ECONOMIC REFORM

New Zealand in an International Perspective

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Since leaving the OECD he has been an independent author and consultant, and has acted as a Visiting Fellow or Professor at the OECD Development Centre (Paris), the Centre for European Policy Studies (Brussels), Monash University (Melbourne), the Fondation Nationale des Sciences Politiques (Paris), and the University of Melbourne. He is an Honorary Fellow of Lincoln College, Oxford, and in 1992 he was made Commander of the Order of St Michael and St George (CMG).

INTRODUCTION

The theme of this paper is comparative liberalisation.[1] My aim is to set within a comparative historical framework the remarkable economic reforms in New Zealand which began with the change of government in July 1984. The period covered extends from the mid-1970s to the present day. The comparisons made are with the other 23 countries which over the whole of this period were members of the Organisation for Economic Cooperation and Development, the OECD.[2] Hence I try to identify similarities and differences – to distinguish those aspects of economic reform in this country which have parallels in many, or even all, the other OECD countries, and those which are peculiar to New Zealand. I shall offer some personal answers to the question, how has New Zealand been different? In doing so, I shall draw on work undertaken by my former colleagues within the OECD Secretariat, including the Organisation's latest published survey of the New Zealand economy.[3]

The remainder of the paper is in two parts. Chapter one outlines the historical background. It reviews the situation of the New Zealand economy in mid-1984, and the configuration of economic policies then in place, in an international comparative context. In Chapter two I offer a comparative sketch of liberalisation in New Zealand and elsewhere, looking successively at the character, the causation, and the content and scope of the process.

CHAPTER ONE

THE BACKGROUND TO REFORM: NEW ZEALAND AND OTHER OECD COUNTRIES

It is sometimes said that since mid-l984, as a result of liberalisation, the New Zealand economy has been transformed from the most regulated in the OECD group into one of the freest. While this assertion has a large element of truth, it is somewhat overstated, at any rate in relation to the point of departure for reform. Commentators are apt to paint a sombre picture of New Zealand in the pre-Roger Douglas era. They show it as bogged down in superimposed layers of regulatory mire, comprising in particular long-established colonial socialism, the introduction of exchange control and import licensing in 1938, activist economic management as from the period following the Second World War, and some heavy-handed interventionist adventures in the period 1975–1984 under Robert Muldoon. While this portrait is broadly accurate if one considers New Zealand alone, it does not take into account the extent of pre-reform interventionism in other OECD countries. Viewed in comparative terms, pre-reform conditions in New Zealand appear as less starkly over-regulated, and the New Zealand economy of mid-1984 as less exceptional, than is often assumed. As will be seen below, this is relevant to an assessment of the significance of the reform programme.

One respect in which New Zealand appears as less interventionist than many other OECD countries is to be seen in the ratio of general government expenditure to GDP. For 19 of the OECD countries, though unfortunately the list does not include New Zealand, comparable figures for this ratio are published by the OECD Secretariat, and a rough estimate, accurate enough for present purposes, can be made of the corresponding New Zealand figures. For the calendar year 1984 I would put the New Zealand ratio at close to 45 percent.[4] This represents a large increase, of some 10 percentage points, on the figure for 1975 when Muldoon came into office. Even so, this higher New Zealand ratio in 1984, certainly the highest since the era of the Second World War, appears on an international comparison as the eighth lowest for that year of the 20 OECD countries covered. Among the other 19 countries, seven had a public expenditure ratio for 1984 of over 50 percent, while for three of them – Belgium, Denmark and Sweden – the figure exceeded 60 percent. Judged by this admittedly partial criterion, the New Zealand government in the final pre-reform stage was not among the leaders in interventionism.

A recent and wide-ranging comparative study provides broader evidence which suggests that, whether before, during or immediately after the Muldoon era, a good many other OECD economic systems were on balance more subject to regulation than that of New Zealand. The study, *Economic Freedom of the World, 1975–1995,* was prepared by the Fraser Institute (of Vancouver, Canada) in conjunction with 10 other research institutes around the world. It presents for over 100 countries, and for five separate years over the period 1975–1995, a set of 17 indicators of the degree of economic freedom, with three suggested weighting systems that enable these indicators to be brought together in a single combined measure.[5] All but one of the group of 24 OECD countries are included, the exception being Luxembourg. Within the remaining 23, and taking the particular combined indicator which the authors of the study suggest as preferable, the New Zealand economy during the decade 1975–1985 appears as by no means the least free. It is placed eleventh equal – i.e. exactly in the middle of the group of 23 – for 1975, with an overall rating of 4.3 out of a possible maximum of 10 (the highest degree of economic freedom). For 1980, after five years of the Muldoon administration, it is assigned both a higher absolute rating (at 4.8 out of ten) and a higher ranking within the OECD group (eighth out of 23). Lower figures are shown for 1985, the first full year of economic reform, with a rating of 4.1 and a position further down the table but, even then, seven other OECD countries are placed below New Zealand. All but one of these are also ranked lower than New Zealand for both 1975 and 1980, and all are in continental Europe. The list, in descending order of the estimated degree of economic freedom in 1985, is Norway, Turkey, Denmark, Italy, Portugal, France and Iceland.

Another way of making the comparison, still using the Fraser Institute's preferred summary measure, is to put the lowest pre-reform rating shown for New Zealand, which is for 1985, alongside the corresponding minimum for each of the other countries regardless of year, i.e. taking 1975, 1980 or 1985, whichever is the lowest. This makes it possible to make a rough allowance, as is desirable, for differences in the timing of liberalisation. In this ranking, as can be seen from the first column of the table presented in Chapter two, New Zealand comes as high as eleventh out of the 23. The 10 countries which by this test ranked above New Zealand include all the other four non-European members of the OECD – the United States, Canada, Japan and Australia. Of the 18 European countries included in the comparison, only six are placed above New Zealand: these are Austria, Belgium, Germany, the Netherlands, Switzerland and the United Kingdom. Those with a lower ranking than New Zealand comprise France, Italy, the Nordic countries, the Southern European group, Ireland and Iceland.

Admittedly, too much weight should not be placed on these particular indicators[6] and, in the case of New Zealand, either 1983 or 1984, rather than 1985 when substantial liberalisation had already been implemented, would probably represent the low point which should be chosen for such a comparison. All the same, the figures give an impression of widespread interventionism during the decade 1975-1985 in many European countries as well as in New Zealand, which is substantially correct. This can be seen if one lists for comparison some of the main areas of policy.

(i) While the New Zealand economy of the pre-reform period was subject to close regulation and control, all the more so after comprehensive controls over wages, prices, dividends and interest rates were instituted in 1982, it was broadly matched in this respect by several OECD countries, especially those of Southern Europe. It is true that the measures taken in 1982 were strikingly interventionist, and were still in place two years later. However, they were explicitly adopted as a temporary expedient only, as a response to a particular emergency.

(ii) In relation to international trade in goods and services, the New Zealand pre-reform regime was among the most protectionist in the OECD group of countries, but the difference here is arguably one of degree rather than kind. Admittedly New Zealand was almost alone among the OECD countries in continuing to make extensive use of import licensing, which in itself suggests a more interventionist system. On the other hand, it has to be borne in mind that many OECD countries which had largely dispensed with import licensing made continuing use of equally illiberal measures to restrict imports, most conspicuously in relation to agricultural products, within the Multi-Fibre Arrangement for textiles and clothing, and through a rich assortment of (so-called) voluntary export restraint agreements.

(iii) In relation to external capital flows, including direct foreign investment, the admittedly restrictive New Zealand system of exchange controls was matched by those of many European countries, including France, Italy, Southern Europe and Scandinavia. Outward direct investment was restricted in all these countries, while in relation to inward investment New Zealand was again one of a substantial majority of OECD countries which continued until well into the 1980s to impose wide-ranging systems of official review.

(iv) As to labour markets, comparisons are hard to make. While it is clear that the New Zealand system was in some respects closely regulated, in ways that except for Australia were distinctive, there are again several European countries, quite possibly a majority, in which the extent of regulation may have been broadly similar in effect even though the legal and institutional arrangements were different.

(v) Finally, it is true that in 1984 New Zealand had a higher public expenditure ratio than was typical of the Southern European countries which shared its propensity for close regulation, and higher also than those of Australia, the United States and Japan. However, while this ratio rose considerably in the Muldoon years, it remained moderate in comparison with those of most Northern European countries, and also with those of France and Italy.

At the same time, there are other elements in the picture. In one respect, the New Zealand of 10 to 15 years ago – and the same is true of Australia – appears as less affected by liberalisation, and less attuned to the prospect of reform, than the European countries that shared its membership of the OECD. All of these latter countries had taken part, though in varying degrees, in a substantial progressive dismantling of intra-European trade barriers; and all of them accepted that this trend towards closer cross-border economic integration within Europe would continue. In this respect, European countries over the decades since the Second World War had become notably more liberal, not only in their policies but also in their outlook and working assumptions: they were no longer 'insulationist'. No comparable change in attitudes had taken place in New Zealand or Australia, though the first clear signs of it are to be seen in the signing in 1983 of the Closer Economic Relations agreement between them. To a greater extent than in even the most regulated and protectionist of the European countries, Australian and New Zealand external economic policies, until well into the 1980s, continued to reflect in part the notion that their primary purpose was defensive – to shield the national economic system, and particular activities within it, from outside influences, disturbances and threats. The ideal was seen still as an economy that was kept judiciously insulated from the rest of the world.

More generally, the New Zealand of mid-1984 had become out of step with the general trend towards liberalisation across the OECD area. By this time a good many OECD countries had consciously moved in a liberal direction. In three of them – Turkey (1979), the United Kingdom (1979) and the United States (1980) – this was associated with election victories for parties, and political leaders, who had announced wide-ranging programmes of liberalisation. In other cases – France, Sweden, the Netherlands, Spain, Canada and (more dramatically) Australia – there had been a change of course marked by reforms of various kinds. In New Zealand there had indeed been moves in this same direction under Muldoon – not only the signing of the Closer Economic Relations agreement, but also the auctioning of some import licences, together with partial deregulation in labour markets, financial markets, the meat processing industry and long-distance transport. But as against this, there had also been the substantial rise in public expenditure, the 'Think Big' investment programme, and the far-reaching emergency measures of 1982 which had stayed in place. Moreover such liberalisation as occurred, and which survived the crisis measures of 1982, was not part of a broader conscious design for reform: there was no vision, no guiding blueprint, of an altogether less controlled and more open New Zealand economy. Thus by 1984 the direction and tenor of New Zealand economic policy, and the character of the system, had become out of line with the rest of the OECD – even though a number of these other economies, as noted, were in some respects more subject to interventionism. While New Zealand was not alone in being still a highly regulated economy, its economic policies in general, and the attitudes underlying them, bore an increasingly old-fashioned, antediluvian look.[7]

CHAPTER TWO

THE COURSE OF ECONOMIC REFORM

During the decade or so following the change of government in July 1984, New Zealand emerged as clearly the leading reformer among the OECD countries. Even so, and not surprisingly, there are a number of respects in which developments in New Zealand have been similar to those in some or all of the other countries in this group. Let me start with some broad elements of similarity, before turning to more specific comparisons in which both similarities and differences appear. In relation to the other countries, the comparative analysis that follows is not confined to the post mid-1984 period since, as noted earlier, a good many OECD governments had embarked on reforms before the change of course in New Zealand: my concern here is with the process as a whole.

The nature of the process

There are two obvious general features of similarity in the reform process in New Zealand and other OECD countries. First, viewed simply as a reforming country, New Zealand has not been alone or exceptional: rather, it has been one of the crowd. At different stages from the late 1970s onwards, and to an extent that few people anticipated before the event, governments in all these 24 countries chose to follow broadly a path of market-oriented economic reform. There are no exceptions, and indeed the trend goes well beyond the OECD area. Second, New Zealand is likewise not alone or exceptional in that important measures of liberalisation were introduced and carried through by a left-of-centre government. Other examples of the same phenomenon are to be seen, in rough chronological order, in the United States, France, Spain, Sweden, Australia, Greece and Finland.

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

All these assertions are incorrect. First, and to repeat, all these 24 OECD countries, naturally with many differences as to timing, content and scope, have engaged in liberalisation: the trend has by no means been confined to the (so-called) 'Anglo-Saxons'. Second, and also as noted, left-of-centre governments in several countries outside Australasia have taken the path of reform. Third, there is nothing incongruous in this latter development, since – contrary to a widely-held view – liberalisation does not represent a victory for conservative or right-wing ideas and principles. In this recent phase, as in earlier periods of history when market-oriented reforms were introduced, the true hero of the story is not conservatism but economic liberalism.[8]

Why reforms were made

Although the reasons why liberalisation came to pass have to be viewed in relation to each individual country, and are in many cases not easy to establish, some common elements can be seen in all the countries including New Zealand.

In most if not all cases, liberalisation has probably owed more to negative than to positive impulses: reforms have been introduced and carried through, not from an endorsement of liberal principles as such, but rather from perceptions of failure or malfunctioning within the system, perceptions which in turn were largely formed by events. Liberalisation has typically borne a remedial character: governments have adopted reforming measures in response to what they saw as problem situations.

The problems in question have been variously chronic, acute, or a mix of the two. New Zealand is one of the cases – Australia, Sweden and Turkey are others – where both elements have been clearly present. The Labour government which came into office in July 1984 had to deal immediately with a crisis in foreign exchange markets, and to follow up its initial measures with a programme of macroeconomic stabilisation: these were the acute problems, which in themselves gave evidence of the need for new directions in policy. Well before this stage, there had in any case been continuing and growing concern over what was seen as the chronically poor performance of the New Zealand economy over the long term. These two sources of concern came together in 1984, and reinforced one another. A momentum for change had built up, which the reformers were able to exploit.

Almost everywhere, therefore, the cause of reform drew strength from events and pressures and the impact of these on the general climate of opinion, which in many cases had become receptive to the idea of change because of more general concerns about longer-term economic performance. At the same time, most OECD governments played an active role in the reform process: they did not just react to events or to shifts in public opinion. This is conspicuously true in the New Zealand case, where reforms have been taken well beyond both what appeared necessary for stabilisation purposes and what public opinion was clearly willing to endorse before the event. Both Labour and National governments have shown themselves ready to take initiatives.

In a number of countries this creative role of governments was made possible by the personal convictions and commitment of individual political leaders. This has been pre-eminently true of the United States, with Ronald Reagan; the United Kingdom, with Margaret Thatcher and those of her senior ministers – not always in the majority – who supported her; in France and then the European Community, with Jacques Delors; in Turkey, under the prime ministership, and later the presidency, of Turgut Ozal; and in Australia in the period from 1983 to 1990, when both Bob Hawke and Paul Keating lent their support and personal authority to far-reaching reforms. New Zealand, with Roger Douglas and Ruth Richardson as the leading names, clearly belongs in this same list.

In many OECD countries, though in varying degrees, reform owes something to the ideas and influence of economists. In this respect New Zealand appears as an unusual case, with a conspicuous line of division within the profession. On the one hand, economists within the Treasury and the Reserve Bank helped throughout to give content and guidance to the reform process, both within these two institutions and from other positions to which some of them later moved: this particular group of professionals may well have been as influential as any of its counterparts elsewhere in the OECD area. On the other hand, academic economists in New Zealand appear to have been not only more divided about reforms – which is not surprising, and true also (for example) of Australia and the United Kingdom – but actually on balance hostile, possibly to a greater extent than in any other OECD country.[9]

The content and extent of the reforms

I turn now from general to more specific aspects, looking at actual measures and programmes of reform in New Zealand and elsewhere. These are placed under six headings, in increasing order of distinctiveness with respect to New Zealand's position within the OECD group.

(i) With respect to international trade, New Zealand governments have taken significant steps towards a regime of substantially free trade, and these are all the more significant when viewed in the light of past attitudes and traditions. In the actual measures adopted, however, it has been very much in line with other OECD countries.

(ii) In financial markets, New Zealand has carried out a wide-ranging and radical set of reforms, starting from a mid-1984 position in which transactions were heavily regulated. In this, however, it has been in numerous company, including the Scandinavian countries, Southern Europe, France and Australia.

(iii) In relation to corporatisation, privatisation and deregulation of industries, New Zealand appears as one of the leading reforming countries, though it has been by no means alone. One respect in which privatisations in New Zealand stand out from those in other OECD countries is that no serious restrictions have been placed on the participation of overseas buyers.

(iv) While New Zealand is one among many countries in which significant measures of tax reform have been introduced, the extent of the reforms here has arguably been greater than elsewhere. An OECD Secretariat report of 1990 paid New Zealand the qualified tribute of having established "probably the least distortive system [of taxation] in the OECD area", a verdict which I think still applies. A notable aspect of these reforms has been the introduction of a goods and services tax with a single rate and minimal exemptions: here New Zealand stands alone.

(v) When it comes to curbing public expenditure in relation to GDP, few OECD countries have so far recorded reductions that have proved more than temporary. There are three main exceptions to this generalisation, and as a result of developments over the past five years or so, New Zealand is now one of these (the others being Belgium and Ireland). For several years after the initiation of reforms in mid-1984, the tendency was for general government expenditures in New Zealand to continue to rise faster than GDP, in part because of slow growth and rising unemployment. For the financial year 1990–1991 the figure probably surpassed 50 percent, as compared with the 45 percent suggested in Chapter one as applying to 1984 – which itself, as noted, was historically a high level. By 1994–1995 the ratio had been brought down to a figure which may have been close to mid-way between 35 and 40 percent, from which it appears since to have fallen further. A combination of higher growth and expenditure restraint has transformed the fiscal situation.

(vi) Last, but far from least, there is the area of labour market policies. Here there have been reforms at different stages in most if not all the OECD countries, but in general these changes have been modest in scope. New Zealand appears as one of only two countries in the group, the other being the United Kingdom, which have so far brought in radical reforms. Despite its limitations, the Employment Contracts Act 1991 represents a larger step towards greater freedom in labour markets than has so far been taken in any other OECD country.

If we take these areas of policy one by one, a rather mixed picture emerges. All the OECD countries appear as reformers; in the majority of them far-reaching measures of liberalisation have been undertaken; and for most if not all of the countries that are not conspicuous for reform, it has to be noted that their point of departure was less interventionist than that of New Zealand in July 1984: leading instances here are Switzerland, the United States and Germany. If, however, we consider all the six headings together, New Zealand clearly stands out from the rest of the OECD group. Under every one of them New Zealand is well represented in the list of reformers, while in some cases, and even allowing for the initial extent of pre-reform regulation and control, which in most though not all respects was considerable, it has to be counted among the leaders. Looking across the whole range of economic policies, no other OECD country has such a portfolio of liberalising measures to show.

Confirmatory evidence on this can be found in the Fraser Institute study. Since the study gives cross-country ratings for five separate years, it enables a dual comparison to be made for each country: first, of the extent to which reform has been taken during some stage of the period 1975–1995; and second, of how this measure of actual reform compares with what could have been realised – the apparent potential for reform – given the initial 'pre-reform' situation of each economy. Both these measures of change, the absolute and the relative, are of interest. By using the second, it is possible in cross-country comparisons to allow for differences in the scope for liberalisation, arising from the fact that at the start of the reform process some economies were freer than others. Both measures are therefore shown in the following table, in which I draw on the data contained in the study to present a picture of my own.

Change in economic freedom ratings for 23 OECD countries

	Initial rating	*1995 rating*	*Absolute change*	*Proportionate change %*
New Zealand [3]	4.1	8.0	3.9	66
Ireland [1]	3.9	6.7	2.8	46
UK [2]	4.5	7.0	2.5	45
USA [1]	6.0	7.7	1.7	42
Iceland [1]	2.7	5.7	3.0	41
Portugal [1]	2.4	5.5	3.1	41
France [3]	3.4	6.0	2.6	39
Denmark [3]	3.7	6.0	2.3	37
Australia [1]	5.0	6.8	1.8	36
Japan [1]	5.2	6.9	1.7	35
Norway [2]	3.4	5.7	2.3	35
Sweden [2]	3.4	5.5	2.1	32
Italy [3]	3.6	5.6	2.0	31
Spain [2]	3.9	5.8	1.9	31
Finland [1]	3.9	5.6	1.7	28
Greece [3]	3.2	4.9	1.7	25
Turkey [2]	2.3	4.2	1.9	25
Canada [3]	5.9	6.9	1.0	24
Austria [3]	4.6	5.8	1.2	22
Netherlands [2]	5.4	6.4	1.0	22
Belgium [1]	5.5	6.3	0.8	18
Switzerland [2]	7.1	7.5	0.4	14
Germany [1]	5.9	6.4	0.5	12

[1] Initial year is 1975

[2] Initial year is 1980

[3] Initial year is 1985

Source: James Gwartney, Robert Lawson and Walter Block, *Economic Freedom of the World, 1975–1995*, the Fraser Institute.

The first column of this table shows the Fraser Institute rating – again taking the authors' preferred summary measure – for a 'pre-reform' year which can be 1975, 1980 or 1985. In each case the year I have chosen is the one in which the country's rating was lowest: for New Zealand, as seen above, this was 1985, which in any case is appropriate since it is the closest to the mid-1984 watershed. For each country, the choice of initial year is indicated in a footnote to the table. The second column gives the corresponding rating for 1995, and the third column the difference between the two which is an absolute measure of the extent of reform carried out over the period concerned.

The final column gives a relative measure which takes account of the initial situation: it compares the absolute measure of change with what was technically possible given the 'pre-reform' state of affairs. It is arrived at for each country by dividing the figure shown in the third column by the difference between 10, which is the highest achievable rating, and the figure shown in the first column. The result is expressed in percentage terms. In the case of New Zealand, for example, the figure for the extent of reform, which is 3.9, is divided by 5.9, which measures the potential for reform in 1985. The result is a figure of 66 percent.

In the table, the ordering of countries is in accordance with the numbers shown in the final column: the ranking conforms to the relative measure, and thus takes account of each country's initial situation.

Several general points emerge from the table. First, for every country the 1995 ratings are higher than those in the first column, in some cases substantially higher: all 23 countries, as earlier noted, have taken the path of reform. In absolute terms, the leading reformer is New Zealand, followed on this measure by Portugal, Iceland, Ireland, France and the United Kingdom. The countries which moved least, in ascending order of change, are Switzerland, Germany, Belgium and the Netherlands – though it has to be noted that all these were relatively free economies in the initial situation, and in the first column of the table Switzerland has the highest rating while Germany is ranked third equal.

Generally speaking, and as might be expected, reforms have been taken furthest during this period in those economies that were initially more regulated, so that the ratings in the second column of the table, for 1995, show less divergence than those in the first. For 1995 New Zealand emerges as the freest of these 23 economies, followed by the United States, Switzerland, the United Kingdom, Canada and Japan which are placed equal, and Australia.

In the final column, where differences in the initial situation are allowed for, New Zealand once again appears as clearly the leading country. Ireland and the United Kingdom come second and third respectively, but well behind New Zealand. Other well-placed countries, by this test, are the United States, Iceland, Portugal and France.

From the table New Zealand comes out as clearly the leading reformer of the 23 countries in both absolute and relative terms. The latter aspect is especially striking, in view of the widely-held notion that by comparison with other OECD countries pre-reform New Zealand was highly unusual, even unique, as an instance of interventionism. In fact it is the extent of liberalisation, rather than the initial degree of regulation and control, that chiefly distinguishes the New Zealand case. There were several other OECD countries which initially had much the same scope for reform as existed in New Zealand in mid-1984, but where up to now liberalisation has been less radical. The story of reform in New Zealand appears no less remarkable when account is taken of evidence that the pre-reform situation was not in fact exceptional, even within the OECD group of countries, in being far removed from liberal norms.

It may well be, as noted above, that these figures give New Zealand too high an initial rating, because an index for 1983 or 1984 might well yield a lower number than that shown here for 1985. In such a case New Zealand would rank lower in the first column of the table, though probably still above some other countries.[10] By the same token, however, the extent of reform would then emerge as greater, in relative as well as absolute terms. The figures shown for New Zealand in the two final columns of the table would be larger, with the result that its pre-eminence as a reforming country would appear as even more marked.

It is clear from the evidence, both qualitative and quantitative, that the extent of liberalisation over the last 12 years places New Zealand in a class of its own within the OECD area. This conclusion is strongly reinforced if account is taken of some further aspects of the reform process in New Zealand which have so far been largely left out of account. Liberalisation has been carried forward in ways that have no real counterpart in the rest of the OECD group, but which have already made an impact and may well over time have profound and lasting effects. I am thinking here of the sequence of measures which includes, in chronological order, the State-Owned Enterprises Act 1986; the State Sector Act 1988; the Public Finance Act 1989; the Reserve Bank Act 1989; and the Fiscal Responsibility Act 1994. In no other OECD country has there been so systematic an attempt at the same time (1) to redefine and limit the role of government, and (2) to make public agencies and their operations more effective, more transparent, and more accountable.[11] It is this important extra dimension, as well as the range and scope of reforms that have more obvious counterparts elsewhere, that gives the New Zealand programme its special character. People all over the world have come to consider New Zealand as a special case, and they are right.

In an article of mine, published last year, I reviewed the process of reform in the OECD countries with special reference to events in Australia.[12] The article includes a paragraph summarising the course of economic reform in New Zealand, the final sentence of which will serve as conclusion and summing up for this present paper:

> Viewed as a whole, the sequence makes up one of the most notable episodes of liberalisation that economic history has to offer.

ENDNOTES

1 The starting point for this paper was a talk given at a meeting of the New Zealand Business Roundtable early in 1996.

2 The OECD was established in 1961. New Zealand became the twenty-fourth member country in 1973, and following its accession the membership remained stable until 1994. This group of 24 countries comprised the 15 member states that now make up the European Union; four other European countries – Austria, Iceland, Norway and Switzerland; and outside Europe, besides New Zealand, the United States, Canada, Japan and Australia. Over the past three years three other countries have been admitted to membership – Mexico, the Czech Republic and Hungary – so that the current total of members is 27. It is expected that some other countries, notably Poland, Slovakia and the Republic of Korea, will likewise become members before long.

3 *OECD Economic Surveys, 1995–1996: New Zealand,* Paris, OECD 1996.

4 This figure is arrived at by taking the ratios shown for the fiscal years 1984 and 1985 in *A Briefing on the New Zealand Macroeconomy, 1960–1990,* by Paul Dalziel and Ralph Lattimore (Auckland, Oxford University Press, 1991), deriving from these a ratio for the calendar year 1984, which comes to approximately 41 percent, and then adding a round 10 percent – i.e. four percentage points – to allow for local authorities' expenditures since these figures apparently refer to central government only. The absence of a consistent series for general government expenditures down the years is a major gap in New Zealand official statistics.

5 James Gwartney, Robert Lawson and Walter Block, *Economic Freedom of the World, 1975–1995,* published in 1996 by the Fraser Institute, Vancouver.

6 Rather surprisingly perhaps, the Fraser Institute's list of 17 indicators of the degree of economic freedom does not include any measure relating to labour markets. In any case, and not surprisingly, the numerical results are open to debate in particular cases, in part for reasons which are sketched out in my review of the study which is due to appear in *Agenda.*

7 This aspect is well brought out in Colin James's book, *New Territory: The Transformation of New Zealand, 1984–92,* published by Allen and Unwin (1993).

8 There is a brilliant assessment of the relations between these two lines of thinking, conservative and liberal, in an essay by Hayek, entitled 'Why I am not a Conservative', which is appended to his book, *The Constitution of Liberty* (Routledge, 1961).

9 In Australia, the opponents of liberalisation have often depicted it as giving expression to the characteristic ideas and beliefs of economists, which are labelled as 'economic rationalism'. Opposition to reform is thus linked with criticism of

economists as a profession, and concern that their influence in government and public life has become excessive. Controversy in other OECD countries, including New Zealand, does not seem to have run along these lines.

10 It has to be remembered that for other countries as well as New Zealand the lowest rating might well be for a year that is different from those included in the Fraser Institute study, though the differences might not be so significant as in the case of New Zealand.

11 These aspects of the reform programme are reviewed in Chapter IV of the recent OECD economic survey already referred to.

12 David Henderson, 'The Revival of Economic Liberalism: Australia in an International Perspective', *Australian Economic Review,* 1st Quarter 1995.