"The Bolger Years"

The Seventh Parliamentary Conference,
sponsored by the Stout Research Centre, Victoria University.

"The Fortunes and Fates of Reformers"

Ruth Richardson's perspective given as a speech to the Conference.

Base proposition: In politics, the fate of ideas is more important than the fate of politicians.

This perspective addresses the fortunes and fates of reformers, not in a personal but in a policy sense.

I wish to say only two things of a personal nature.

First, that full credit is due to Jim Bolger for signing up to the initial thrust of the reforms when many of the measures were so against his grain.

For me it was a matter of conviction: for Jim a matter of necessity.

My conviction sprang from a commitment to the benefits of liberty in all its forms: personal, economic, social and political. I was driven by a vision of what the country could do when we let freedom drive our agenda.

I believed that the state was stifling us as New Zealanders and was knocking the stuffing out of our economy.

Such beliefs called for the adoption of policies that fostered private enterprise and promoted personal opportunity and responsibility. I sought a political willingness on a continuing basis to re-think the role of the state that, to our detriment, had become so pervasive in our economic and social arrangements.

While both of farming stock, and steeped in farming and national politics, Jim was a pragmatist and by preference an incrementalist, whereas I had long been a policy activist in the Party, in the feminist movement and in Federated Farmers.

For me what mattered was policy leadership with the aim of unleashing the dynamic and potential of New Zealanders in their economic, social and personal lives.

Only a fundamental set of policy initiatives gave us the chance to deal with the legacy of high deficits and debt, deal to crippling interest rates, overcome the scourge of high unemployment and restore integrity to our welfare arrangements.

While undoubtedly making for an easier political life, a 'steady as she goes' approach would not have cut the mustard.

Second, I want to disclose the vows I made to myself, first when I stood for Parliament, and then when I became a member of the Cabinet.

I was a person who went into politics prepared to stand for something at a cost because I believed it to be right. I promised myself as a Member of Parliament that I would only stay in politics for as long as I felt that the causes I held dear could be advanced.

Further, I promised myself that, on becoming a Cabinet Member in the wake of the Lange/Douglas fallout and subsequent destabilisation, the moment I parted ways with the Prime Minister on our commitment to advance the policies of economic and social transformation I would exit the Cabinet rather than risk a repetition.

My eventual failure to convince the powers that be that it was right to maintain reform momentum saw me make good on that promise.

While this was my biggest disappointment in politics, loss of momentum and the consequent denial of improvement to NZ's performance and prospects was what troubled me most.

The test of fortune and fate:

Fortune for me lay with NZ: the degree to which principled policy settings could secure and advance New Zealand's prospects.

Fate for me lay with the establishment of a policy footprint that was able to endure far beyond the political fate of those who advanced the reforms.

NZ's two famed waves of reform:

New Zealand is something of a case study in reform dynamics.

The Lange/Douglas era launched a series of remarkable reforms in the mid-eighties followed by our efforts in the early nineties.

In a sense both periods represented the exception rather than the rule. Labour, the social democratic party, for a time engaged in radical market-style reforms. And National, the conservative party of management, for a time engaged in policy activism.

Safe to say that when you look at both parties a decade or so on, normal transmission has resumed. Both have reverted to type.

What it takes to transform:

Transformation of a country's prospects depend on three essential conditions being in place.

The first is a widely recognised set of new and compelling tasks.

The second is a body of ideas about how to carry them out.

The third is the political will to strike off in a new direction.

For the incoming Bolger Government in 1990 the compelling tasks were to demonstrate fiscal responsibility, to design a labour market capable of generating jobs and to restore integrity to our welfare arrangements.

The body of ideas had been developed during the prior three years in Opposition. The first period of Opposition from 1984-87 was an abject lesson in the political folly of opposing for its own sake, devoid of any principled basis or constructive alternatives.

In the wake of an even more substantial electoral trouncing than had occurred with the Labour landslide of 1984, the case for a set of principled and comprehensive reforms prevailed. The ideas and the individuals who would champion that agenda for action were well entrenched by the time we took office in 1990.

The third element of transformation, political will, was always going to be the hardest to sustain.

Starting at the beginning of your tenure is always the first commandment of pursuing politically difficult reform.

The translation of our key manifesto commitments into policy actions occurred within short order. Within six weeks of taking office I presented to Parliament a reform framework that was to set the agenda for the next six years of a National-led administration.

As time progressed from the landslide victory in 1990, political capital was expended and there was an inevitable lag between reform and results that, in turn, produced an impatience in the ranks.

Jim and the party started to revert to type. Political will was the casualty.

Looking back, my take is that we expended a disproportionate amount of political capital for the results we secured, because the confusion of motivations for the reforms made the reforms themselves look confused.

It is difficult enough to build a constituency for initial change, but almost impossible to extend the mandate when the case for the initiatives is not made with conviction and consistency.

My verdict on political will: National had the political will to strike out on a new course of action – just not enough to sustain it.

The big lesson in how not to transform:

Transforming policy is one thing; transforming culture is another. In retrospect this is the big lesson to be drawn from the Bolger Years.

The Douglas reforms set the standard.

That Government set out with a common purpose, acted on a comprehensive basis and communicated with conviction. The country recognised the problem we faced with our failed economic arrangements and signed up to a government willing to promote the solutions, however difficult.

The public was engaged, rewarded Labour with a further term, and only turned on them once they lost the plot.

The legacy was a permanent shift in our economic attitudes and approach. New Zealanders came to accept that the rewards would come primarily from facing the market, not the government.

The Bolger reforms only partially met that transformation test.

We were undoubtedly at one on the quest for fiscal responsibility and labour market reform. On both fronts Jim and I were agreed on motive and action and there was no failure of will.

It is no surprise therefore that the enduring legacy of the Bolger Years is a voter expectation that governments will live within their means and not run up excessive public debt. And in the workforce, even the union leadership came to understand that our ability to compete would determine the viability of businesses, the growth of jobs and the levels of rewards employees could expect.

The same translation of shared reform motivation into enduring policy success did not prevail in respect of the social arena.

Some would say it was always going to be harder in this domain because the challenge of change was primarily a cultural one.

New Zealanders have long been wedded to the notion that the state should assume all range of responsibilities when it comes to social provision, despite the disappointing results, perverse effects and the stripping away of the capacity for most to take control of their own destiny.

I have referred to the confusion of motivations as we embarked on the suite of social reforms and now let me be more explicit.

For Jim the burning issue was to fix the budget problem, which necessitated the reduction of public expenditure in general, and welfare expenditure in particular.

I detected Jim was going along with these measures through gritted teeth as he felt the fiscal imperatives gave him no option.

For my part, I believed that the measures needed to restore the integrity of our welfare arrangements, confer personal opportunity and promote personal responsibility. As a matter of values, I felt that we were no longer promoting the idea that it was good for people to invest in their own abilities and to do well as a result of their efforts.

I felt that welfare as it had become suffered from a moral bankruptcy: Jim felt it was simply a case of economic bankruptcy.

Jim wanted a ‘decent society’ that assumed continuity in our welfare arrangements, and for him cutting expenditure was a necessary evil at the time.

I saw decency through the lens of allowing people to live their lives enjoying the benefits of a growing economy and looking to the private sector, not the state, to supply their jobs, homes and standard of living.

I wanted to assure access to a decent education and health system in which pupils and patients called the shots, not the state or the education and health unions, and I wanted to reserve re-distribution for those who did need our support.

Our social transfers had largely degenerated into a “robbing Peter to pay Peter” system. The fancy term now used is “income churning”, currently assessed to be as high as 80%.

Let me translate. It means that 80% of all social transfers go back to the very people whose taxes funded those transfers in the first place. Only 20% is what the welfare state is all about – re-distribution from those who have, to those who have not.

I worried about the signals we were sending when a young person leaving school without qualifications was better off on the dole than in the workforce.

The attitude had become one of entitlement: one of “all rights and no responsibilities”.

Quite apart from the fiscal consequences, I predicted that without a willingness to address these flawed welfare arrangements we would indeed end up with an underclass: generous and time-unlimited social “entitlements” were an accident waiting to happen.

There was clear tension between our two positions and the public cannot but have helped to sense the differing values that drove our initiatives.

We cannot have hoped to have transformed some very deeply ingrained social policies and expectations in the fashion that the Douglas reforms changed the economic culture when there was no consistent advance of a values based argument for change.

We are not alone as a country in having to deal with counterproductive social policy, and to face the cultural shifts that change implies. It took a Democratic President in the USA to make the case for change, and a Labour Prime Minister in Britain has launched the same debate.

Making the shift and fostering a culture that embraces the policies of personal opportunity, choice and responsibility is as important to our future as the economic shifts were in their time.

Fortunes: what we got, and what we did not:

The declared policy ambitions to tackle the fiscal problem, to free up the labour market and to re-think our welfare arrangements called for comprehensive action manifested most prominently in the 1991 budget.

We had campaigned for office in an environment of crippling levels of interest rates. A strong supporter of an independent but accountable central bank, I coined the phrase that “monetary policy needs some mates”. Then, as now, the most important “mate” was fiscal policy.

The responsible conduct of fiscal policy was an urgent imperative and drove both the short term budget decisions as well as my thinking about the necessity to institute long term fiscal disciplines. I became the Minister of Finance at age 39, and for all of my adult lifetime successive governments had never balanced their books. On my watch, and beyond, I was determined that that would change.

As the fiscal policy risks dissipated so interest rates declined and NZ businesses and households started to reap some of the early dividends of sound public finances and diminished levels of public debt.

On the campaign trail I charged that our heavily regulated labour market was a recipe for job destruction. New Zealanders needed to be free to work and the Employment Contracts Act ushered in an era that not just produced the highest levels of job creation in the OECD, but brought about a profound cultural shift in the workplace.

At long last the penny dropped that productivity and performance needed to drive pay, not some crude flexing of union muscle.

No such claims of enduring success can be made about our social reforms. Despite the huge policy effort and the even bigger expenditure of political capital, for reasons I have identified above we did not rise to the communication and cultural challenges that social reforms particularly demand.

The gold standard makes the difference:

As you sow, so you shall reap.

The more the design and execution of the reform initiatives were of a "gold standard", the more successful and enduring their legacy. That is the experience not just in NZ, but one I have observed in every other country in which I have worked on public policy reform.

Gold standard policy is more durable because it is more likely to deliver gold standard benefits.

The OECD report on New Zealand issued a decade after I left office noted that New Zealand's average rate of growth since the early nineties had been an impressive 3.75%. It stated "this is the deserved reward for the wide-reaching macroeconomic and structural reforms put in place over the last 20 years. These have combined to provide a sound macroeconomic framework, with low inflation and solid public finances, along with a broadly favourable environment for business, and a flexible and responsive labour market. Furthermore, there appears to be a high degree of consensus supporting the broad thrust of the present policy settings".

In contrast, to the extent that the social reforms departed from the gold standard, either in design or in execution, it is no surprise that these are the very reforms that were most quickly unravelled by subsequent unsympathetic administrations, and that this is where performance continues to disappoint.

No-one can be happy with the state of our health system; no-one can feel comfortable with an education system that fails a very big tail of under-achievers; no-one can defend income re-distribution to families earning over $100,000; it is an indictment that three out of four families are urged by extensive government advertising programmes to cash in on their eligibility for state funded payments; no-one can pretend that state welfare can break the cycle of intergenerational dependency and anti-social behaviour; and no-one can credibly believe that universal state funded retirement benefits are sustainable, let alone secure a prosperous old age.

These are the big policy failures and will remain so unless reform of a gold standard is undertaken.

If the Bolger Years deserve any condemnation, it should not be for what was done, but for what was not done in health, education and social provision.

Fate: a case of institutional hit and miss:

Policy drives performance. The quality of policy matters a lot.

The institutional environment, by which I mean the rules of the game, which governs the development and conduct of policy has a significant bearing on the attainment quality (or lack of it).

Think of the conduct of monetary policy when it was in the hands of a re-election driven politician, and the difference to inflation outcomes when operational independence is conferred on the central bank.

There is no doubt in my mind that NZ has been well served by the big institutional innovations that came to be regarded as international best practice: the Official Information Act, the State Sector Act, the Public Finance Act, the State Owned Enterprise Act, the Reserve Bank Act, the Fiscal Responsibility Act.

These initiatives of course are not just the product of the Bolger Years, but span the pre-reform era followed by the two waves of reform sponsored by the Labour and National reform-minded governments in the mid-eighties and early nineties.

A proper assessment of fate requires some look back as well as a look forward.

I want to concentrate on three critical institutional settings, two of which are particularly associated with the Bolger Years, and assess whether they help or hinder NZ's prospects.

1. The advent of MMP, our big institutional mistake.

2. The Fiscal Responsibility Act; our big institutional success.

3. Regulatory Responsibility; our big miss.

MMP: a tragedy of errors.

New Zealand has strong democratic credentials. We take particular pride in being the first country in the world to give women the vote, and enjoy a system of representative government. A combination of electoral events in the eighties created a climate of opinion favouring more emphasis on the representative part of that equation.

Three Prime Ministers, only one of whom was truly wedded to the concept of proportional representation, gave the concept legs, then legitimacy, culminating in the close referendum vote in 1993 in favour of the adoption of MMP.

Jim had mixed motivations. Desperate to nail the1990 election, two "over-promises" were made that came back to haunt him.

Firstly, the promise on the hoof to abolish the superannuation surtax, which was not a feature of the duly agreed and released Economic Manifesto.

Secondly, the promise to hold a referendum on proportional representation that the caucus had agreed to, driven by a desire to enhance our metro appeal and vote.

The first promise had to be broken. The post-election revelation of the necessity for a big BNZ bailout only escalated the degree of fiscal pressure, which in any event meant that the surtax abolition was never a starter.

Stung by the loss of moral authority that attends any breach of an electoral promise, Jim vowed no more. The last ditch attempts to have the threshold for carrying the proportional representation referendum raised from a simple majority were doomed as Jim declared to the Cabinet that he wasn't going to be charged with another broken promise. A "super majority" had not been foreshadowed and that was it.

The rest is history. The enthusiastic Sir Geoffery, the luke-warm David Lange and the hamstrung Jim Bolger combined to saddle New Zealand with a big governance deficit. MMP, as we have discovered to our cost, swings the pendulum so far in favour of the "representative" part of the equation that is has crippled the "government" part.

We now suffer from what I liken to "the tragedy of the commons". Government formation and public policy making are a lottery. No one party can campaign on a platform that, if elected, they can guarantee to execute.

Policy is a function of the lowest common denominator.

No voter can kick a government out, let alone a Member of Parliament. Far from power to the people, party bosses hold all the cards. Far from enhancing democracy, the tail of the minority parties wags the dog. Small fry parties can hold the government to ransom and frequently do.

And, the Royal Commission was dead wrong when it asserted that MMP would lift the vitality of political parties. Party membership languishes and there is a certain desperation that has driven the quest for state funding of political parties.

And worst of all, the punters feel cheated. There was, and still is, a popular belief that there was a promise to put MMP to a subsequent referendum on the basis that we could try it and see, and if not to our liking, then change it. No such luck – the MMP-stacked Select Committee Review was always going to conclude in favour of continuity, not change.

The perpetuation of MMP will doom us to policy paralysis – a design feature that has been as crippling to Germany, the originator of this system, as it has to NZ.

I predict that crisis, which was the catalyst for so much of the prior reform in NZ, will again be the main driver for institutional change in our electoral arrangements.

The code of fiscal responsibility: time for an overhaul.

Just as Sir Roger Douglas had wanted an institutional framework for the conduct of monetary policy that would secure and maintain price stability, I wanted to institute a framework that would secure and maintain fiscal responsibility.

Building on another of NZ's important innovations, the Public Finance Act, I worked with The Treasury to devise a fiscal code that would have three main prongs: proper financial accounts, explicit principles for prudent fiscal policy, and openness.

Further, I wanted to deter parties desperate for office making ruinous promises. In particular, I was determined that never again would an incoming government be faced with a nasty and unknown surprise of the magnitude of the BNZ bailout.

The combination of transparent, accountable and prudent budgeting was designed to discipline my successors in office, many of whom have not been natural converts to fiscal responsibility.

I resigned from Parliament the day after The Fiscal Responsibility Act 1994 was passed, and history will record that successive NZ governments have run budget surpluses ever since.

More than a decade on it is very apparent that the code as written is a necessary but not sufficient condition in the quest for high quality fiscal policy.

The enduring features work, but the code suffers from a lack of both quantitative and qualitative disciplines. The burden of public expenditure in NZ is too high and is incompatible with our growth ambitions (the quantitative dimension), and the effectiveness of much public expenditure is questionable (the qualitative dimension).

The Centre for Independent Studies, of which I have been a long-term member and director, has just published a devastating critique of New Zealand's spending binge over the last decade. The study reveals some extra $20 billion of public expenditure per year since 2000 in exchange for negligible improvement in social outcomes.

While the Fiscal Responsibility Act was pioneering legislation at the time, over a decade on many other countries have moved in similar directions and NZ can learn from their experience.

It is time to think about the next generation of fiscal reforms. Various US States have imposed tax and expenditure limits or enacted Taxpayer Bills of Rights. The UK is debating a "growth rule" that suggests that public spending should rise in real terms, but by less than the level of economic growth, consistent with achieving a share of GDP of around 35% over time, a level currently found in countries like Australia and Ireland.

My personal preference is to see public expenditure head to 30% of GDP, a level consistent with funding the supply of public goods and social safety nets.

Such targets need to be matched by the willingness of both politicians and officials alike to scrutinise public expenditure effectiveness on a first principles basis, to ask such critical questions as: does the state need to intervene; do we need to own these entities; should we supply or just fund these services; what are we buying and what does it cost; what bang for buck are we securing; and what outcomes do we say we want and how do we know if we are getting them?

Having established optimum levels of spending, the tax side of the equation requires attention. Our current tax burden stunts growth, makes us uncompetitive and penalises or worse still chases away our brightest and best.

Broad-base, low-rate remains the gold standard for any tax system.

Having established the optimum tax levels, indexation is a must. If it is fair enough that benefit levels be indexed, the same must surely apply to tax levels. This historical lack of even-handedness illustrates yet again how disposed we are in NZ to put spending and re-distribution imperatives before earning priorities.

Dealing to Regulatory Creep:

Its not just fiscal creep you have to keep your eye on: regulatory creep is every bit as destructive.

The law of unintended consequences is alive and well in the regulatory domain, both at home and away. These days I am primarily involved in corporate governance, serving on the board, among others, of a NASDAQ listed company in the USA. The post-Enron imposition of the Sarbanes-Oxley rules has eroded the primacy of the United States in capital markets to a significant and unintended degree.

Likewise in this country the passage of the Resource Management Act, designed to end the tyranny of the statist Town and Country Planning regime, has wrought unintended consequences in spades. A noble effort to balance environmental and development demands and confer greater decision-making power on local communities has monstered worthy business building, denied sensible resource use and vastly increased transaction costs.

The contemporary quest for “sustainability” (a word a bit like fairness, depending for its meaning on the eye of the beholder) is made a mockery of by the impact of the RMA. Ask those who promote efficient water use in Canterbury, or wind farms in the Hawkes Bay.

I am convinced that a Regulatory Responsibility Act in the mould of the Fiscal Responsibility Act is warranted and long overdue.

The cost of reform regression:

While the reform era undoubtedly improved our prospects, the subsequent era of reform regression has done the reverse. The combination of high government spending and taxation, widespread regulations and a tendency to yet again let the state call the shots have all exacted a toll.

Reform regression comes at a price.

Our current feeble growth rate is one such price: fat chance of rocketing into the ranks of the top half of the OECD.

Another price is NZ’s lowest labour productivity growth on record. In the wake of the reforms of the mid-eighties and early nineties we had strong growth in productivity of 2.7% a year on average. The first five years of this decade saw that figure drop to an average of 1.2%. The current year has seen that level plummet to an all-time low of 0.4%.

Go figure which are the “failed policies”.

The most recent Nobel Laureate in Economics, Edmund Phelps, says there are two dimensions to a country’s economic model.

One part consists of its economic institutions.

The other part consists of the country’s economic culture.

His basic point is that the dynamism of a nation’s culture ultimately makes a difference for the nation’s economic performance in all its aspects: productivity, prosperity and personal growth.

I suggest that paying continuing attention to our institutions and culture and ensuring they are aligned with our expressed economic and social aspirations is the primary reason for being of a modern government.

Successive administrations ignore this insight and responsibility to act on it at the country’s peril.

Ruth Richardson,
28 April, 2007.