

The New Zealand Experiment: A Canadian Perspective

by: Peter Clancy

Sir Roger Douglas, the Minister of Finance who ushered in New Zealand's economic reforms, continues to surface periodically as a Chamber of Commerce speaker before various Canadian audiences, and to visit more quietly as an advisor to right wing governments. Sightings seem particularly common in the provinces of Alberta and Ontario, home to the most systematic neo-liberal regimes of late, though even the economically depressed Atlantic region is not immune from interest. He has come to signify the New Zealand "economic miracle".

Repeated airings in the Canadian media have disseminated a diffuse and contradictory set of impressions of the recent New Zealand experience. Among them might number of the following. Sometime in the mid-1980's this small English speaking island state in the south Pacific apparently experienced an economic crisis. This led a left-wing government to implement a Reagan-style program of market reforms which, though controversial at the time, has transformed the New Zealand state and business sectors in positive directions. Today this yields a budgetary surplus, a stable currency, favorable credit ratings, moderate inflation and a buoyant export sector. Since the first three of these remain unattainable today in Canada, it might reasonably be concluded that the New Zealand experience may have something valuable to offer Canada. However this result has not been achieved without costs. The new regime has ignored and thereby deepened the predicament of the poor, the weak, and the unlucky. All of these groups are excluded from the economic miracle, and the long run costs this imposes on New Zealand society have yet to be acknowledged. Thus there is a dual interest, in reflections from old partisans such as Douglas, and in critiques by academic activists such as Kelsey.

Jane Kelsey's comprehensive analysis of the past decade of New Zealand politics is especially timely and welcome. The study reviews the political underpinnings of the early 1980's, and the full dimensions of the neo-liberal programme imposed over more than a decade, spanning two Labour governments followed by two terms of National Party rule. While far from unique in its components, this account does represent the most systematic and up to date treatment of which I am aware. Kelsey writes in the full knowledge that New Zealand has become a privileged prototype for neo-liberal reform, endorsed by international agencies (IMF), business associations (European Management Forum) and think tanks (International Institute for Economics). Consequently one-third of the volume is devoted to a critical assessment of the outcomes of this programme, exploring the political, economic and societal "deficits" which form an integral (though far less acknowledged) part of the experiment. For these reasons, the Kelsey study may well figure as the definitive critical sourcebook for some time to come. It will be increasingly necessary for critical research agendas to tackle the underlying political infrastructure, and generic political outcomes, of such programmes in action. Kelsey has provided some important signposts for future work.

Her study is organized into three sections. The first addresses the "process" factors which explain how the neo-liberal agenda was fashioned and implemented. The second focuses on the policy measures which gave "substance" to this agenda. The final and most original section reviews the societal impact of Kiwi neo-liberalism through the concept of the "deficit" between theory and practice, expectation and result.

The 1984 transition was no ordinary change of government. In common with its northern hemisphere relatives in Britain and America, New Zealand's Labour neo-liberal coalition (including organized business, ruling parties, and key state agencies) launched assaults upon the entire state structure, seeking no less than its basic transformation. Here the chapter titles convey the challenge: the political machine had to be "captured", the technocrats "empowered", and the new regime "embedded" so that it could not be easily reversed.

Two categories of political agents proved necessary for this: a group of "technocrats" committed to expert organization and management of political affairs; and a corresponding group of "technopols" who share this approach while occupying positions of formal political leadership. Key senior officials, particularly those drawn from the Treasury and the Reserve Bank, figured as technocrats, while Roger Douglas and his ministerial faction (and later its National Party counterparts) sponsored the neo-liberal package at the Cabinet level. In one sense there is little disagreement about the statecraft of such politics: in key respects the narrative accounts offered by Kelsey and by Douglas (as political consultant since his electoral demise) seem to converge. For a crusading government to succeed in transforming the state, it requires key control mechanisms which are fully committed to the program while possessing substantial decision-making autonomy. While the Treasury was always a key central agency for economic policy, it was elevated after 1984 through the elimination or subjugation of rival central agents including, very significantly, the Cabinet secretariat. This cleared the field for a select band of technocrats fully committed to the ideological framework of Chicago school economics, to fashion a policy worldview, a legislative programme and a set of organizational structures for its realization. The technopols captured, in sequence, the Labour Party in opposition before 1984, the Labour Cabinet in office after 1984, the key ministerial posts for economic decision-making (up to 1989), the National Party in opposition in the late 1980's, the National Cabinet in office after 1990, and the key ministerial positions. It is the remarkable durability of this programmatic cadre in maintaining organizational control which explains why the neo-liberal era in New Zealand was not a one term government wonder.

Yet where Kelsey and Douglas diverge sharply is on the political significance of this capture. Douglas continues to preach the tactics of the Cabinet coup: beware the risks of candid disclosure before a fickle electorate, strike quickly once in power, define a total agenda, establish the essential control agencies, move simultaneously on a variety of policy fronts, embed the reforms as deeply as possible in legal and market channels so as to prevent early reversal, keep your nerve when faced with popular or electoral resistance and allow the programme to do its work. By contrast, Kelsey is struck by the anti-democratic overtones of both the tactics and values. At several key junctures it can be argued that technopols hijacked mass organizations and reversed the intentions of popular mandates: in framing the Labour Party programme of 1984, in honouring the Labour electoral commitments of the same year, in framing the National Party programme of 1990, and in its subsequent implementation.

The electoral process itself became seriously contaminated by the distortions of aggregating popular choice. In all four elections, neo-liberal exponents attained parliamentary majorities with less than majority voter support, and third parties suffered also from the representational biases of the first-past-the-post systems. Ultimately this generated an electoral legitimation crisis of the first order, culminating in the popular approval, by referendum, of a new electoral system (mixed member proportional) aimed at achieving closer congruence between popular vote and parliamentary standing. This was one of several forms of popular protest against the relentless pursuit of structural adjustment. As New Zealand approaches its first (October 1996) election under the new system, with the political right continuing to deplore the dangers of weak, unstable, coalition government outcomes, it is important to remember that MMP drew popular support in the wake of several "majority-making" elections bearing severe representational flaws.

Kelsey relies heavily on the paradigm of elite power to explain the statecraft of the New Zealand experience. It is the technopols, the technocrats, the peak business associations, and the think tanks which drive structural adjustment. There is a danger in according it the central place in the overall analysis. Precisely because the programme and personnel display such a compelling ideological and social fit, the more complex role of mass politics and popular discourse may be obscured. Missing from this account, as from many others, is the uncertain political context of the early 1980's which made reform possible: the cumulative impact of the stagflationary 1970's in killing support for the post-war regime, and the discontent with political confrontation and gridlock of the early 1980's which was personified in the Muldoon government. Similarly the tight consistency of the neo-liberal package bears the danger of telescoping a ten year program into a tight unitary package and losing sight of its incremental nature. It is true that the Labour Party was jettisoned once its internal contradictions

jeopardized its custody of the project, and new frontiers could be explored under National (e.g. radical deregulation of labour relations and the privatization of welfare state programs) which could not under Labour. But alternative currents circulated also, suggesting the possibility of alternate outcomes. One of these, barely explored by Kelsey, was the debate over constitutional reform and particularly a constitutional bill of rights, which under certain circumstances (particularly as part of a Labour-inspired "social chapter") could have imposed a powerful counterweight to neo-liberalism.

Quite apart from her analysis of New Zealand, Kelsey offers a potential template for the cross-national comparison of neo-liberal projects. Placing the Canadian experience alongside New Zealand immediately underlines the critical advantage of the unitary (as opposed to federal) state form in imposing comprehensive structural change. By contrast to Canada and Australia, though in common with Britain, the parliament in Wellington enjoyed the constitutional power to legislate exhaustively (and to drag local authorities along in its wake). It is revealing that the earliest neo-liberal initiatives in Canada were launched not at the national but at the provincial level, by governments in half of the ten jurisdictions. Also in contrast to New Zealand, business-oriented parties have monopolized this political option in Canada, where social democrats have adhered to a more traditional centre-left profile. Pride of place belongs to Manitoba, whose 1978 Conservative government broke new ground. This surprisingly rigorous assault on the mixed economy and social welfare regimes was inspired by a provincial business elite grown impatient with relative economic decline (Chorney and Hansen, 1985). Notably, its programme depended heavily on technocratic input from a business task force centred in the finance and insurance sector and technopolitics from a Cabinet elite centred on Premier Sterling Lyon. Perhaps sharing the fate of most prototypes, it was defeated after a single term.

The province of British Columbia followed in 1981, when the right of centre Social Credit party won a second term by defeating its social democratic rivals. Here again a global attack was launched upon post-war policy regimes in industrial relations, state enterprise, taxation and expenditure. In this, the government was backed by a cohesive resident business sector centred in resources and trade, and the most assertive Chicago-school think tank in the country (Magnusson and Walker, 1984). By contrast to Manitoba, an unprecedented popular front arose to challenge this neo-liberal programme (Palmer, 1987), though Social Credit gained a third term and governed for a decade before its defeat (Persky, 1989). Yet a third western province took the hard right option, when the Conservatives were elected in Saskatchewan in 1981. After a decidedly non-ideological campaign victory, the Conservatives adopted a highly partisan neo-liberal programme centred on privatization and de-regulation of an extensive state sector built over a decade of social democratic rule. In the absence of a strong resident capitalist class or fount of technocratic expertise, the Saskatchewan Conservatives sought to create the first (through privatization) and import the second (through Thatcherite consultants). (Pitsula and Rasmussen, 1990). Despite losing its plurality in the popular vote, this government obtained a new legislative majority for a second term and remained in office until 1990. In sum, by the time that Roger Douglas left office in 1990, three Canadian provinces had experienced neo-liberal governments, all of them led by right of centre, business-oriented parties.

Two further instances merit brief mention, since they continue to govern at the time of writing. The Alberta Conservatives, which have ruled the province since 1971, veered in a hard right direction in 1992, after selecting as leader and Premier the mayor of Calgary, Ralph Klein. Articulating a program of fiscal conservatism, state retrenchment and debt reduction, he then attacked the considerable public sector establishment built up by his Conservative predecessors (Laxer, 1995). Finally the province of Ontario elected the Conservative Government of Mike Harris. Perhaps the purest ideological expression of a neo-liberal programme, it was fully articulated during the 1995 election, which led to the defeat of a single term social democratic government in a context of record deficits. Articulating a discourse reminiscent of the Reagan Republicans, Harris outlined a platform labelled the "Common Sense Revolution". It promised to roll back the heavy regulatory, tax and expenditure profile of the Ontario state in favour of markets, communities and families.

In this sense, Canadian regionalism is once again starkly revealed. Full-blown neo-liberal governments have captured power in all provinces west of Ottawa, though not in those to the east. Of course this is

far less than the whole story. First, the policy instruments and devices of structural adjustment have been sufficiently domesticated that they are applied selectively in all political jurisdictions. Drives toward balanced budgets, suspensions of public sector bargaining rights, legislated wage freezes, and private contracting of services are so widely practiced as to appear routine (Panitch and Swartz, 1988). At times the boundary between incremental and systemic neo-liberalism dissolves. Yet comprehensive structural adjustment, such as Kelsey describes, depends upon bold tactical strokes and an integrated plan, a combination not universally displayed in the provinces. Second, there remains the matter of the national government.

With the passage of time, and the pronounced rightward drift of the present Liberal government (Barlow and Robinson, 1995), the way is opening for a reappraisal of the Mulroney Conservative era in Ottawa. Here, surely, is the most authentic Canadian equivalent to the New Zealand experiment. It was elected to office only two months after David Lange's Labour victory of 1984, winning the largest parliamentary majority in Canadian history. Mulroney himself was the first Prime Minister since the depression to emerge from the corporate class, and his government's first Economic and Fiscal Statement outlined a comprehensive neo-liberal agenda (Canada, 1984).

The measure of the Mulroney government has always been in the eyes of the beholder. Despite a natural affinity, organized business interests were often disappointed and critical of Tory policy. This was not for excess zeal for timidity, in what was viewed as an absence of fiscal discipline and a failure to move meaningfully toward a budget balance. While they gave solid backing to the free trade initiative with the United States, many were bewildered by the tactical mishandling of the 1988 "Free Trade" election, which was only steadied by an extraordinary business intervention in the closing weeks. Only in monetary policy, where the Bank of Canada moved with near unique institutional autonomy, did the Conservative line receive unqualified support.

For the left however, the Mulroney period is normally portrayed in stark contrast, as Reagan on the Rideau. The first legislative action of the new government was to abolish the foreign investment screening agency. This was followed by a series of privatizations and de-regulatory initiatives culminating in the two free trade agreements (FTA 1988 and NAFTA 1992). Much more than tariff reduction deals, the latter constituted a virtual economic constitution for the country, limiting or prohibiting sovereignty in areas as diverse as energy pricing, government procurement, delivery of regional and industrial incentive grants, dumping and countervail actions, national treatment for cross-border investment, and free trade in service industries (Cameron, 1993). Beyond trade, the Tories were also responsible for two massive breaches of the post-war economic consensus: fracturing (though not abandoning) the principle of free and universal access to programmes of social redistribution; and establishing "deficit reduction" as the overriding imperative of fiscal policy (McQuaig, 1995).

Of course the broad strokes of structural adjustment must be adapted to indigenous political conditions if they are to take hold. However Kelsey is helpful once again in offering New Zealand as a kind of ideal type. By such standards, the Canadian experience seems incremental and carefully brokered rather than holistic and ideologically driven. It is true that the Mulroney government embarked on a variety of bureaucratic reforms inspired by London and Washington (Savoie, 1994). Yet Canada lacked the catharsis of sudden economic crisis, by which all existing arrangements could be rendered suspect and refashioned in a climate of emergency. Neither did a strong shared doctrine emerge to link Ottawa technopols and technocrats in common cause. The Conservatives did not so much capture the federal state as occupy its precincts and penetrate the labyrinth by osmosis. Even the one grand achievement, the FTA/NAFTA, depended for its timing, its shape and its ultimate acceptance on forces beyond Tory control. The lack of coherence and pace in other fields can be explained, in large part, by the "crowding out" effect of that other national imperative, managing federal relations between Ottawa and the provinces and particularly between English Canada and Quebec. While it has been suggested that Mulroney's constitutional initiatives were integral to his neo-liberal project (McBride and Shields, 1993), they can equally be seen as running counter to it and at its expense. Regardless of provenance, the abject failure of the constitutional strategy renders it somewhat moot.

Ultimately then, it is the fractures and discontinuities of structural adjustment in Canada which stand out against the New Zealand model. This makes it no less real as a political phenomenon, and no less consequential to the lives of Canadians over the past decade and more. But Kelsey would surely agree that analytic distinction is the starting point in mounting political opposition to neo-liberalism, in any hemisphere.

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