RESTRUCTURING - THE NEW ZEALAND EXPERIENCE FROM AN AUSTRALIAN PERSPECTIVE*

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Abstract

New Zealand's program of economic and public sector restructuring since 1984 is assessed in comparison with that of the Australian Commonwealth government. New Zealand's reputation as more radical in its approach to restructuring is confirmed, though with a number of qualifications, including the observation that its approach to public sector reform has been more evolutionary and pragmatic than sometimes depicted. The reasons for New Zealand's former radicalism are partly economic and constitutional but mostly political, deriving from the greater electoral recklessness of its leaders. The economic benefits of restructuring are disputed, depending on the weight given to distributive issues and the growth in inequality. The political effects are more unambiguous. Radical restructuring was imposed without an electoral mandate and in breach of clear electoral commitments, precipitating electoral reform and coalition government. The result has been an end to major reform and the imposition of a new status quo. Radical change has also been made more difficult by the introduction of fiscal responsibility legislation which reduces the likelihood of the post-election fiscal crises necessary to justify unpopular expenditure cuts.

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I: Introduction

Restructuring is shorthand for the radical changes to economic and administrative structures favoured by most governments in the OECD over the last decade and a half. It is not restructuring *per se* but restructuring in a specified direction. This direction can be summed up as a move away from government control of the economy and towards greater reliance on competition and market solutions. Governments are to reduce the scope and scale of their public sectors by withdrawing from the provision of goods and services which can be provided by the private sector. The private sector is to be subjected to less government regulation of its activities, while the public sector, appropriately reduced, is to increase its efficiency by adopting the commercial practices of the private sector wherever possible.

In an international context, New Zealand has been located in the position of a radical pacemaker, as a country which, till recently at least, has pressed on ahead of the bunch and whose experience can be used to stimulate other, more timorous, governments to follow suit. An item in the Business section of *The Australian* (23/1/97) is typical:

> The world's most powerful central banker paid tribute to New Zealand yesterday, agreeing that the United States should try to emulate some if its economic reforms. 'They turned around an economy which was in awful shape .. and they've done a really splendid job', Dr Greenspan told the influential Senate committee. Dr Greenspan was responding to a question from Republican Senator Rod Grams, who praised NZ's public sector reforms, particularly the privatisation and outsourcing of government businesses.

This paper attempts an overview of the New Zealand experience from a comparative perspective, to assess the extent of New Zealand's radicalism and the reasons behind it, and to see what lessons, if any, the New Zealand experience has to offer about restructuring in general. This is a particularly appropriate time to start taking stock, partly because some of the reforms have been in place long enough to be assessed in terms of their actual results rather than on the basis of ideological preconceptions which have for so long formed the mainstay of the arguments of advocates and critics alike. Moreover, recent political events in New Zealand, particularly the change of the electoral system to proportional representation and the formation of a coalition government committed to halting the restructuring process and even to undoing some of the reforms ('re-restructuring'), suggest that the era of restructuring has drawn to a close and is therefore becoming ripe for academic appraisal.

This paper is in four parts. The first summarises the main features of New Zealand's restructuring program in contrast with that of the Australian Commonwealth government, with the purpose of assessing the received wisdom that New Zealand's program has been comparatively radical and intellectually rigorous, at least in comparison with its trans-Tasman neighbour. The second summarises the main reasons given to account for the differences between the two countries. The third attempts an assessment of New Zealand's restructuring. Written by a political scientist rather than an economist, it concentrates more on the restructuring of state sector institutions and draws heavily on the writings of others for its account of the economic reforms. The final part looks at the consequences of restructuring for the political system.

II: New Zealand's Restructuring Program Compared

New Zealand's restructuring program can be divided into three main periods following the electoral cycle:

1. The First Lange (Prime Minister)/Douglas (Minister of Finance) Labour government, 1984-7.

This period saw the main economic reforms including: floating the dollar, easing exchange controls and deregulating the banking industry; reform of the tax system through reduction of income and company tax and introduction of a goods and services tax; trade liberalisation through ending of export and agricultural subsidies, phasing out of import licensing coupled with a program of tariff reduction; general ending of price controls and reduction of trading monopolies. The main state sector reform was the corporatisation of government trading activities into commercially oriented state-owned enterprises (SOEs).

2. The Second Lange/Douglas Labour government, 1987-9 (Douglas resigned as Minister of Finance in December 1988; Lange resigned as Prime Minister in August 1989)

This period saw a concentration on state sector reform, with privatisation superseding corporatisation, the overhaul of public sector management and accounting through the State Sector Act 1988 and the Public Finance Act 1989, and the restructuring of state education through decentralisation of school management. The Reserve Bank Act 1989 made the Reserve Bank formally independent of government and confined its objectives to the achievement of low inflation.

3. The Bolger National Government 1990-6

The main new initiatives were taken in the government's first term, particularly radical liberalisation and decentralisation of the labour market (Employment Contracts Act 1991), greater targeting and reduced levels of social welfare, and restructuring of first the science and then the health sectors through the establishment of separate independent agencies for the purchasing and provision of science and health respectively. Labour's reforms were also continued and consolidated, particularly through continued restructuring of government departments in the light of the principles of the 'new public management' enshrined in the State Sector and Public Finance Acts, together with greater commercialisation of state sector activities and further privatisation of state assets. The Fiscal Responsibility Act 1994 encouraged budgetary surpluses and required governments to be more open with budgetary information.

The general thrust of the reforms was not unique to New Zealand and indeed was closely paralleled in Australia which faced similar economic circumstances and which embarked on broadly similar program of financial deregulation, tariff reduction, corporatisation, labour market deregulation and so on. Indeed, Australia was the initial pacemaker with its pivotal decision to float the Australian dollar in late December 1984, taken four months before the floating of the New Zealand dollar in March 1985. However, New Zealand governments can be said to have gone further than Australian Commonwealth governments in a number of respects:

1. General Economic Policy

(i) financial deregulation. Both countries floated their dollars and encouraged new entrants to the banking industry. New Zealand's float, however, was a 'clean' float compared with Australia's 'managed' float. Unlike Australia, New Zealand did not seek to control the number of new banking institutions.

(ii) industry policy. Both countries set about reducing protection for manufacturing industry by phasing out import licensing and reducing tariffs, but New Zealand did so at a faster rate. Rates of assistance to manufacturing industry in New Zealand fell from 39% in 1983 to 14% in 1991 (Bollard 1994, 76) while in Australia the decline was from 22% to 14% over the same period (Industry Commission 1994, 303; 1995, 35). However, the New Zealand government was less actively concerned to help maintain a viable manufacturing base and did not adopt any equivalent of Australia's industry plans for various sectors, such as the motor industry, or offer generous tax concessions for research and development (Easton and Gerritsen 1996, 31-3).

(iii) monetary policy. Though both countries emphasised the need to control inflation as a major aim of monetary policy, New Zealand went further by legislating for price stability as the sole aim of the Reserve Bank, with the government setting an inflation target of 0-2%. The result was an inflation rate in the 1990s significantly below Australia's and the OECD average (Dalziel and Lattimore 1996, 15; Castles and others 1996, 19).

(iv) labour market policy. Both countries moved away from the centralised systems of arbitration and conciliation established almost a century earlier, but New Zealand has moved much further, particularly through the Employment Contracts Act passed by the incoming National government in 1991. The Act removed any special bargaining rights for trade unions and abolished the national award system.

(v) taxation policy. Both countries attempted to flatten and broaden the tax base but New Zealand went further, reducing the highest marginal rate of income tax from 66% to 33% (compared with 48.7%) and introducing a comprehensive goods and services tax (GST).

2. State Sector Restructuring

(i) Privatisation. While both countries adopted a policy of corporatising government trading departments (through government business enterprises (GBEs) in Australia and state-owned enterprises (SOEs) in New Zealand), New Zealand was much more aggressive in the next stage of privatising publicly-owned corporations, for instance selling the Bank of New

Zealand, Air New Zealand and New Zealand Telecom, before the end of the 1980s. Meanwhile the Australian counterparts of these corporations (Commonwealth Bank, Qantas and Telstra) were not fully privatised until the mid 1990s, if then (only one third of Australian Telstra has so far been committed for privatisation).

(ii) Disaggregation of agencies. New public management principles require the institutional separation of different functions, for instance purchaser and provider, provider and regulator which have hitherto been combined in the one government agency. Both countries practised the 'hiving off' of different functions to separate statutory bodies in areas such as transport and communications but New Zealand went further in defence, justice, science and conservation (Boston and others 1996, ch 4) (as well as in education and health which are not Commonwealth responsibilities in Australia and therefore not strictly comparable). In general, New Zealand confirmed its longstanding preference for small government departments (at present 39), though its Treasury remained united and its departments of foreign affairs and trade were amalgamated on the Australian model. Australia, by contrast, in the 1987 Machinery of Government changes in 1987 reduced the number of government departments from 26 to 16, subsequently increased to 18 (Boston and Uhr 1996, 58-64).

(iii) Focus on outputs. Both countries have revised their public sector budgeting and accounting procedures to focus more on objectives and results and less on inputs. However, New Zealand has gone further in embracing the conceptual apparatus derived from agency theory and the new institutional economics, particularly the distinction between 'outcomes', understood as desirable social effects chosen by the government, and 'outputs', understood as goods and services provided by departments. In annual purchase agreements between ministers and departmental heads, departments agree to provide specified outputs for an agreed price. The same structure is followed in the budget, which authorises departmental expenditure for specified 'output classes' and in annual reports to Parliament. A distinction is also drawn between the government's interest as purchaser of outputs from departments and its interest as the owner of the department, responsible for its long-term viability. Responsibility for setting pay and conditions for public service employees has been largely devolved to the chief executives of individual departments. By contrast, the Australian Commonwealth government has not yet attempted to draw any sharp conceptual distinction between the roles of ministers and department heads, relying on increasingly insecure tenure as a means of keeping department heads in line. Though departmental expenditure is reported in terms of expenditure on particular programs with specified objectives, initial appropriations for departmental expenditure are in terms of unspecified running costs rather than specified programs. Under the ALP government, public service employment was still subject to considerable central control.

In general, then, there can be little dissent from the received wisdom that New Zealand's reform process has been particularly thorough-going and radical when compared, for instance, with Australia's. It is important, however, not to overstate the extent and nature of New Zealand's radicalism. In the first place, one needs to be careful with the claim of theoretical consistency and coherence. In relation to public sector reform, for instance, New Zealand is often held out as the leading example of theoretical consistency in the application of the principles of the new public management. However, there is a good case for seeing these principles as themselves inconsistent. The new public management is an amalgam of a number of intellectual strands, including corporate management, institutional economics and public choice, and involves tension between conflicting principles, for instance between managerial autonomy and accountability, between deregulation and control, between disaggregation and coordination (Aucoin 1990; Peters 1996). In this case, it is logically impossible to be a theoretically consistent adherent of new public management. One may be more or less one-sided but not more or less consistent or coherent. Thus, New Zealand may have gone further in applying the institutional economics thrust of new public management, for instance in the principal/agent analysis of ministers and public servants and the need for institutional separation. Australia, meanwhile, has placed more emphasis on the corporate management principle of managerial autonomy, as seen in the preference for budgeting for undifferentiated running costs rather than for specified output classes. But New Zealand was not therefore more consistent or coherent.

Another note of caution about the conventional stereotype of New Zealand concerns the extent to which it follows a single, preconceived model. Again, in connection with public sector restructuring, there is a tendency to see the reforms as following a theoretical blueprint laid out in the Treasury's *Government Management*. This document was published after the 1987 election as the Department's post election briefing and preceded the Labour government's reforms in the State Sector Act 1988 and the Public Finance Act 1989 (eg Hood and Jackson 1991, 179). However, though some of the distinctive features of the New Zealand system, such as the distinction between outcome and output, are prefigured in this document, it is by no means a complete blueprint for the system. Indeed, many of the important features of the present system were introduced after the first major round of reforms arising out of the Public Sector Act 1988 and the Public Finance Act 1989 - for instance, the purchase agreements separate from performance agreements (introduced in 1993), the establishment of medium and long-term budgetary objectives under the Fiscal Responsibility Act 1994, and the specification of strategic and key result areas (SRAs and KRAs) begun in 1994 (Schick 1996, 3-4). This later emphasis on collective strategic management can be seen as arising out of serious deficiencies in the first round of reforms identified in the 1991 Review of the State Sector Reforms. Thus, the actual structure of the present system owes as much to subsequent evolution and pragmatic adjustment as to the principles proclaimed in the initial revolution.

Again, in contrasting New Zealand with Australia, it should be remembered that, under Australia's federal structure, responsibility for the provision of public services is shared between the Commonwealth and the states. Many of the state governments, particularly state Liberal governments, have been comparatively radical in their approach to restructuring, for instance in corporatising and privatising public utilities and in introducing performance agreements for agency heads. Confining the assessment to the Commonwealth government, though justifiable for the purposes of comparison, particularly in relation to macro-economic policy, may have the effect of understating the extent of restructuring in Australia as a whole.

Finally, acknowledgment that the process has been evolutionary as much as revolutionary suggests a further reason for caution about the common stereotype. Given that institutions change over time, much depends on the actual point in time at which comparisons are made. For instance, in relation to the extent of privatisation, the contrast with Australia, if taken in 1990, remains profound, with Qantas and the CBA still off limits and Telecom not yet even a gleam in a share broker's eye. By 1997, especially with the election of a Coalition government, the differences are much less sharp. Similarly, in relation to the core public service, the Coalition government's proposed reforms to the Public Service Act suggest that Australia will soon match New Zealand's degree of devolution of public service employment. The renewed emphasis on contracting out and the creation of new executive agencies, such as the Community Service Delivery Agency, show increased support for disaggregation and the decoupling of government functions from direct ministerial control. New Zealand's radicalism appears a more temporary and fading phenomenon, particularly in the light of the conservatism of its current and likely future governments following the introduction of proportional representation in 1996. By the end of the century, if Australia sells all of Telstra and introduces a goods and services tax, the Australian tortoise may have caught up with, and even overtaken, the New Zealand hare. The contrast between the two countries may then appear to have been a passing historical phase.

III: Reasons for New Zealand's Radicalism

What accounts for New Zealand's greater radicalism from the mid 1980s to the early 1990s? A number of different reasons have been given.

(i) Economic. Both incoming labour governments faced a short-term economic crisis. Moreover, over the longer term, both economies had been equally affected by the relative decline of commodity values compared with the value of manufactured goods. Their weakening terms of trade from 1960 track each other with remarkable consistency (Easton and Gerritsen 1996, 27). Admittedly, during the last term of the Muldoon government (1981-84), New Zealand economic policy had become increasingly interventionist, with state-backed investment in uneconomic energy projects and a lengthy wage and price freeze.

Some loosening of controls was inevitable but there is little in New Zealand's economic situation to predict the radicalism of its policy response (cf Hood 1995, 102-6).

(ii) Constitutional. New Zealand is a unitary state with a unicameral Parliament compared with Australia's federal structure and bicameral Parliament in which the government typically faces a hostile majority in the Senate. New Zealand's single-party majority governments elected under the former first-past-the-post electoral system could usually count on enacting whatever policies they adopted. Australia's federal structure certainly restricts the scope of the Australia national government in relation to New Zealand's (Holmes and Shand 1995, 553-6). Unlike the New Zealand government, the Australian federal government does not have control over education, health or public utilities such as electricity and railways. Structural reform in these areas is a matter for individual states and intergovernmental negotiation. However, this factor does not explain the many differences in the extent of restructuring within areas which are completely in the jurisdiction of the federal government, for instance macro-economic and industry policy as well as the structure of the Commonwealth state sector. The bicameralism of Parliament and the opposition of the Senate has sometimes been a major factor, recently acting as a brake on the reforming zeal of the Howard coalition, for instance in the matter of labour market reform. However, during the thirteen years of the ALP government (1983-96), the Senate could hardly be seen as an impediment to radical restructuring. The government could usually count on the conservative coalition to support restructuring measures such as privatisation or market liberalisation which favoured the private sector.

(iii) Political. The most significant reasons are political (Castles and others 1996, 10-14; Easton and Gerritsen 1996, 33-36). The Australian ALP government proceeded more by consensus, both within the governing party itself and between the government and major interest groups. Negotiation and compromise not only suited the style and electoral instincts of the prime minister, Bob Hawke, but were also required by the structures designed to keep the ALP united and effective in government - the party's 'Accords' with the trade union leadership in the ACTU and the formalised system of factions within the ALP. The New Zealand Labour government, by contrast, did not impose the same constraints on itself and was therefore not subject to the same degree of countervailing power from its union members or left wing. A small group of determined ministers, centred on the Minister of Finance, Roger Douglas, thus found it easier to convince their Cabinet colleagues and to dominate their party caucus.

Party unity was maintained till after the 1987 election which Labour won on the basis of its anti-nuclear and other social policies as much as for its economic restructuring (Vowles 1990). Once Labour had secured a second term in office for the first time since the 1940s, the reforming ministers became politically reckless, happy to confront the party's supporters in the public sector professions and to attack some of the party's sacred cows by privatising state enterprises, particularly the Bank of New Zealand. This alienated the party faithful and paved the way for the return of National in 1990, promising a less radical approach, but in practice pressing on even further with severe cuts to social welfare and radical labour market reform. In no election, it should be noted, did either party openly present its restructuring intentions to the voters. Each new stage of reform was introduced without warning or consultation, on the theory that vested interests should not be allowed to derail reforms needed in the public interest. In addition, after each election, in 1984, 1987 and 1990, political justification for breaking with campaign reassurances could be found in the urgent need to deal with an unforeseen financial crisis which had been precipitated by pre-election promises and fiscal relaxation. The reformers claimed democratic vindication in the supposed acceptance of reform after the event (eg Douglas 1990). However, the electoral history of the period, together with the astonishing endorsement of radical electoral reform in 1992-3, suggests otherwise.

In Australia, it may be noted, not only did Labor, under Hawke, continue to keep at least one eye on its electoral prospects but also Labor's opponents, under Hewson, made the tactical error of revealing their reforming hand before an election, in the *Fightback* manifesto which lost them the 1993 election. By 1996, however, the lesson had been learned and the Coalition won office in very similar fashion to National in New Zealand in 1990, promising a 'relaxed and comfortable' future but in practice embarking on further restructuring with the assistance of a convenient financial crisis. Thus the political history of the last decade both helps to explain New Zealand's earlier burst of radicalism and also lends support to the view that the gap between the two countries is one of timing rather than fundamental policy direction, particularly now that New Zealand has adopted an electoral system with Australia-like constraints on government action.

IV: New Zealand's Restructuring Assessed

Looking back on New Zealand's restructuring, what assessments can be made about its outcome? In relation to the economic restructuring, the verdict is now generally positive, at least in terms of the aggregate indicators normally used by economists and politicians (Bollard 1994; Dalziel and Lattimore 1996; Evans and others 1996; Silverstone and others 1996). There was a considerable period of transitional adjustment through the 1980s as economic growth stagnated, averaging only 1.8% from 1984 to 1990 (and indeed registering a negative -1.1% in 1989); as inflation continued at high levels (particularly through the introduction of the GST tax); and as unemployment kept rising, from around 4% in 1987 to over 10% in 1992. During the 1990s, however, economic performance has improved again. Economic growth began to pick up again in 1992, exceeding Australia and the OECD averages for 1993-95, though dipping somewhat since then. Inflation declined rapidly, reaching the 0-2% range stipulated in the Reserve Bank Act by the end of 1991 and remaining well under the OECD average. Unemployment also peaked in 1991 and then declined significantly from 9.1% at the beginning of 1994 to 5.9% in late 1996. At the same time, the government's fiscal position improved, with the long series of operating deficits ending in 1993/4 since when budgets have been in surplus and, by 1996, government debt had been significantly reduced. At the micro-economic level, there are also significant efficiencies to report in industries which had previously been government-owned and subject to political as well as economic priorities, for instance railways and telecommunications, or subject to the restrictive practices of powerful unions, such as the ports and inter-island ferries.

However, the economic results, though undoubtedly impressive, have not been without their critics (eg ACOSS/ACTU 1996). Economic growth rates in the mid 1990s, though high, come off a relatively low base at the beginning of the decade and may not be sufficient to compensate for the years of stagnation during the 1980s. Over the period 1983-95, New Zealand's growth of GDP averaged just 2% per annum while Australia's was 3.3% (compared with 2.7% for the OECD). More important, the aggregate results conceal significant changes in distribution over the period. There has been growing inequality of incomes associated with the major reduction in the highest rate of income tax which benefited the wealthy, and the reduction in wages at the lower end of the income scale due to the Employment Contracts Act and to the real reductions in social welfare payments (Easton 1995; Dalziel and Lattimore 1996, 98; Kelsey 1995, 256-9; cf Barker 1996). Though there are fewer registered unemployed, many of the new jobs created have been in part-time casual employment at low wage rates, raising real questions about the capacity of all wage earners to sustain themselves at a reasonable standard of living.

In relation to reform of the public sector, assessments are also mixed. From the point of view of the public in general, most attention has focused on agencies providing services directly to the public. There has been general approval of the improved quality of customer attention which followed the commercialisation of services such as postal services and the introduction of competition, for instance in domestic air travel. However, the restructuring of the health services, with the institutional division between purchasing health authorities and providing health enterprises, has been less well received, partly because it was accompanied by increased charges to the public and partly because of problems of public accountability arising from the decoupling of health administration from immediate political control.

As for the restructuring of the core public service, a recent authoritative assessment (Schick 1996) finds much that is positive in the New Zealand move to output-based budgeting and strategic management. In particular, New Zealand's unique emphasis on contractual arrangements between ministers and departments has encouraged a much greater awareness of purposes and priorities, while the wholesale restructuring which most departments have undergone has instilled a readiness to question existing institutional arrangements and to contemplate radical change. The end of line-item budgeting has been greatly welcomed by managers and led to considerable efficiencies in areas such as accommodation, computing services and transport. The government's strategic management process of SRAs and KRAs has greatly facilitated the political control and accountability of public policy.

At the same time, however, the system has created certain difficulties. One is the extent of transaction and compliance costs. The emphasis on detailed *ex ante* specification of tasks followed by detailed *ex post* monitoring required by the contractual model of control has placed an excessive burden of reporting on departments, particularly on small departments. So too have some of the system's accounting distinctions. One example of this pressure is the recently introduced system of Departmental Forecast Reports (DFRs). These are summaries of departments' intended expenditure quite separate from the annual Estimates of expenditure approved by Parliament as part of the budget. The rationale is that the Estimates contain the resources appropriated to ministers as purchasers while the Forecasts provide the expenditure proposed by departments as providers or producers and allow for the monitoring of expected patterns of expenditure through the financial year. To a considerable extent, however, the Forecasts reproduce the same information as the Estimates, though with different prefixes ('This class of outputs involves the provision..' instead of 'This class of outputs involves the purchase..'), leading to unnecessary duplication of information (Schick 1996, 78-9).

The policy of disaggregation also incurs costs through diseconomies of scale for small agencies and through the need to coordinate different agencies with closely related functions, such as the Regional Health Authorities (purchasers) and the Crown Health Enterprises (providers) of hospital services, or the Ministry of Defence (policy advisers) and the New Zealand Defence Force. That problems of coordination have not been more serious is due to the comparatively small scale of the New Zealand public service and the 'village atmosphere' of central Wellington which facilitates informal contact and cooperation (Schick 1996, 46). In a larger jurisdiction, the same recipe could prove much more chaotic and costly.

Finally, the emphasis on short-term contracting of services from departments can create a 'checklist' approach to management in which managers concentrate on ticking off their various specified tasks and ignore the unpredictable problems and broader long-term issues which are an inescapable part of government (Schick 1996, 81). Treating public servants as selfish opportunists in the need of external constraint has the potential to undermine their professionalism and their commitment to public service. Claiming that public servants are responsible only for outputs and have no interest in the broader social outcomes of their government's policies is potentially damaging to the breadth and quality of advice available to ministers. Fortunately, these dangers have not yet become realised, mainly because neither chief executives nor ministers have taken the rhetoric of contractualism too seriously and have continued to operate in the traditional spirit of close partnership. But, again, the warning is there that the principles of the New Zealand system, if rigidly applied and strictly adhered to, could produce a seriously deficient public service.

Though the verdict on the success of the reforms may thus appear generally favourable, it is by no means uncontested. In relation to the overall economic performance much depends on the weight given to the undoubted distributive costs which in turn depends on the value perspective of the observer. Such costs are certainly of comparatively less concern to international credit-rating agencies or to the investors in the financial markets who set the limits within which government economic policy is made. For them, the aggregate results are paramount. Moreover, most of the advice about the economy given to the business sector, both domestically and internationally, comes from people and institutions who have personally benefited from the reforms and can therefore be expected to be in favour. Members of the wealthier sections of society have enjoyed a disproportionate increase in their income which has given them the resources to enjoy the increased opportunities in consumer consumption produced by the liberalisation of previously regulated areas such as shopping hours. Moreover, many employed in the financial sector have directly benefited from the process of liberalisation itself. What are normally seen as the transaction *costs* of change have also been considerable transaction *benefits* for some, for instance for merchant banks and share brokers who have organised privatisations and for management consultants who have advised on the restructuring of government agencies. Verdicts about the success of the restructuring which emanate from such quarters and fill the business press around the world must always be treated with some scepticism.

Ranged against the ideological boosters of restructuring are the ideological critics (eg Kelsey 1995). They tend to emphasis the distributive costs of restructuring, the increasing levels of relative poverty, particularly among the Maori and Pacific Islander minorities, and the loss of political autonomy to the faceless forces of international finance. They look back nostalgically to a time when the government could afford larger spending on what has now become castigated as middle class welfare in areas such as health, tertiary education and old age pensions. Again, such criticisms tend to come from those whose interests have been correspondingly affected, the losers rather than the winners in the restructuring process, including the well-off elderly whose pensions were means-tested through a surtax and the middle-class professionals committed to an expanding public sector, for instance public servants, academics, teachers, scientific researchers, public hospital doctors and nurses.

V: The Political Reaction

At stake in such a debate are competing visions of what type of society New Zealand should aspire to - a fiercely competitive laissez-faire society like Hong Kong or an easy-going social democracy, as many remember New Zealand to have been a generation ago. Underpinning the debate are assessments not only of what is desirable but also of what is practically possible. To what extent can New Zealand afford, even if it wanted, to retain the values and practices which sustained its self-esteem through its first century of European settlement? Was there any alternative? Even if there were less radical options available a decade or so ago, is there any going back now, given that most markets are now largely liberalised and saleable state assets largely sold?

Such questions require elaborate counter-factual calculations which are beyond this paper's ambition. We can, however, observe the judgment of the electorate as revealed through the political process. The change to proportional representation, decided on by the final electoral referendum in 1993 and first implemented three years later in last October's election, stimulated an unprecedented fluidity in the political system. Any party which could win 5% of the nationwide party vote (or one electorate) was guaranteed representation in Parliament. A comparatively large number of political parties, both old and new, tested the electoral waters and offered a wide range of alternative political directions. At one extreme, was the Association of Consumers and Taxpayers (ACT), founded by Roger Douglas and later led by his former Labour colleague, the combative Richard Prebble. It offered continuing restructuring along neo-liberal lines, including further reductions in income tax, full voucher systems for education and so on. It attracted 6% of the nationwide vote. At the other extreme was the Alliance, led by Jim Anderton, founder of the NewLabour party which had broken with Labour during the second term of the Lange/Douglas government over issues such as the sale of the Bank of New Zealand and other breaches of traditional Labour policy. NewLabour was joined in the Alliance by the Green party, a Maori Nationalist Party (Mana Motuhake) also formed by a dissident Labour politician, and two other minor parties of protest, the Democrats (formerly Social Credit) and Liberals. The Alliance stood for a return to the values and policies of the old regime, advocating revision of the Reserve Bank Act to accommodate objectives other than low inflation, renewed assistance and protection for manufacturing industries and abolition of fees for tertiary students. After attracting 18% of the vote in the 1993 election and having performed well in the intervening opinion polls, it secured only 10% in the 1996 election. National, as the party of government for the last six years, represented the status quo, and remained the single most popular party (38%) while Labour and New Zealand First (founded by dissident National minister, Winston Peters) accepted the basic economic framework, including the Reserve Bank Act, but advocated various, essentially reactionary, changes. Labour, for instance, supported a return to the structure and principles of the former health system while New Zealand First advocated restrictions to foreign ownership of New Zealand assets and to immigration. Labour won 28% of the vote and New Zealand First 13%. Once the Alliance had refused to enter into any coalition and Labour and National, as traditional opponents, had refused to work together, the formation of a majority government came down to a choice by New Zealand

First between Labour and National as coalition partners. After eight weeks of detailed negotiation, New Zealand First chose to join with National.

1997 ELECTION RESULTS

PARTY	% VOTES	SEATS
ACT	6	8
Alliance	10	13
Labour	28	37
National	34	44
New Zealand First	13	17
United	1	1

If the election result is treated as a national plebiscite on the restructuring process, there is clearly widespread acceptance of the current open economy (the 10% going to the Alliance indicating the only significant opposition). On the other hand, approval of the full package of reforms, as indicated by support for National and ACT, is demonstrated by less than half the voters, with a clear majority (Labour, New Zealand First and the Alliance) supporting some element of return to the former status quo. In the event, the agreement hammered out between New Zealand First and National gives a good indication of where the centrist majority stands. A very similar policy mix would have also been acceptable to a Labour/New Zealand First coalition, New Zealand First's ultimate decision turning on the issue of ministerial appointments and on its wish to be seen as the 'wetter' rather than the 'drier' partner in the coalition.

In relation to restructuring, the most significant elements in the coalition agreement are:

(i) Fiscal policy: $5 billion additional spending over the next three years, at the expense of decreased budget surpluses and postponement of promised further tax cuts

(ii) Monetary policy: the Reserve Bank Act to remain unchanged, though inflation targets to be expanded from 0-2% to 0-3% and growth and employment to be referred to in the Policy Targets Agreement (but only as being best ensured by the pursuit of price stability).

(iii) Export Assistance: export credit guarantee scheme up to $50m per year.

(iv) Foreign investment: tightening criteria for foreign ownership of farm land, especially foreshore land.

(v) Minimum wage: 10% increase in minimum hourly rate (to $7)

(vi) National superannuation: abolition of tax-surcharge (ie end to means testing).

(vii) State assets: no further major privatisations (eg electricity generation and transmission, postal services, state-owned radio and television); sales of local utilities (eg power and gas utilities, airport and ports) of 25% or more to require approval of local ratepayers or consumers.

(viii) Health: significant additional funding; removing profit focus from Crown Health Enterprises (hospitals); free doctor visits and prescriptions for children under 5; reduction of regional purchasing authorities to one national authority, though retaining distance from minister; end to means-testing for elderly in public hospitals and geriatric care.

The agreement may be said to maintain the basic principles of economic policy, by maintaining a budget surplus, a flexible labour market (the Employment Contracts Act remains essentially unchanged) and an anti-inflationary monetary policy. (The Governor of the Reserve Bank has indicated that the changes to the Bank's Policy Targets Agreement will not affect the practical priorities of the Bank, low inflation being seen as the surest means towards growth and employment.) At the same time, some concessions have been made to redistribution through health and minimum wage increases. The new government's first budget in June 1997 also substantially increased expenditure on education. In terms of state sector restructuring, the most notable step has been the recasting of the health structure in an attempt to remove the most unpopular aspects of the new system. However, the separation of purchasers and providers remains intact as does the less direct involvement of the minister. The clamp-down on further major privatisations indicates the unpopularity of this policy. The only bar on winding back the process through re-nationalisation, one suspects, is the cost to the taxpayer of re-purchasing, rather than any supposed benefits of private, and largely foreign, ownership. Otherwise, the restructuring of the core public sector remains on track and was not seen as politically significant or contentious.

VI: A New Status Quo?

The results of the election and the coalition agreement which followed confirm that New Zealand has entered on a new era of conservatism centred on a new status quo. This is partly the result of the change to the electoral system itself which can be seen as a direct repudiation of the political methods by which the restructuring was undertaken. As already mentioned, the radical reform process was at no time directly put to the voters at an election but was implemented largely by stealth, by groups of ministers and officials determined to pre-empt political opposition to reforms they believed to be in the public interest. The neo-liberal ideas which provided a rationale for the restructuring also offered justification for a high-handed approach to democratic consultation. According to public-choice inspired critiques of representative democracy, the electoral process encouraged politicians into fiscally irresponsible bidding for votes while consultation with interest groups led to privileges for sectional interests. The duty of a government was to act in the public interest, as revealed by neo-liberal principles, and to stand firm against popular pressures. Irresponsible promises might have to be made as the price of gaining office, but, once the election was won, governments should have the courage to break their commitments and do what was right. Such resolute action could be given added justification if the post-election briefings indicated an unexpected economic crisis which removed the premises on which electoral commitments had been made.

These anti-democratic attitudes, though they received strong support among policy elites and in the business press, were widely unpopular in the electorate at large. Resentment at the restructuring process focused on the explicit breaches of electoral promises, particularly by Labour after its second victory in 1987 and by National after its initial victory in 1990. An indicative referendum on electoral reform, to which the National government had become committed, produced a surprisingly large turnout for a constitutional issue (55%), of whom 85% supported some form of alternative system. Of the four options offered, most (70%) favoured one particular system, the German MMP system. The momentum for change was thus almost unstoppable and the new system was duly approved in the binding referendum held with the general election in the following year.

Outsiders, including many Australians, found New Zealand's change of system bewildering. In part, this is because the largely positive reporting of the restructuring process in the media had not prepared Australians for the degree of public resentment indicated by the change. Moreover, many in the Australian media and policy elites look with envy on New Zealand's untrammelled constitution, with its lack of the checks and balances such as federalism, the Senate and judicial review through the High Court, which make radical change more difficult in Australia. They cannot understand why a country would wish to hobble itself with proportional representation and coalition government. By the same token, however, those Australians who value Australia's federal constitution and its checks and balances may be more sympathetic. They can understand the motivations of New Zealanders who took the chance of instituting some curbs on central executive power when it was offered them. That the referendum, once presented, was successful should not surprise Australians. Imagine a constitutional referendum in this country that was opposed by the leadership of *both* major political parties as well as by the Business Council of Australia, Kerry Packer and Rupert Murdoch, while being supported by almost every other community group! The average voter would easily conclude that the powerful were out to preserve their privileges. Of course, one might argue, no Australian party government would be as foolish as the New Zealand National government in letting such a referendum be put to the vote in the first place. However, commitments to public consultation and plebiscites can gather their own momentum, as the Howard government is finding over the republic.

By institutionalising proportional representation and coalition government, New Zealanders hope to have reduced the chances that a determined Cabinet could railroad unpopular reforms. Another, less well-noticed, impediment to radicalism has been instituted by the reformers themselves, through the Fiscal Responsibility Act 1994. The act was introduced into Parliament by Ruth Richardson, when Minister of Finance in the first Bolger National government. After returning to the backbenches, she saw it through the committee stage as Chair of the Finance and Expenditure Committee. Richardson's aim was to insulate fiscal policy budgetary decisions from short-term political considerations in much the same way that monetary policy had been insulated by the Reserve Bank Act (Scott 1995). Governments are now legally committed to a number of budgetary principles, including reducing debt to 'prudent' levels by operating budget surpluses. Departures from the principles are allowed but must be transparent and temporary. In an open economy, given that breaches of the principles would lead to loss of investor confidence, the need to declare and seek justification for such breaches provides sufficient sanction against their occurrence. In addition, full disclosure of fiscally relevant information is required through an annual Budget Policy Statement presented to Parliament three months before the budget. An updated report is also required in the period before an election.

The resulting combination of greater transparency and fiscal prudence has indeed limited the political opportunism of politicians. But this cuts both ways. While transparency cramps the style of old-fashioned pork-barrelling politicians, it also removes one of the main weapons of the restructurers themselves, the supposedly unpredictable post-election crisis. Not only do politicians find it harder to lie their way into office by promising policies they know they will no be able to afford. They also, on gaining office, know they cannot plausibly claim that the fiscal situation has taken them by surprise. They can much less easily justify reneging on electoral promises or imposing unpopular remedies which they rejected on the hustings. Fiscal transparency, the symbol of neo-liberal political virtue, is thus the enemy of further neo-liberal restructuring.

Similarly, fiscal prudence, ie the achievement of budget surpluses and the gradual retirement of debt, also works against the reformers by removing the need for constant vigilance against over-spending. It is less easy to justify the need to go on cutting back public expenditure when the budget is actually in surplus. As the Bolger government found to its cost before the last election, it had prepared the fiscal ground for its opponents' new policies. Balanced budgets in a climate of moderate growth provide a basis for moderate expansion in government spending and remove the excuse for further retrenchment. While the voters will wear a deferment of tax cuts in the interests of popular social spending, so too will the all-important credit-rating agencies. In the absence of fiscal crisis and the consequent threats to market confidence, all that is left to support the restructurers is the ideological preference for a smaller state *per se*. But this has never found favour with more than a small section of the electorate, influential though that section may be. Thus, even without electoral reform, fiscal responsibility on its own would have brought the restructuring revolution to a halt.

The reformers have therefore helped to bring an end to their own movement. On the one hand, the opening of the economy and the subjection of governments to the priorities and disciplines of international markets have prevented a return to the former fortress economy and expansive welfare state for which many New Zealanders understandably pine but which most also recognise to be lost forever. On the other hand, the reformers have removed many of the conditions which would be necessary for further progress towards a more limited state. By their precipitate methods they provoked a constitutional backlash which led to coalition government and a closer match between public preferences and government policies. At the same time, by their entrenchment of fiscal responsibility and transparency, they have lessened the risk of fiscal crisis on which unpopular radical reform depends.

The New Zealand political experience with restructuring thus confirms the public choice critique that radical economic and public sector restructuring is unlikely to be electorally popular. Though restructuring is justified by its proponents in terms of general benefits to the public as a whole, it produces losers as well as winners among certain sections of the population. Given the politicians' need to placate major sectional interests during election campaigns, programs of radical change are unlikely to be successfully put to the voters at an election. Their implementation therefore requires politicians who are ready to abandon electoral commitments and to break with established patterns of democratic consultation. It is surely no coincidence that the decade of restructuring has been accompanied internationally by growing distrust in politicians and loss of confidence in the efficacy of democratic politics. New Zealand provides an extreme case in both the extent of change and also the consequent strain on democratic process.

In Australia, by contrast, a more robust democratic system has delivered a slower rate of restructuring without, as yet, provoking a constitutional backlash from the opponents of change or a halt to all reform. Indeed, if there is any dissatisfaction with the constitution it comes from the supporters of change who see the constraints imposed by the Senate as undue impediments on the government of the day and have toyed, from time to time, with the idea of changing the Senate's method of election in order to facilitate the election of a government majority. The incoming Howard government was able to use the fiscal deficit, supposedly concealed by the previous government, as an excuse for abandoning 'non-core' election promises and cutting government expenditure. For a time, through such instruments as the National Commission of Audit and the Productivity Commission's stocktake on micro-economic reform, it appeared that the Treasurer, Peter Costello, was about to launch a post-election restructuring putsch in the Douglas/Richardson/Stockdale-Kennett mould. However, revolutionary enthusiasm was soon blunted by the prospect of opposition in the Senate and by the Prime Minister's unwillingness to frighten the voters. Meanwhile, the Treasurer has adopted a Charter of Budget Honesty which will limit the opportunity for future crisis-based restructuring. Like its predecessor, the Australian government has remained committed to a path of gradual rather than radical reform. But such caution, though bemoaned by the more impatient advocates of change, has at least avoided the type of political stalemate apparent in New Zealand. The Australian tortoise can still plod on, while the New Zealand hare has been forced to retire from the race.

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