

# The First Term of the Fourth Labour Government

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It is not my intention this morning to dwell at any length on the economic policies put in place during the First Term of the Labour Government. These are generally well-known and if not, there is plenty of literature available.

Rather, I intend to spend most of my time on how we managed to achieve what we did.

## **What was important in political and economic terms and to some extent**

### **what was not particularly important.**

#### **Political Aspects**

- The first important point was that by 1984 there was general agreement within Labour's economic Caucus team about the programme of reform required. This agreement did not extend as far as the New Zealand Labour Party Council and some Caucus members such as Anderton were violently opposed to the policy.
- Treasury and the Reserve Bank with little to do under Muldoon but tinker had both worked hard to develop a comprehensive economic strategy. In some ways, more importantly, what needed to be done to implement that strategy.
- **The crisis** - By 1984 New Zealand was without doubt in serious trouble:
  - New Zealand's twin deficits were massive.
  - Our foreign exchange reserves had been squandered.
  - Our creditors were seriously worried about us.
- This presented the new government with the opportunity to implement the policies we already knew were needed - we were further helped in this process by the fact that some significant lobby groups were in general agreement (e.g. Federated Farmers and the New Zealand Roundtable) with what we intended to do.
- The crisis and the way Sir Robert Muldoon behaved on the Monday immediately after the election allowed David Lange to gain almost instant credibility in his role as Prime Minister of the country, the comparison of the two men was there for all to see that Monday night.
- The government was blessed by a young, able and generally remarkably united Cabinet whose motto became: "We will do the right thing" no matter what. This also turned out to be remarkably good politics.
- Another important factor was the almost 100 percent agreement between the members of the finance team of Caygill, Prebble and myself on what needed to be done and how best to achieve it. This proved to be the case on an ongoing basis during our first term in government.
- Add the active involvement of Lange and Palmer on some important issues (e.g. SOE legislation) also de Cleene (on tax) and you had a formidable team. The importance of the process can not be underestimated - most issues had been thoroughly tested before they went to Cabinet and then Caucus.
- My practice of having members of my staff including my Press Officer, Bevan Burgess sit in on the decision making process also helped in that they understood not only what we were doing but why, including why we favoured one particular

option over another. This helped immeasurably with presentational aspects of the policy changes.

- Undoubtedly Lange's ability to communicate with Labour voters was at times vital - his work at the summit also proved invaluable in setting the scene for my first budget in November 1984.
- Educating or generally bringing up to speed the 17 new members of the Labour Caucus was another important factor in our success during those first 3 years. A number of those new members heavily influenced by Anderton started off in opposition to the general direction the government was taking on economic issues - after attending a number of "Wednesday Club" meetings where they were exposed to the arguments supporting the policy direction the government was taking, a substantial majority came wholeheartedly on board. The work of Peter Neilson and David Butcher among backbench MPs was particularly important.
- Less important from my perspective but perhaps vital for some was the nuclear ships issue. All I can say is that with or without, I would have adopted the same economic approach. Whether the nuclear ships issue distracted potential critics and made my job easier I will leave for others to make a judgement.
- The first budget set the programme for the next 3 years, necessary because of the length of time needed to introduce some new measures e.g. GST

**From my perspective, the following approach was important in establishing economic credibility:**

- Clarity about what we wanted to achieve in various areas was critical to making progress. In other words:

**Goals were primary.** Until one forms some coherent view about your destination, it is pointless to plague oneself with questions about how to get there. In most cases, setting the right goals was not the real problem. Rather, adopting the means capable of achieving those goals was the real issue before us.

Having a clear vision of what we wanted to achieve enabled us to think in new and fresh ways. Without goals the danger is that a particular means can come to be seen as the primary objective of the exercise, not simply one of several means to achieve the established goals e.g. I use a current example to illustrate the point.

For many, tax funded schools and hospitals are the only means of providing universal service and as such are seen as the primary objective of the exercise, not quality education or health care for everyone, the means have become the end.

In the economic area we avoided that trap.

**Quality decision making was vital**

- Having clear goals invariably led to quality decision making e.g. Financial Market Reform, the Goods Market, Taxation, State Owned Enterprises. This approach of going for quality decisions involved accepting the initial costs upfront in exchange for the good times, that would come a few years later.
- Many of us came to realise that if a solution made sense in the medium-term you needed to go for it without qualification because nothing else would deliver results that would satisfy the public (a real problem I might add for the present government).

- My first budget taught me that consensus among interest groups on quality decision only develops after they are taken and/or start to deliver results. (Monday meeting of interest groups after Budget.)

### **Appoint good people**

- Success in many areas was as much dependent on people as it was on policy e.g. State Owned Enterprise Reform. Without people like Roderick Deane at Electricorp, Harvey Parker at NZ Post or Alan Gibbs at Forestry, the reforms would simply not have been anywhere as successful as they were. (A lesson not learnt by Bolger or Clark Governments.)
- **Packaging reforms into large bundles** was not simply a political gimmick it was in fact the key to being able to sell the changes politically.
- **Large packages did two things:**
  - **One:** Politically it provided the flexibility needed to demonstrate that the losses suffered by one group were offset by worthwhile gains in other areas for the same group.
  - **Two:** Economically it was the right approach. The economy operates as an organic whole, not an unrelated collection of bits and pieces. In other words it is the interaction of policies that matters, rather than any one policy on its own.
- **Speed is an essential part of any reform programme**
- When reform is delayed for many years, the short-term costs which start day one are considerable while the tangible benefits might take years to appear because of the time-lags that are part of any system of reform. If action is not taken fast enough, support for the reform process can collapse before the results are evident while the reform programme is only partway through.
- Removing privilege and reminding people that this was not only our objective but what we were doing was at the core of our policy approach (removing subsidies, import licencing etc) - the essential argument was that government is not there to protect vested interest groups, be they manufacturers, teachers, farmers, trade unionists or health workers, at the expense of the public.

Rather it was government's role to ensure that vested interests could only thrive when they served the general public effectively.

### **Experience showed that:**

Once we had removed a sector's privileges and made it clear the clock would not be turned back, that group started to focus on removing the privileges of other groups that were holding up its own costs. This dynamic helped greatly in moving the reform agenda further forward.

- The key to government credibility during this period was a consistent approach to policy and communication - without it people would have refused to change until the clash between their old behaviour and the new policy imperative had imposed huge costs.

Credibility takes a long time to win but as we saw in our second term it can be lost overnight. Confidence then collapses and the costs of any adjustment rise.

- Letting people know where the reform programme was heading was an important part of the process as it let people know how much time they had to adjust (e.g. GST, lowering of tariffs). In this context the process of change often involved consultation. Having announced our intended direction we asked for public feedback on specific issues (taxation reform). The confidence of the community

was also increased by the use of experts from the private sector, respected for their experience and capability. This approach was welcomed by both decision-makers and opinion-formers in particular as it contrasted so nicely with the former government's approach.

- **Don't blink, public confidence rests on your composure**

The first 3-year term of the Labour Government involved Ministers in some of the most radical decisions announced to the public for 50 years or so. In these circumstances, public confidence in, and co-operation with the reform programme could be undermined by the least twitch. Research showed that people became hypersensitive to any signs of uncertainty in the politicians responsible for a particular reform.

- **Fairness** to those least able to cope was a vital ingredient of the programme of reform e.g. making lower income families better off as a result of the change to GST was vital to its acceptance. What constituted fairness, what would deliver real results for low-income people was where Lange and I finally fell out - we agreed on the goals - we disagreed on the means to achieve those goals. (Blair v Brown situation in the UK is yet another example.)

We might have been able to work the issues through had we better understood and accepted how the other operated. For my part, having determined ones goals I was always prepared to look at all options (means) to achieve them. Hence my 1987 budget proposals/options paper included a radical option (15c in the dollar etc). I enjoyed debate, I didn't necessarily think I would always win but having all the ideas on the table, in my experience, generally led to a better overall outcome.

Lange generally disliked this approach (I did not realise how much at the time), he had a set of boundaries (e.g. ideas about what he saw as constituting fairness) which he would not go beyond. When Michael Bassett told me that Lange believed I had gone mad shortly after my Budget Options Paper had been put before key Ministers I should have gone and discussed the issues with him immediately. Lange for his part should have spoken to me directly. Maybe just maybe, things would have worked out differently.

- In the end the most important factor to ensuring the reforms happened could well have been the politicians within Cabinet who had answered the question 'why am I in politics?' by deciding I will do the right thing no matter what the political consequences.

This was in marked contrast to conventional politicians who generally ignore structural reform because they think they are in power to please people and pleasing people does not involve making hard decisions. They use the latest polls to fine-tune their image and their policies in order to achieve better results in the next poll. Their adherence to policies which focus on immediate problems rather than the country's future opportunities, brings accumulated difficulties. It becomes increasingly clear to people that the problems they claim they were solving have not been solved and the opportunities to do so have been thrown away. Such governments are, in the end, voted out.