

**Wellington Chamber of Commerce
Breakfast Address**

**Economic Reform:
New Zealand in an
International Perspective**

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ECONOMIC REFORM: NEW ZEALAND IN AN INTERNATIONAL PERSPECTIVE

It is an honour and a pleasure for me to speak today to the Wellington Chamber of Commerce. Let me begin by saying that, as a newcomer to New Zealand, I am in search of information and ideas. Like many overseas observers, I have tried to follow from afar the story - a remarkable story - of economic reform, of liberalisation, in this country. I am very pleased that I now have the opportunity to note developments on the spot, and to hear the views of New Zealanders in person. I hope and expect to benefit from listening to your comments and observations today.

My theme is liberalisation, and my approach is comparative. I want to set the changes that have occurred and are in progress in the New Zealand economy, the whole programme of reform since the change of government in July 1984, in the context of what has been happening in other OECD countries. I shall try to identify similarities and differences - to distinguish those aspects of developments in this country which have parallels in many of, or even all, the other OECD countries, and those which are peculiar to New Zealand. I shall offer you my own personal answer to the question, How has New Zealand been different? In conclusion, I shall pose some further questions, about the effects of reform, which I hope you will feel able to respond to.

Let me start with two basic elements of similarity between New Zealand and the rest.

First and foremost, New Zealand has not been alone or exceptional as a reforming country: far from it. At different stages from the late 1970s onwards, and to an extent that few people anticipated before the event, the economic systems of the OECD member countries - over this period there were 24 of them - have become on balance less regulated and more subject to the influence of markets: governments, acting both individually and in concert, have chosen to follow a path of market-oriented economic reform. There are no exceptions, and indeed the trend goes well beyond the OECD area.

Second, New Zealand is likewise not alone or exceptional in that important measures of reform have been introduced and carried through here by a left-of-centre government. Such a development is neither surprising nor incongruous.

I mention these points, which are perhaps rather elementary, because I have read Australian commentators - and it may be that they have their counterparts in New Zealand - whose interpretation of events is threefold: first, that liberalisation has been largely confined to the English-speaking countries; second, that it represents a move to the right, under the influence and following the example of Margaret Thatcher in Britain and Ronald Reagan in the United States; and third, that in taking this course left-of-centre governments in both Australia and New Zealand have allowed themselves, in a strange and regrettable lapse, to become the slaves of conservative economic thinking. Thus what has happened in Australasia is portrayed as something weird and outlandish.

All these assertions are incorrect. First, and to repeat, all the 24 OECD countries, naturally with many differences as to timing, content and scope, have engaged in liberalisation: such measures have by no means been confined to the (so-called)

'Anglo-Saxons'. Second, left-of-centre governments in several countries have either initiated or pushed ahead with programmes of reform. I remember that at the end of 1984, soon after I went to the OECD, finance ministers in six of our countries were conspicuous as strong and effective advocates of liberalisation. Five of the six were from left-wing governments. Besides the two whom you will at once identify, namely Roger Douglas and Paul Keating, there were Miguel Boyer in Spain, Jacques Delors in France, and Kjell-Olof Feldt in Sweden. The odd man out was my countryman, Nigel Lawson. The most recent addition to the list of left-wing reforming administrations is the government that came into office earlier this year in Finland.

Third, liberalisation does not represent a victory for conservative ideas and principles: it does not imply a move to the right. To my mind - though I have to say that Lady Thatcher might not agree with me here - the true hero of this story is not conservatism, but economic liberalism.

At this broad level, therefore, New Zealand appears as one of the crowd. If we turn to look more closely at the content of the various reform programmes, comparing the measures that have been taken in New Zealand since July 1984 with roughly parallel developments in other OECD countries, then there are both similarities and differences to be noted.

Let me mention first what I see as two elements of similarity. One relates to the initial pre-reform situation here and elsewhere, and the other to the actual programmes of reform.

As to the initial situation, it is an interesting question how heavily regulated, by comparison with its OECD counterparts, the New Zealand economy was before the process of reform was set under way. Some commentators paint a sombre picture of the system in the pre-Roger Douglas era as mired in long-established colonial socialism, overlaid by decades of activist economic management following the Second World War, and topped off with some heavy-handed interventionist adventures under Sir Robert Muldoon. I myself think that this picture, though acceptable in broad outline, is somewhat overdrawn. Among other things, it fails to take sufficiently into account the extent of pre-reform interventionism in other OECD countries.

Let me give you an illustration of this point. One leading indicator of the extent of interventionism in a country is the ratio of government expenditure to GDP. For New Zealand in 1984, I would place this ratio - for which, by the way, there is no published official estimate, and no OECD figure - at around 45 percent. This would make New Zealand eighth equal for that year in a list of 20 OECD countries. Among the other 19, seven countries had a ratio of over 50 percent, and for three of them - Belgium, Denmark and Sweden - it was over 60 percent. Judged by this admittedly partial criterion, the New Zealand government in the last days of Muldoon's administration was not especially interventionist - though in some other respects, of course, it was.

Let me turn now from the initial situation to the actual reform programme, again looking at what has happened elsewhere. Suppose that we consider in turn five leading areas of policy. Generalising broadly, I would sum up developments as follows:

- (i) In financial markets, New Zealand has carried out a thorough and radical set of reforms, starting from a position of extensive regulation. In this, however, it has been in fairly numerous company.
- (ii) With respect to privatisation, corporatisation and deregulation of industry it has been among the leaders, but by no means alone.
- (iii) In liberalising its international trade, New Zealand has taken significant steps towards a freer regime - all the more significant, I think, when viewed in the light of past attitudes and traditions in this country; but in the actual measures adopted, it has been very much in line with other OECD members. In all these three areas, New Zealand can be broadly viewed as having, in company with other OECD countries which started from a rather interventionist base, come into line with the rest.

In the remaining two of my five areas I think the differences are more marked.

- (iv) The first of these is public finance. As to tax reform, which is one aspect here, it is true that once again it is an activity in which many other OECD countries have been involved; but up to now New Zealand has gone further than most if not all of them. An OECD Secretariat report of 1990 paid this country the somewhat qualified tribute of having established 'probably the least distortive system' in the OECD area, a verdict which I think still applies. Turning to the public expenditure ratio, my assessment is that, judged in terms of comparative performance over the decade from 1984 to 1994, this country would come quite high in the Gladstonian merit order: perhaps as high as third, and not lower than fifth, in the group of 20 that I referred to earlier.
- (v) Last, but far from least, there is the area of labour market policies. Here New Zealand is one of only two OECD countries, the other being the United Kingdom, which have so far introduced radical reforms.

How to sum up all that has happened here since July 1984, again placing the changes in an international context? I would make two observations.

First, it is notable that in all the five main areas of policy that I have listed, New Zealand is well represented as a reforming country, and that in some cases, even allowing for the initial pre-reform extent of interventionism here which was often above average, it has to be counted among the leading reformers. Looking across these areas as a whole, no other OECD country has such a portfolio of liberalising measures to show.

Second, however, to say this alone would be to leave out of account the extent to which liberalisation has been pursued here in ways that have little or no parallel in the rest of the OECD. In my listing so far I omitted, in chronological order, the State Sector Act 1988; the Public Finance Act 1989; the Reserve Bank of New Zealand Act 1989; and the Fiscal Responsibility Act 1994. In no other OECD country has there been so systematic an attempt at the same time (1) to redefine and limit the role of government, and (2) to make public agencies and their operations more effective, more

transparent, and more accountable. It is this important extra dimension, as well as the range and scope of reforms that have close counterparts elsewhere, that gives the New Zealand experiment its distinctive character. People all over the world have come to consider New Zealand as a special case, and they are right.

So much for the opinions and impressions that I wanted to convey. Let me in conclusion raise two issues on which I would greatly welcome your views.

Issue No 1 is that of results: to what extent, and in what ways, have reforms improved economic performance in New Zealand? Has the economy, and have individual enterprises within it, become more dynamic, more responsive to change? What is the evidence that bears on these questions, and how far can the answers be quantified? Under this heading, I would be particularly interested to hear your views on the effects so far of the Employment Contracts Act 1991, and on the ways in which labour market reform here might be taken further.

Issue No 2 relates to the attitudes, the orientation, of businesses in New Zealand. Perhaps I can clarify this by a reference to Australia. In a recent published article on the reform process there, I put forward the view that liberalisation in Australia, despite its limits - for the process has gone considerably less far than in New Zealand - might well have brought with it, or be in course of bringing, a radical change in attitudes. Let me read you the passage in question:

A profound change is under way, with the full effects yet to become apparent. The essence of this change can be summed up in a single word: the Australian economy, and Australian attitudes within it, are in the course of becoming internationalised.

Two reforms in particular have contributed to this development: trade liberalisation and the opening up of capital markets. Neither of these changes is likely to be reversed. Together they are increasing the scope and intensity of competition within the economy, and enlarging the opportunities available to Australian business enterprises. As a result, new horizons have been opened up. The Australian economy as a whole, and not just the traditional primary exporting industries, is now widely and increasingly seen as an integral part of the international system, rather than something to be judiciously insulated and shielded from it by a range of government actions. This change in attitudes is itself lending impetus to internal economic reform, since measures such as deregulation, privatisation, tax reform and the freeing of labour markets are viewed by many as necessary steps towards improving international competitiveness.

David Henderson, 'The Revival of Economic Liberalism: Australia in an International Perspective', *Australian Economic Review*, first quarter 1995.

The question that is in my mind, and on which again I would be most interested to have your views, is how far such a description holds true of New Zealand today. If it does, this will increasingly affect both the performance of the economy and the outlook and attitudes of people. Over the years to come, the era of reform may prove to have generated a 'velvet revolution', New Zealand style.