from the forces of supply and demand of overseas buyers.

From early December 1984 the Government enacted

19 Douglas Toward Prosperity p.141
20 Ibid p.142
measures to prepare for the float. Rules were eliminated which previously limited private overseas borrowing to a fixed term of at least twelve months, and to an interest rate not greater than 2 per cent above the London and Singapore rates between banks. Restrictions were abolished which prohibited New Zealand financial institutions from borrowing overseas and gave foreign-owned companies unrestricted access to the New Zealand capital market.

In December, in what Douglas signals as the most significant pre-float step, exchange controls were removed which limited the outward and inward movement of foreign exchange transactions. 'It was one of the three or four most important decisions we made. It was what enabled New Zealand business people to become much more outward looking and to broaden their horizons.' Major companies could begin shedding their 'non-essential' operations and turn to operations in Australia, Canada, and the Americas 'where they could use their particular expertise'. Where they could win an 'enormous amount of invisible earnings' for New Zealand. Douglas emphatically states that companies do not send money overseas to boost foreign companies. As an example he cites NZ Breweries who 'did not buy 50 to 100 outlets in Australia to sell less Steinlager.' He sees the potential for Fletcher Challenge to do for New Zealand what IBM did for the United States or Toyota did for Japan in foreign markets.

The final pre-float steps taken included the removal of ratios requiring financial institutions to invest in stipulated levels of Government stock and other public sector securities (called the Reserve Assets Ratio). This meant that borrowers had better access to loans. Approval was also given for new Banks to enter New Zealand to increase competition and thus improve banking

21 Ibid p.143
22 Ibid
23 Ibid p.144
services and lower costs to consumers.

Removing past incentives, especially in the agricultural sector, was part of the Government programme to reduce costs within the economy. All tariffs on non-New Zealand produced goods were reduced to nil. 'Import licensing and high tariffs had created monopoly privileges for urban industry and manufacturers had been able to charge farmers almost anything they pleased.'24 In August 1984 it had been announced that export incentives were to be gradually eliminated over a three year period and imported goods would have improved access to the domestic market after the eventual removal of import licensing.

Deregulation

New Zealand has gone from being one of the most regulated economies in the world to one of the most deregulated under the fourth Labour Government. Hence forward prices for goods and services were set by the 'logic of the market'. Where previous prices had been 'distorted' by governmental intervention, now the market was to dictate the real value of goods and services. Through this Douglas hoped to create the highly productive and dynamic economy that would pave the way to the social goals afforded by the benefits that would accrue to such an order.

Because of the foreign exchange crisis the momentum to deregulate had built up to a crescendo, allowing Douglas to institute his planned programme of deregulation much earlier than expected.

In answer to his critics who claim deregulation had been pursued far too quickly, Douglas states that it was only in relation to the previous regulated background that speedy deregulation looked dramatic. He argues that the hesitant attempts by Muldoon

24 Ibid p.178
in 1976 proved that it was extremely difficult, if not impossible, to move slowly when reforming the financial sector. To further reinforce his argument Douglas quotes from a speech by the respected Governor of the Reserve Bank, Sir Spencer Russell:

... as a people we have been reluctant to accept the need for change and favoured the gradualism approach. The costs have been high: low growth, periods of sustained inflation, persistent balance of payments deficits and relatively high unemployment. So, in my view we should accept the need for more rapid change and adopt appropriate policies to implement it.25

One of the first things to be deregulated was the Muldoon rent, wage, and price freeze, which had been extended for a further three months after the Labour Government's electoral victory in order to fully appraise the economic situation. Interest rate controls were also lifted at the same time as the devaluation to 'attract back all the money that had flowed out of the country in the weeks before the election.'26 Douglas kept pushing through the deregulation not only because it was 'easy' but because it was also 'consistent'. He 'knew that once started [he] had to continue until both interest rates and the exchange rate were determined by the forces of supply and demand.'27

The banking sector was also targeted for deregulation. The special status of the four official short-term money market dealers, who were completely protected from any competition, was ended. Restrictions on trading banks which did not allow them to have deposits placed with them for less than 30 days were removed. Douglas claimed this immediately placed greater pressure on merchant banks and finance companies which previously had done exceptionally well in a regulated market.

25 Ibid p.138
26 Collins Rogernomics p.52
27 Douglas Toward Properity p.145
(previously, 'being a finance company was a license to print money').

Part of the deregulation drive in the banking sector involved the resurrection of the Government stock tendering programme to keep the amount of money in the financial system in balance and to fund the deficit, raising the money needed locally rather than by borrowing overseas which only added to the foreign debt. To Douglas this would result in higher interest rates until the excessive demand for money was discouraged, but it at least 'ensured that New Zealanders of this generation, who were spending far more than their income, would pay more for the amount by which they overspent and pass less of the burden on to their children and grandchildren.' The loans the Government made to make up for the amount New Zealanders overspend by has to be paid for sometime, 'better to get the fundamentals right than pretend the situation is not as desperate as it is.'

Finally, agricultural producer boards were deregulated, although their monopolies were not threatened, to encourage them to restructure their activities in their respective fields. 'Our object was to get the producer boards to act more commercially in managing their finances and carrying out their export and marketing activities and other services to producers. The boards' involvement in assistance to farmers needed to be clearly separated from their commercial functions.'

**Tax Reform**

Tax reform was at the centre of the economic changes of 1984 because Douglas viewed the economy as being inevitably linked with social objectives. Douglas declares that the central

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28 Ibid p.139  
29 Ibid p.140-41  
30 Ibid p.141  
31 Ibid p.189
philosophy behind the reforms laid out in the 1984 Budget was the desire for equity and fairness. This fairness was however, two-sided. The Government tried to be even-handed but it meant that those who benefited the most in the past would have the biggest adjustments to make in the future. The 1984 Budgetary tax reforms aimed to:

- introduce a greater degree of fairness in the tax and benefit systems
- minimise the distortionary impact of the taxation system on resource allocation by reducing anomalies and concessions, widening the tax base and lowering marginal tax rates; and
- make the tax system more certain and simple.32

This Budget was to set the pattern for the rest of the parliamentary term and is, according to Douglas, the most radical since the social welfare foundations were laid back in 1938.

In 1984 Government expenditure accounted for 40 per cent of GDP. In 1985 income tax represented 70 per cent of all tax revenue. This meant that nearly three-quarters of all income tax was paid by wage and salary earners who earned only 59 per cent of the national income. Never afraid to needle the previous administration, Douglas lays the blaim for this injustice squarely at the feet of Muldoon who's introduction of numerous concessions for taxpayers Douglas says severely eroded the tax base. The 1984 tax rates he says were totally unsustainable, where at a rate of 66 cents in the dollar you needed to earn $2.97 before tax to earn $1.00 after tax. This only encouraged people to exploit the underlying weaknesses of the system. This loss of cohesion and focus is also reported to be what is wrong with the benefit system (as we will see in the following section).

Douglas is the arch enemy of high taxes. According to him, they have a negative effect on employment and real wage levels,

32 Ibid p.82
and lead to diminishing returns of revenue for the Government. In answer to his critics on the left who call for increased taxes, he states that increasing tax on the largest aggregate sources of money, the bottom and middle income earners, hits hardest those who can least afford it. At the same time the money base of high income earners and companies is simply too small. High taxes only encourage them to find loopholes.

What Douglas did then was to lower tax rates to create incentives to earn more. By opening up the economy to the world market the government was forced to lower tax rates to those of competitors or else New Zealand entrepreneurs and workers would have taken their money and skills abroad.

To pay for the new low tax rates, Douglas introduced a new indirect tax on goods and services (GST) so that the wealthy would be unable to avoid it. A Family Support package was also introduced to soften the blow to lower income earners.

**Reallocation of Resources**

The (1987) distribution of resources, according to Douglas, was scandalous and badly effected the taxation and welfare systems, not to mention nearly the entire public sector. Accordingly, areas such as health, education, and social welfare were well overdue for major reforms. Douglas says the welfare system has gone badly off track since it was first instituted when for the past 10 to 12 years there has been a four-fold increase in government spending on these social services although little has actually been done to deliver better services or provide better access to services. All this extra money has gone to benefit the providers of social services and not the consumers, in what Douglas labels as 'institutional capture'. The current incentives in the welfare system create a tension between the providers and the consumers. 'What started out to help the needy has ended up providing jobs for bureaucrats.' What is required is a reversal
of the order of importance between institutions and people. By reforming the welfare system Douglas hoped to create the opportunities for 'self support' and 'self fulfillment' that were part of the objectives of Rogernomics.

On social welfare benefits Douglas accuses the previous National administration of compressing the gap between the low end of the wage structure and the benefit system to the point where some low income earners were better off on the dole, thus creating a poverty trap. The social welfare system over the years has changed peoples attitudes to become more and more dependent on the State. What the system should be doing is supporting people without removing the incentive to work and helping people toward financial independence.

Douglas holds up the Maori Development Corporation (MDC) as a shining example of what can be achieved when people look toward 'self fulfillment' and 'self determination . . . if people can feel they personally have achieved something, then they can achieve more.' The MDC was to be an example of free market economics at work. It was to be totally commercial and 'not dependent on handouts'. In other words, it would not make any demands on government coffers.

In education Douglas asserts that the middle-class has captured most of the money spent on tertiary education. What he advocates is a shift in resources in response to changes in demand from students, and changes in the skills required in the New Zealand workforce. For example there is a high demand for commerce and law degrees but this pressure is exasperated by a shortage of staff and facilities due to the system's failure to provide remuneration that adequately recognises the value the employment market places on certain qualifications. 'Security of tenure and pay relativities have become more important than the students.'

33 Ibid p.194
34 Ibid p.245
Similarly health is also listed as long overdue for restructuring. If one third of every dollar spent on health is wasted on institutional inefficiency rather than in working to benefit patients, it is claimed that services and access could be improved by 50 per cent just by cutting out that waste.\textsuperscript{36} The Accident Compensation Corporation (ACC) is cited as an example of these unfair and wasteful anomalies which virtually 'invites abuse'. Valuable resources are diverted into certain areas like sports injuries and other minor problems, and away from more urgent needs. Consequently the system has created vested interests who have done extremely well out of it. ACC has proven to be a very lucrative gravy train for some private health practitioners. Douglas states that social policy must encourage resources to move into the areas of greatest need in terms of social goals.

Maximum use must be made of the current resources to make the welfare system more efficient. What is called for is greater flexibility, especially with regard to pay and conditions for staff. Incentives are also advocated to encourage providers to act in ways that best meet the needs of consumers. Douglas makes no bones about the essentially mercenary nature of people wanting to make the fastest buck for themselves. What he calls for is a system where, 'When you do the best for yourself, you also do the best for others'.\textsuperscript{37}

The constraint on the resource base requires making a crucial choice, and Douglas gives two options. Either the Government can provide universal access to free and heavily subsidised health and welfare services, or it can target assistance to those in greatest need. Following the first option, says Douglas, would result in an ineffective amount of assistance being handed out to all those who need it, as the resource base is simply too

\begin{itemize}
\item \textsuperscript{35} Ibid p.243
\item \textsuperscript{36} Ibid p.242
\item \textsuperscript{37} Ibid p.244
\end{itemize}
thin. Following the second option would mean the Government could afford a much higher level of assistance to those in most need, while high income earners would receive less cover. Douglas claims he is aware of the harshness of this given the Government's previous paternalistic stance toward all New Zealanders, but again he is emphatic in challenging his colleagues to make this decision 'within the next few years'.

Labour Market Flexibility

After describing the labour market as 'weak unions and pathetic employers', Douglas even more facetiously characterises them as so feeble they 'fell into each others arms'. There was therefore an urgent need to rethink legislation and the way each side operates within the Labour Government's economic reforms. The failure to adjust in other countries had led to the decline in influence of unions and Douglas did not want the same to happen here. Over the last few decades the industrial relations system had become grossly distorted with the award system setting the legal minimum rates for each job area, rather than actual rates paid. The gap between the two had been steadily widening. What Douglas calls for is more flexibility from workers and their wages.

The whole system of industrial relations lacked credibility. It was designed to avoid confrontation. By 1985 there was mounting concern about low income earners. The system was controlled by those in strong positions who set ceilings which impinged on those below. Attempts to increase the lowest rates interfered with the relativities of the rates above. Two-tiered bargaining was allowing those on higher rates to break out of the system and this was distorting different trades' earning potential.

As industry and its needs changed so did the status of different trades, but not the relativities between them. This kept some trades that were becoming more sophisticated from earning

38 Ibid p.94
higher wages while other groups had their income propped up artificially. This is one of the reasons why Douglas thought the economy was performing so badly and why so many skilled workers were leaving the country.

Douglas and the Minister of Labour, Stan Rodger, were determined to see the unions and employers come to some deal themselves without any government interference. Rodger wanted to work himself out of a job by helping to establish two strong organisations who could get on with their own business while he was left to work out the broad policy issues. Intervention by a third party may solve immediate industrial problems but will leave a longer-term problem simmering under the surface.

What unions and employers still have to learn, despite the progress they have made already, is that you can pass all the laws you like but, more than in any other area, it is attitudes which are really important in industrial relations. They have to accept new ideas. This fear of the new and different has afflicted the unions particularly . . .

There will always be a basic conflict: employers want to minimise their costs and workers to maximise their income. The question is how that conflict is handled to the best advantage of both, without fouling the economy. Many of their interests are the same; it is only by becoming more productive and profitable that a company or industry can pay high wages.39

With the removal of industrial subsidies and import licenses, employers finally had to face foreign competition, therefore they could not afford to concede high wage increases without corresponding high productivity.

With the passing into law of the new Labour Relations Act, Douglas hoped it would increase the freedom in which both sides could conduct their negotiations. This would leave the

39 Ibid p.103
responsibility for labour relations where it should be, leaving the government in a neutral corner and not telling anyone how much they should be earning.

The Neutral State

The concept of the neutral or 'non-interventionist' state arises from the theory that the 'market' should decide which industries will remain economically viable. The government is only to look after the services which benefit the community as a whole.

For the idea of the neutral state in Toward Prosperity, Douglas makes particular reference to the agricultural sector. For Douglas, the scale of government assistance meted out to farmers had got out of hand. It was time for farming 'to be a business like any other business.' In testimony to Douglas's conviction that the state should play a very minor role in agriculture, he states:

. . . people see the economy as a very abstract thing, not as a reflection of their own behaviour. They do not regard it as their personal responsibility. The economy is the Government's problem. They believe that if the Government makes the right decisions the economy will go on improving automatically and so will their lives. If things do not go right, the Government obviously got it wrong; therefore it should be sacked.

The economy is not an abstraction; it is three million New Zealanders all making their own daily decision on how to use their money, where they will work, and the way they will do their jobs. If something has gone wrong with the economy it is because without realizing it, there is something wrong with the way thousands of people are making those daily decisions. Whatever the problem is, it will not improve until they themselves make a change. Simply signing pieces of paper in the Beehive cannot, alone, fix it.40

Douglas is concerned that New Zealand is not keeping pace

40 Ibid p.180
with the more dynamic economies of Western Europe and Asia. It has become complacent and slower to adapt. In his eyes the burden of Muldoon's Livestock Incentive Scheme and Supplementary Minimum Prices were crippling the New Zealand taxpayer. These schemes led to unrealistically high earnings for farmers even though the real returns on their output were dropping. They caused farmers to go on producing what the world did not want. According to Douglas, these subsidies to farmers had cost New Zealand, within a period of five years, $4.3 billion.

In order to turn this system on its head and maximise efficiency in the farming sector, Douglas began a wholesale elimination of all subsidies and concessions to farmers. The 20 per cent devaluation had increased the return to New Zealand exporters so there was therefore no more need for subsidies. With the phasing out of incentives like SMPs and fertiliser subsidies, and the announcement that the Ministry of Agriculture and Fisheries was to charge the full cost of services that had once been free, farmers would now have no option but to start producing what the market wanted. Douglas knew farmers were facing a crisis but insists that farming needed to come to terms with prices the market was prepared to pay. Falling land prices was part of that process, so if farmers could not increase efficiency they should get off the land to pave the way for younger people.

What Douglas advocates is a major exercise in debt restructuring and a more efficient use of the resource base 'to get farming back on to a sound financial basis'. At the time of writing, Douglas perceived the industry leading in the right direction by diversifying into high-value, low volume products like goats, deer, and llama. Marginal areas reverting back to scrub is seen as a good sign as turning them into pasture had cost millions of dollars a year to control the soil erosion and flooding which had resulted.

The idea of the neutral state naturally encapsulates a far wider area than just that of agriculture however. The
implementation of a market forces philosophy in almost every sphere of the economy requires that businesses and effected public services raise their standards in order to compete without government interference. Therefore the principle of neutrality applies to most of the areas we have covered above, from elimination of controls in the import/export sector and deregulation of finance, to tax cuts to encourage savings and more effective bargaining methods between unions and employers.
CHAPTER TWO

THERE'S GOT TO BE A BETTER WAY!

Following the same framework as Chapter One, a comparative study will now be made of Douglas's 1980 publication *There's Got To Be A Better Way!* to provide some idea, if any, of how far Douglas's theories have evolved over the years up to 1987.

Written during the high tide of 'Muldoonism', this book was seen by most commentators as something vastly divergent from the traditional views of most politicians, especially Labour Party politicians. Describing it as "one of the most refreshing documents to come out of Parliament for a long time", Keith Jackson went on to applaud Douglas for being independently-minded... and if there is one quality that is needed in our debilitating two-party system, it is some independent-mindedness, coupled with the ability to communicate ideas coherently... Here is an MP who is not hide-bound by what is past, an politician thinking in terms of objectives rather than history. A man willing to cut through cant and precedent, regardless of short-term policy stances. It is to be hoped that Roger Douglas has started a new fashion in which competition between politicians will be in ideas, not personalities.1

*Better Way* was written out of a "deep sense of frustration". As Douglas wrote seven years on, the Labour Party "had increasingly committed itself to the wrong policies... The futility of our situation depressed me... But I still cared about the ideas I feared we may never have a chance to implement and I felt compelled to make a personal statement."2

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2 Douglas *Toward Prosperity* p.9
Many of the ideas incorporated into *Better Way* were not new, but they were "seldom brought together and never enunciated by a politician."\(^3\) Nor were the ideas particularly radical, but in the context of Labour Party politics and even National Party politics under Muldoon, they were seen as something very different.

**The Profit-making State**

The genesis of Douglas's idea to transform particular state services into profit-making ventures can be easily traced back to *Better Way*. Thus the seedlings of a user-pays scheme can be seen in these statements:

The undercharging of Government services to industry and agriculture is a form of subsidy. Don't undercharge. Charge the full price, wherever possible, including the full cost of processing applications for various licenses. Put the cost of the service where it should be - on the receiver of the service.\(^4\) Make departments justify everything they do. If a department cannot justify something, cut it out. Ask - are Government departments necessary? Are they doing the job? Can they be trimmed? Be ruthless with the answers. Make trading departments charge other departments for work they do on the basis as private enterprise.\(^5\)

Corporatisation is not a policy openly displayed in *Better Way* but there is a slight hint of it in Douglas's ideas for revamping the Railways:

The Railways are best known for losing money - around $100 million for the 1979-80 year. There has got to be a better way of using all that investment in track and rolling stock.

\(^3\) Jackson p.223  
\(^4\) R. Douglas *There's Got To Be A Better Way!* p.34  
\(^5\) Ibid p.35
Turn the show into a corporation. Put the employees on to the board and management committees at all levels. Give them worker productivity bonuses if they earn them.\textsuperscript{6}

Above all, get the Minister off the Railway's back. Politicians do not know how to run businesses. Leave that to the businessmen.\textsuperscript{7}

\textit{Fighting Inflation}

Although not overtly advocating a strict monetarist stance in regard to inflation, Douglas did recognise inflation as a major evil both nationally and internationally at a time when it was the trend among foreign governments, particularly Margaret Thatcher's in Britain, to concentrate on eradicating inflation instead of unemployment as had previously been the case.

Conceding that traditional price controls do not stem inflation Douglas states that the only way to control it is to produce growth. Altogether however, his 1980 policy was rather vague:

It must be handled by a combination of policies including responsible fiscal and monetary measures, the encouragement of competition in domestic markets, price controls in limited areas, agreements with the trade union movement and employers on reasonable wage fixing machinery and, above all, an economic strategy which produces growth.\textsuperscript{8}

\textit{Opening Up The Economy}

Although not propounding the floating of the Kiwi dollar, most of Douglas's subsequent razing of the 'four-walled fortress' was directly in line with theories he championed in \textit{Better Way}. One of the original policies in 1980 that had caused so much

\textsuperscript{6} Ibid p.60 
\textsuperscript{7} Ibid p.61 
\textsuperscript{8} Ibid p.42
perturbation among his caucus colleagues was his open avowal to
devalue by 20 per cent - one of the most 'radical' policies in the
context of the times.

Devalue to the point where New Zealand businesses
can stand on their own feet in the outside world . . . In
1980 we would need to devalue by around 20 per
cent to satisfy the Douglas Index of International
Competitiveness.9

Elimination of controls was also pre-figured in Better
Way. One of the stated intentions of Douglas's reforms was to
'bake a bigger cake' by stimulating an export-led economic growth
- "Trade or Die" - to make a fairer redistribution of wealth within
society. A natural progression of this theory was to devalue to
make New Zealand produced goods more competitive on the
international market.

Controls are not the best way to protect the consumer.
Drop them where other ways are available to improve
commercial activity - like competition.10

Douglas had long felt some animosity toward import licenses after
the frustration he had trying to acquire them for new machinery
needed at Bremworth Carpets.

Import licensing costs money and puts profits in the
wrong pockets. Phase it out.
. . . The cold water treatment is the only one that will
wake up manufacturers.11

Subsidies had encouraged the continuation of unproductive
operations. Douglas realized huge savings could be made to the
Government coffers by eliminating various subsidies. In a more
salubrious economic climate industries should be creating wealth,

9 Ibid p.22
10 Ibid p.20
11 Ibid p.39-40
not living off taxpayers money.

Sick industries should cure themselves, or be left to die.\textsuperscript{12}
Subsidies encourage waste and inefficiency because they encourage the belief that someone else should pay. They cause distortions in costs, profit and investment which, in their turn, add to inefficiencies in the economy . . . The removal of subsidies would ensure that \textit{market forces} more nearly operated. [my emphasis]\textsuperscript{13}

Finally, Douglas asserted that foreign investment should be welcomed in New Zealand to provide growth and employment even if it entailed foreign ownership of some national assets.

\textit{Deregulation}

Deregulation is not a policy openly called for by Douglas in \textit{Better Way}, at least not in name. There seems to be little evidence to indicate that the idea of wholesale deregulation of the New Zealand economy had reached fruition in the mind of Douglas before 1984. However, if we include the 'elimination of controls' mentioned above as part of a deregulatory programme then obviously Douglas did have some conception of what was needed to introduce more competition to the New Zealand economy. Deregulation of the financial sector and abolition of exchange controls were not apparent in the scheme of things at that stage, but as we have noted Douglas was already speaking in terms of 'competition' and 'market forces' and it could only be a short distance from there toward implementing deregulation tactics in areas other than import controls.

\textsuperscript{12} \textit{Ibid} p.62
\textsuperscript{13} \textit{Ibid} p.64
Tax Reform

This was one of Douglas's main platforms for economic reform - to create incentives for people to invest more in the local economy. It had always seemed counter-productive to Douglas to lay the heaviest tax burden on those who made the best use of their business assets because asset-owners who made infrequent use of them paid very little tax. They therefore had no incentive to improve their business. Douglas therefore called for an assets tax to encourage efficient use of them. Douglas also wished to reform personal taxation levels and introduce an indirect tax that would be unavoidable to tax dodgers.

Income tax is too high. Cut the rates. Have only two rates.
Put a retail sales tax, say 10 per cent, on all goods at the point of sale.¹⁴

Eventually Douglas would have liked to have seen the complete abolition of all income tax.

We should replace income tax with a tax on all wages, salaries and employee expenses, including what is paid out to owners of enterprises. A payroll tax in other words.¹⁵

Reallocation of Resources

Although not yet talking in terms of 'targeting' those in more need of state services than others, Douglas nevertheless saw a great deal of room to manouevre in redistributing wealth within society. As we have seen Douglas's proposals in tax reform are an attempt to spread the tax burden more evenly among New Zealand taxpayers.

Douglas's proposals for revamping the welfare system fore-shadow later moves in encouraging beneficiaries 'to help

¹⁴ Ibid p.66-67
¹⁵ Ibid p.76
themselves' without the visible hand of Government prodding them along. In an exact vaticination of what he wrote several years later, Douglas inveighs against the benefit system for having created inequalities over the years as it had been added to in a 'higgledy-piggledy fashion'. Douglas's answer was to simplify the whole system by wiping out all the existing benefits and rolling them into one, including national superannuation.

The Labour Market

Writing in a slightly more conciliatory tone than seven years later, Douglas accused the unions of not keeping up with the times and always looking for short-term gain. Douglas was clearly asking the unions to be more 'flexible' in their wage bargaining by advocating that they can have wages as high as they can negotiate but only as high as productivity allows, "but those who refuse to budge from the existing leap-frogging union structure will get only as much as the weakest industry their fellow-members work in can afford."

The Neutral State

Again this is not an idea overtly expounded in Better Way, although it is a theory that follows on naturally in some instances from the implementation of market forces. Yet Douglas in 1980 plainly still saw a role for the Government to play in the economy by 'picking winners' for priority industries. In today's language, Douglas was still an interventionist.

No successful business does everything. It chooses priorities. So should a nation. We should pinpoint industries that are vital to the country's interests. Then help them. Give them priority access to finance.

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16 see p.18
17 Douglas Better Way p.15
18 Ibid p.72
19 Ibid p.56-57
However, the abolition of certain governmental controls in the import sector (as we noted above) would seem to indicate some confusion on Douglas's part as to the full impact such policies would have on the perceived role of the state. Businesses cannot very well be competing efficiently if they require the visible hand of government to prop them up.

Conclusion

After comparing Douglas's two main works, Better Way and Toward Prosperity, it is possible to see a direct correlation in some areas. For instance there can be little doubt that the ideas for the post-1984 opening up of the economy by cutting state subsidies, tax cuts to create incentives to invest, and labour market reform to provide flexibility in wage bargaining, had germinated in Douglas's mind at a much earlier stage. Naturally, Douglas's pre and post-1984 ideas in these fields are not identical as he moved through the 1980s to develop them more comprehensively. As such the retail sales tax became a goods and services tax and so forth.

Another set of ideas can be seen as laying down the groundwork for things to come. Thus thoughts of turning the State into a profit-maker and its associated policy of corporatisation make an unobtrusive mark in Better Way. Charging the full cost of particular Government services is an obvious example. An early prototype of corporatisation can be seen in Douglas's division of the Broadcasting Corporation back in 1973 when he was Minister of Broadcasting. Again, Douglas's proposals for the Railways are not totally without relevance to later corporatisation policies. Deregulation would also seem to fit into this category with the removal of government controls in the import market to facilitate greater exposure to foreign competition.

Hostility toward the benefit system and its bureaucratic
excesses seems also to have caused Douglas some consternation over a long period of time, even if his solutions to its problems were not made explicit in *Better Way*. This would lead one to the conclusion that although Douglas had not fully developed many of his ideas in *Better Way*, he had clearly identified those problems which were to occupy his thoughts right through to, and during, his tenure as Minister of Finance.

Finally, there are those policies enunciated in *Toward Prosperity* whose beginnings cannot be identified in *Better Way*. These include the policies on inflation and the more abstract theory of the neutral state, although as we have seen there is some confusion over what role Douglas thought the state should play. Where did these policies come from? Were they a natural progression from what Douglas had already stated or did he take on board something totally out of character with his early policies once he entered Government in July 1984? These questions will be looked at in the next chapter.
CHAPTER THREE

IN GOVERNMENT - ROGERNOMICS USURPED?

Going by the evidence so far, it would appear that Douglas has kept a reasonably consistent line over the years. However, Bruce Jesson has expounded the thesis that what originally started out as 'Rogernomics' was subverted in 1984 by Treasury and Reserve Bank officials who came to formulate all economic policy for the Government, based on the Treasury briefing papers Economic Management, while maintaining Douglas as their unwitting front man. This chapter will examine the Jesson thesis in the light of comments made by Roger Douglas, and then look at specific proposals made in Economic Management which according to Jesson were independently formulated by Treasury officials.

The Jesson Thesis

New Zealand has often been described as the social laboratory of the world due to its experiments with welfare policies in the 1890s and the subsequent establishment of a complete welfare state in the 1930s. In the years 1984-87 New Zealand once again earned itself such a label, except this time, according to Jesson, "in the most perverse way possible." This time Government policies had shifted to the other side of the political spectrum by implementing laissez-faire and monetarist economics which Jesson associates with the 'Libertarian' or 'New Right'.

Describing such economics as belonging to the "lunatic

1 The Jesson thesis has been derived primarily from the two books Jesson published in 1987 and 1988 respectively. A third book, Fragments of Labour, which was published in 1989, continues much the same argument without adding anything new. It has therefore not been included in this paper.

2 B. Jesson The Libertarian Right in Revival of the Right p.30
fringe" in the 1970s, Jesson claims such policies appeared to be a lost cause because no politicians were prepared to support them. The only ones prepared to endorse such views were those individuals and organisations which worked outside the mainstream, such as Bob Jones and the National Business Review under the editorship of Colin James.

By 1984 however, there had developed a small and influential clique of adherents to these ideas such as business notables and certain highly placed bureaucrats. Jesson attempts to explain how this came about in Marxist terms. Was it fate or free will which led to the ascendancy of 'libertarian' economics?

The constellation of forces - the [Althusserian] element of ruptural unity - did create a certain inevitability about what occurred, not in the sense of there being no alternative, but in the sense that everything contributed to the ascendancy of the libertarian right. This approach provides the background to the political process . . .

In Gramscian terms, the New Right had gained the intellectual leadership and political hegemony of the nation and therefore won the tacit support of the masses.

Turning to Douglas himself, Jesson notes that Douglas before 1984 was advised by a wide array of people. In particular Jesson points out Doug Andrew, Treasury's 'inside man' in the Labour Party (he was seconded to the Leader of the Opposition's office), as having a considerable amount of influence over Douglas. Jesson credits Andrew with having begun the process of miscegenation of Douglas economics and Treasury economics before 1984.

Douglas, Andrew, and Geoff Swier from the Labour Research Unit formulated an economic policy in 1983 which was put to the Labour Policy Council where it was hotly disputed by

3 Ibid p.34-35
the President, Jim Anderton. According to Jesson, this intra-party dispute resulted in a compromise policy being passed by the Policy Council which was 'bland' and 'non-committal'. This eventuated in Labour's 1984 election policy containing few of Douglas's ideas and mostly traditional Labour ideas.

This, however, is not the complete story according to Douglas in *Toward Prosperity*. Douglas alleges a 51-page document entitled *Economic Policy Package* was presented to Labour's Policy Council on 24 November 1983 which contained certain proposals including monetarist anti-inflationary policies and a minimum wage. A 'rigorous' argument ensued over the merits of the package which split the Council into two sides, with a majority favouring 'its broad thrust'. Realizing the possible damage a policy of devaluation could have on the economy, Douglas claims a second, less specific paper was written to 'hide' the devaluation policy and other associated complex policies and to give the 'broad details' of the plan.

The ultimate public statement was, of necessity, highly generalised. We all recognised it would be pointless to become involved in months of detailed public argument regarding every line of a 51 page policy paper. The public hadn't the capacity to absorb that much detail in the short time we had available and the original paper had never been written for publication. However, for anyone who had read that first document, there were no surprises in the action taken by the Labour Government after its election. The total programme had been spelled out in detail in advance . . . everyone involved now knew clearly what I intended if I became Minister of Finance.5

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4 Unfortunately because this document has remained unpublished, Douglas's version of the events cannot be verified. The author's strenuous efforts to acquire a copy from Labour Party Headquarters met with no response whatsoever.

5 Douglas *Toward Prosperity* p.38
following the election of Labour in July 1984 has been labelled by Jesson as a 'bureaucratic' or 'policy coup'. The crisis had manufactured an environment, according to Jesson, where Treasury and the deputy Governor of the Reserve Bank, Dr. Roderick Deane, could enact their own economic programme due to the power vacuum left by Labour's 'non-committal' election policy. "Douglas provided the political will, and Treasury the policy."6

Jessen lists two aspects to this bureaucratic coup. Firstly, Douglas and his two associate ministers, David Caygill and Richard Prebble, were able to seize control of economic debate within Cabinet and most Government departments along with it. Secondly, Douglas and his colleagues were 'helped' by Treasury officials who as "hardline right-wingers within the government bureaucracy" were able to manipulate political power.

The bureaucrats provided the policy, and the finance ministers acted as political brokers, imposing this policy on Cabinet. Other Cabinet ministers were overwhelmed . . .

Under Labour, the autocratic structure of the constitution worked in the bureaucrats' favour. Men like Graham Scott, assistant secretary of Treasury, and Roderick Deane . . . formulated the Government's policies. These were imposed on Cabinet by Douglas, Prebble and Caygill. Cabinet dominated caucus and the wider Labour Party organisation found itself committed by the actions of the parliamentary party.7

It stems from this that Treasury officials have abandoned the normal role of public servants and have become politicised and are openly hostile toward the institution they work for i.e. Government.8

6 Jesson Revival of the Right p.42
7 B.Jessen Behind The Mirror Glass p.123
8 see B.Jesson Lange's Fall in Making NBR Weekend Review 18/8/89 p.1
When Labour first became the Government in 1984 it was presented with Treasury briefing papers, a 'dispassionate economic analysis' entitled *Economic Management*. It was this document and not Douglas's or Labour's manifesto that Jesson claims was the basis for all economic reforms from 1984 onwards. As far as Jesson is concerned, it was Treasury and Reserve Bank officials who had virtually complete control over economic policymaking because of the traditional low-understanding of economic issues inherent within the Labour Party, and because Jesson thought that Douglas had been defeated in the pre-election economic debate.

*Economic Management*, claims Jesson, was the blueprint for Labour's economic revolution. Written as 'a devastating critique of [Muldoon's] policies' it advocated 'an end to government interference wherever it encountered it.'

According to Jesson it separated ends from means, with the goals to be defined and set by politicians while the means were decided upon by the bureaucrats versed in the technicalities of economics in terms of efficiency. Economics was seen to be outside the purview of political choice.

Virtually all areas of society are treated as belonging to the economy. *Economic Management* has policies on virtually everything, and these are treated as matters of economic orthodoxy that are beyond political debate. Political choice then becomes a residual matter of tidying up inequities and malfunctions of the market-place.

This once again contradicts Douglas's version of the same events. Douglas acknowledges receiving briefing papers from Treasury on the extent of Muldoon's mishandling of the economy.

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9 Jesson *Behind the Mirror Glass* p.122  
10 Ibid p.124  
11 Jesson *Revival of the Right* p.42
as part of a planned 'opening the books' exercise. Although the papers recommended 'a considerable amount of policy', Douglas was dubious about some of its content. Initially he favoured publishing the bits he agreed with but later thought better of it, making the excuse that the public would not be able to digest bits and pieces of economic policy easily. Douglas claims he did not want to publish all the briefing papers because it would have highlighted the differences between the Government and Treasury, and would have presented opponents with the opportunity to 'drive wedges' between them.\(^{12}\) So, in order to present a united front to the public, Douglas ordered his staff to add on the Government's economic programme. The result, according to Douglas, was *Economic Management* - a mixture of economic policy which was not solely inspired by Treasury.

**Economic Management**

Were the proposals for economic reform in *Economic Management* really as unique to Treasury as Jesson claims they were? Jesson has stated: 'Economic Management recommended most of the reforms that were to transform the New Zealand economy: deregulation of finance, floating the dollar, abolition of exchange controls, corporatisation, GST, reduced income tax, family care, and so on.\(^{13}\) Since Jesson has spelled out specific instances of 'original' Treasury policies, let us look more closely at each of the examples listed and then see whether they are divergent from those proposed by Douglas.

*Deregulation of finance.* This was part of Treasury's monetary policy "concerned with controlling the overall level of liquidity in the economy in order to control inflationary pressures."\(^{14}\) Treasury proposed deregulating financial institutions in order for them to provide a wider range of services

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12 Douglas *Toward Prosperity* p.71  
13 Jesson *Revival of the Right* p.43  
14 Treasury *Economic Management* p.144
to the public to encourage them to save more. "It is vital that regulations do not hamper competition, innovation and responsible risk-taking" as "controls . . . represent an inefficient means of achieving specific distributional or equity objectives." 15

**Floating the dollar.** Treasury perceived the speculation against the New Zealand dollar on the announcement of the 1984 snap election as being 'symptomatic' of imbalances in the economy.

... achieving a better balance in the foreign exchange market, and a better economic performance generally, requires a considerable tightening of monetary and fiscal policies, in order to reduce internal and external imbalances, together with a significant degree of deregulation in the foreign exchange and financial markets so that market forces can operate more efficiently." 16

This was thought to be best achieved through a floating exchange rate which was seen as having numerous advantages over a 'crawling peg' rate. The primary advantage being that it would vary with the fluctuations in supply and demand which would garner the information needed to make the market respond to changing circumstances so that there would be "less risk that poor monetary and fiscal policies will impoverish those industries exposed to world trade while generating spiralling external debt problems." 17

**Abolition of exchange controls.** Exchange controls were seen to act as an obstacle to outflows of capital from New Zealand which effectively restricted "the range, volume and speed of foreign exchange transactions",and also had a deleterious effect on the efficiency with which resources can be used in the economy. 18 Exchange controls were analogous to import controls.

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15 Ibid p.143-44
16 Ibid p.157
17 Ibid p.166
18 Ibid p.163
Corporatisation. In 1984 the public sector accounted for 12 per cent of Gross Domestic Product and 20 per cent of all government investment. The taxpayer was not getting a proper return on that investment because there were so many hindrances to them performing more efficiently. Firstly, there was a 'conflict of objectives' involved in the public sector since it was obligated to to non-commercial objectives like maintaining 'non-essential' services (such as rural postal services); increasing employment; and holding prices below the cost of supply. Secondly, the public sector was hindered by its operating environment which was "characterised by a multitude of special privileges and constraints" because of its monopolistic hold over some industries and 'inappropriate incentives' to management.

The solutions to this inefficiency were to commercialize social objectives; separate non-profitable services from profitable; "remove special assistance and barriers to competition"; set targets based on private sector norms of profitability"; and make management more accountable.19

"For some enterprises additional gains in efficiency as well as benefits for the fiscal deficit might be achieved by their sale to the private sector."20

Reduced income tax. Viewing the tax system as 'unsatisfactory', Treasury proposed rectifying the system by achieving "economic efficiency; equity; simplicity and certainty; and international compatibility."21 The major flaw was that the tax base was simply too narrow, ". . . a high priority should be placed on extending the base, lowering rates, and achieving a uniform rate structure for comparable incomes and substitute expenditures."22

Ninety per cent of taxpayers have incomes below 1.6 times average weekly earnings (i.e. $25,000 per

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19 Ibid p.284-85
20 Ibid p.286
21 Ibid p.211
22 Ibid p.213
annum). A steeply progressive scale, therefore, risks adverse incentive effects (both economic and tax compliance) for limited distributional income gains. A relatively flat scale on a comprehensive base is likely to be both more efficient and more equitable than a steeply progressive scale on the present base.23

Other methods of broadening the tax base included introducing taxes on fringe benefits and capital gains.

Goods and services tax (GST). The pre-1984 indirect tax, the wholesale sales tax (WST), had many difficulties, the principal ones being that it was a single-stage tax with numerous exemptions and multiple rates of tax which made it difficult to administer. Treasury recommended extending WST by abolishing all exemptions, including all services and the value added by retailers, and moving to a single rate of tax except for those goods, like tobacco and alcohol, "which impose costs to society as a whole."24

Family care. Between 1970-84 there was a 94 per cent increase in government spending in real terms on social welfare. This increased spending did not however translate into better services for the public. Treasury claims differences between various socio-economic groups have largely remained in areas like education, health, and housing. One of the proposals put forward by Economic Management to ameliorate this situation was for the government to establish priorities in its objectives through targeting those in the greatest need. As part of this targeting strategy Treasury recommended that supplementary financial assistance be provided for large single-earner families on low incomes.

Appraisal

How do these proposals compare with those

23 Ibid p.216
24 Ibid p.225
recommended by Douglas in Better Way? Do the two documents, Economic Management and Better Way, diverge completely from one another? Certainly the first thing that strikes us about Economic Management is the similarity in the language used between it and Toward Prosperity. Is this evidence that Douglas rejected his own theories in favour of those championed by Treasury? After the content comparison between Toward Prosperity and Better Way which revealed the overall consistency between the two documents in Chapter Two, that is clearly not the case.

On the whole the same can be said of Economic Management and Better Way. Considering that Douglas's 'free market' thinking was still at a very immature stage when Better Way was written, it has stood the test of comparison fairly well in terms of generalities and not specifics.

Although deregulation of the financial sector was not foreshadowed in Better Way, we did see that in Chapter Two, evidence of deregulatory measures against import controls and subsidies, and the mention of key concepts such as 'competition' and 'market forces' which if Douglas had thought them through to their logical conclusion, would have equated with further deregulation in other fields.

The floating of the New Zealand dollar and the elimination of exchange controls were not ideas whose origins can be found in Better Way. However, it is important to note here that these measures were basically policies that were required due to the exchange crisis of 1984 - a crisis that could not have been foreseen by Douglas in 1980. Clearly in such an emergency it was only natural to act on the advice proffered by Treasury and Reserve Bank officials, although at least one leading politician of the day has claimed the credit for the idea of floating the dollar.25 Also, the elimination of controls, although not exchange

25 In a speech given to the Dunedin branch of the Institute of Public Administration on 5 September 1989, the Hon. Richard Prebble, the
controls, was preempted in *Better Way*, and the abolition of controls as we have noted does have connotations of deregulation.

Reduced income tax is quite clearly synonymous with the Rogernomics of 1980 as is the idea of a comprehensive indirect tax, whether it be a retail sales tax or a goods and services tax. It is interesting to note here Treasury's advocacy of a capital gains tax to facilitate the broadening of the tax base. This is a policy which Douglas has shown a marked degree of antipathy toward over recent years,²⁶ revealing in small part the fact that Douglas is not totally at the behest of Treasury advice as Jesson would have us believe.

The Family Care package is a specific policy of the broader field of social welfare reform. As such it certainly did not have its origins in *Better Way*. However, we enter a grey area here as to its origins because Douglas claims it as part of his 1983 *Economic Policy Package*.²⁷ Presumably Douglas would also claim it as part of his contribution to Treasury's *Economic Management*. Unfortunately, without that 1983 document this allegation cannot be corroborated.

Corporatisation of the public sector in its Treasury context and the proposed eventual selling-off of some state assets to the private sector is one area which has no links to the Rogernomics of pre-1984. Simon Collins states that:

> ... strangely it was not advocated publicly either by Roger Douglas or by anybody else before the 1984 election ... On one level this illustrates the unusually strong contribution which right-wing Treasury bureaucrats have made to the government's policies. (The Treasury advocated market principles for state trading enterprises in its briefing to Roger Douglas the week after the election.) At another level though, it

²⁶ see R. Douglas *Toward Prosperity* p.205
²⁷ *Ibid* p.34
shows the force of free-market logic once unleashed; each policy leads naturally to another in ways even the Minister of Finance himself may not have predicted.28

So even Douglas's corporatisation of broadcasting and the proposed corporatisation of Railways in Better Way do not stand up to the rigours of the Treasury proposal, nor does it seem to have been espoused in Economic Policy Package. In this light it would seem Jesson is correct in labelling corporatisation a Treasury policy - one which Douglas and his colleagues took very much to their hearts.

In conclusion, it can generally be seen that Economic Management did not mark a distinctive break from those policies advocated by Douglas, other than the policy of corporatisation. In fact, if one wished to study the argument in the context of the relationship between politicians and civil servants, John Roberts has noted, in contrast to Jesson's view of the bureaucracy no longer playing to the classical concept of public servants obediently serving their masters in government, that public servants in New Zealand do still work cooperatively with their ministers.29

28 Collins Rogernomics p.67
29 see J.Roberts Politicians, Public Servants and Public Enterprise pgs.110-114
CHAPTER FOUR

CONCLUSION

It may be seen from this analysis that there has been a broad consistency in Roger Douglas's economic and political philosophy throughout the 1980s. We noted in Chapter One how Douglas was moved to champion unfashionable policies even in the face of huge risks to his political career. In fact it has been Douglas's strict adherence to the principles of 'more market' economics first brought together under the title There's Got To Be A Better Way! in 1980 that has landed him in so much trouble nearly a decade later when he was forced to resign in late 1988 over a clash of interests with the then Prime Minister, David Lange.

Although Better Way was by no means the definitive statement on Douglas's economic thoughts it undoubtedly encapsulated the themes and problems that were to obsess him throughout the next few years. Once the idiosyncrasies of Better Way were ironed out Douglas was able to move closer to a more coherent and comprehensive policy which was to be more consistent with a free market economy.

To say that the bureaucrats usurped the traditional decision-making process in order to implement an economic programme based on their own theories is quite erroneous. The Government did take advice from Treasury, and it is only natural that they did so in the light of the extraordinary circumstances surrounding the Labour Party's initial introduction to the Treasury benches. The point is that Treasury advice could not have prevailed unless Douglas and his colleagues had been thinking along similar lines themselves.

Certainly the misegeneration of Government and Treasury views did not reflect a drastic shift in Rogernomics. As we saw when analysing the content of Better Way in Chapter Two,
Douglas had explicitly referred to the need to introduce more 'competition' and 'market-forces' into the New Zealand economy. It is in *Better Way* that we see the annunciation of ideas such as cost recovery for government services, tax reform, labour market flexibility, social welfare reform and export-led growth brought about through decreased import controls and devaluation. Thus in reference to devaluation in 1984, Neill Birss was moved to state "just how much this first implementation of Labour's economic policy reflected views that Roger Douglas has been expounding for years."¹ If some of Douglas's ideas at this stage seemed 'half-baked', then their ingredients were certainly to gain more consistency in the 'pressure-cooker' environment of the first three years of the fourth Labour Government.

In 1980 Douglas had probably not realized the full impact such policies would have on the economy as a whole. As Simon Collins pointed out, the force of free-market logic tended to steamroll once unleashed and take a direction which Douglas himself may not have predicted. Thus Rogernomics in practice came to include some policies such as corporatisation and wholesale deregulation which were not foreseen in *Better Way*. On the whole however, Rogernomics was clearly predetermined by Douglas and the Labour Party, and was not Treasury-inspired or the result of a 'bureaucratic coup'.

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POSTSCRIPT

1989 has proven to be a popular year for publishing accounts of the 1984-87 Labour Government and/or its economic policy. Unfortunately, these books were not released early enough to be used in this essay. These publications include *Rogernomics. Reshaping New Zealand's Economy* edited by Simon Walker (New Zealand Centre For Independent Studies), *The Making Of Rogernomics* edited by Brian Easton (Auckland University Press), and ex-Labour Party President, Margaret Wilson's *Labour In Government 1984-87* (Allen and Unwin).
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