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**MARKET LIBERALIZATION IN NEW ZEALAND:
THE INTERACTION OF ECONOMIC REFORM AND POLITICAL INSTITUTIONS
IN A PLURALITARIAN DEMOCRACY**

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Comments are invited.**

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Summary

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During the past decade, New Zealand has undergone radical economic and political reforms. In economics, the country moved from having what was probably the most protected, regulated, and state-dominated economy of any capitalist democracy to an extreme position at the open, liberal, free-market end of the spectrum. In politics, the citizens of what had been the world's purest example of a Westminster (or pluralitarian) two-party system decided in 1993 to institute proportional representation. This paper explores the interaction of economics and politics before, during and (speculatively) after the twin reforms in order to answer the following questions: (1) Why were right-wing economic reforms initiated and largely accomplished by the supposedly left-wing Labour Party? (2) Why was economic reform so much more radical in N.Z. than in other democracies? (3) How were reformers able to maintain their momentum through two elections and a change of governing party? (4) Why was economic performance after the reforms so poor? (5) In voting for electoral reform, did New Zealanders repudiate the economic reforms; and will the new political system bring about a rollback of the new economic order?

The analysis, which relies on developments in the formal theory of social choice, argues that N.Z. shifted about 1970 from stable unidimensional politics to unstable multidimensional politics, which produced rapid swings in political fortunes and dramatic, puzzling reversals in historic policies. The dynamics of the process are best understood by observing how parties recombined policies in order to induce shifts in support coalitions. These shifts explain why market liberalizers came to power within a party that had a socialist heritage and why they were able to stay in power despite the unpopularity of their policies. Constraints imposed by parties' voting coalitions also explain why N.Z. reformers "botched" the sequencing of reforms, which is the reason usually given for the unexpectedly long and costly adjustment period that New Zealand experienced from 1984 to 1992.

New Zealand's pluralitarian institutions enabled reformers to move farther and faster in a free-market direction than their counterparts anywhere else. In alliance with economists in the Treasury and big business interests in the financial sector, they exploited the pyramiding of power made possible by New Zealand's combination of plurality elections, two-partyism, party

discipline, and cabinet government. Zealously convinced of the rightness of their policies, they flouted what had been the only effective check on New Zealand governments--the tradition of the mandate, which required governments to respect an ex ante contract with voters by adhering strictly to electoral manifestoes. The reformers' disregard of this tradition and their ability to prevail despite a frequently narrow base of public support severely damaged New Zealand's previously healthy political culture. No longer trusting politicians or their governmental institutions, which seemed to have spawned an "elective dictatorship," voters turned to electoral reform in the hope that proportional representation would establish a new era of government by "consensus." Thus the vote for electoral reform was not so much a backlash against the substance of market liberalization as it was an expression of disillusionment with the process by which economic restructuring had been imposed.

For readers in the development community, this paper offers insight into processes through which free-market reforms can be initiated and sustained within a democratic context. On the other hand, New Zealanders' repudiation of their institutions shows the heavy unexpected cultural and institutional costs that economic reformers can impose if they ignore established norms and fail to secure a sufficiently broad base of agreement. Development specialists concerned with the design of democratic institutions can also learn from New Zealand's experience, which reveals how conducive pluralitarian systems can be to minorities rule and policy instability once politics becomes multidimensional. The fact that the citizens of the prototypical pluralitarian democracy have repudiated their electoral system gives considerable support to advocates of consensus democracy institutions, including proportional representation.

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During the past decade, New Zealand has undergone radical reform in both economics and politics. In economics, the country moved from having what was probably the most protected, regulated, and state-dominated economy of any capitalist democracy to an extreme position at the open, liberal, free-market end of the spectrum. In politics, the citizens of what had been the world's purest example of a Westminster-style two-party system decided in a November 1993 referendum to institute proportional representation.

The vote on electoral reform was widely interpreted as a reaction against economic restructuring and as a judgment by voters that the political system had functioned unacceptably during the market liberalization. My immediate purpose is neither to confirm nor deny such an evaluation. Instead, this paper explores the interaction of economics and politics before, during, and (speculatively) after the twin reforms in order to help explain a number of puzzling or intriguing questions about the market liberalization. Ultimately, I hope that the analysis will contribute not only to political economists' quest for insight into the politics of economic reform, but also to democratic theorists' understanding of, and judgments about, the functioning of democratic processes in general and Westminster-style institutions in particular.

Background

Because New Zealand's history and institutions will be unfamiliar to many readers, I begin by presenting necessary background information, first about politics and then about economics.

Political Institutions, Old and New

Whatever the merits of New Zealand's electoral reform in the eyes of its own citizens, scholars of comparative politics must feel a twinge of regret at the passing of New Zealand's previous system, for they gave it considerable theoretical significance as the extreme or prototypical case of an important type of democracy (Lijphart 1984, Taagepera and Shugart 1989). Because the new electoral method will not be implemented until 1995 or 1996, it is still accurate to use the present tense in saying that New Zealand's political system features the following combination of institutions:

- fusion of legislative and executive power through cabinet government;
- a unicameral legislature--formally since abolition of the Legislative Council (upper house) in 1950 and de facto since 1893;
- only a vestigial written constitution, which means that Parliament has unlimited formal authority and courts cannot review legislation;
- a unitary system, with weak local authorities and no provinces since their abolition in 1876;
- frequent (normally triennial) elections that make politicians constantly attentive to voters' desires;
- single-member-district plurality elections that promote the dominance of two political parties, one or the other of which has had a disciplined majority in Parliament since 1935.

Traditionally, political institutions of this type have been called *Westminster* systems, in recognition of their origins in Great Britain (which, however, presents a less pure form of the type). Riker (1982) considers these systems the institutional embodiment of *populist* democracy, because they are based on the theory that the government has a positive mandate for action that represents the will of the people. Lijphart (1984) prefers the term *majoritarian* democracy, which he contrasts with a second major type, *consensus* democracy. In pure form, the latter would include separation of powers, bicameralism, federalism, proportional representation, a multiparty legislature, and coalition governments, with frequent reliance on supermajoritarian decision rules or accommodationist norms.

At the risk of offending readers who may dislike a less than euphonious neologism, I contend that political institutions like New Zealand's ought to be called *pluralitarian* rather than majoritarian. Obviously, at the basic constituency level, their elections employ plurality rather than majority rule. Moreover, at the national level, the frequent presence of electorally futile minor parties means that typically only an aggregate plurality of voters supports the winning party. (Since 1911, just three of 27 New Zealand governments have been elected with an absolute majority of the popular vote.) Even in parliament, where the two-party bias of the electoral system usually manufactures an absolute majority of seats for the governing party, the institution of party discipline enables a plurality of members to control legislation, because the ruling majority within the governing party's caucus is likely to be, at best, only a plurality of the legislature as a whole (Pennock, 1979).¹

Until the 1993 referendum, New Zealand's political institutions were among the most stable in the world. All the essential elements have operated continuously since 1935, and most have been in place much longer. Indeed, having enfranchised women before any other nation, New Zealand can fairly claim to be the world's oldest fully inclusive democracy.

In the referendum (which came on the centennial of women's suffrage), voters decided to replace the venerable single-member-district plurality electoral system (better known in New Zealand as "first-past-the-post" or FPP) with a new "mixed-member proportional" (MMP) system that closely follows the German model. Under MMP, voters will cast two ballots--one for a local constituency representative (elected by FPP) and one for a national party list. About half the members of Parliament will be elected by each method, but seats that parties win in districts will be subtracted from their list allocations, so overall representation of parties (excluding any that fail to reach a 5% threshold) will be strictly proportional to party votes. (Nagel 1994a)

In itself, the reform changes only one of New Zealand's Westminster institutions.² However, that element is crucial to the pluralitarian character of the system. Agreeing with Duverger's law, New Zealanders expect that MMP will produce multi-party parliaments in which one party will rarely if ever hold a majority of seats. Consequently, coalition (and/or minority) governments will become the norm. The passage of legislation will therefore require the consent of MPs representing a majority, rather than a plurality, of voters. Because political leaders will have to cooperate across party lines, politics should become less harshly adversarial. Lijphart's concept of "consensus" government has become the byword that summarizes New Zealanders' aspirations for a more cooperative style of politics and policies based on widespread agreement.

Economic Policies and Performance³

In the era that ended in 1984, New Zealand's economy was based on an agricultural export sector that had become dependent on price supports, compulsory marketing boards, export incentives, and tax concessions. Its earnings sustained an inefficient domestic manufacturing sector that was sheltered from foreign competition by import licensing and tariffs and from domestic rivals by quantity licenses, restricted trading hours, and numerous other regulations. Steeply progressive income taxes underwrote a comprehensive welfare state, with government-financed pensions, health care, and education. The state also monopolized or dominated production of a great many goods and services, including telecommunications, banking, energy, broadcasting, forestry, tourism, and transportation.

During most of the twentieth century, this economy devoted to the values of security and equality appeared to succeed remarkably well. Aided by preferential access to the British market, rich natural resources, and a highly literate population, New Zealand stood among the elite handful of the world's most prosperous nations. One study in the late 1930s placed it first in per capita income, and through the 1950s New Zealand generally ranked among the top ten. From World War II through 1976, involuntary unemployment was virtually unknown. With the further advantages of a mild climate, marvelous scenic beauty, low population density, and a lifestyle centered around outdoor recreation, the inhabitants of "God's Own Country" understandably believed that they enjoyed the best quality of life on the globe.

New Zealand's contentment was disturbed during the 1970s by the two oil price shocks and Britain's entry into the European Community. The ostensibly conservative National Party government headed by Prime Minister Robert Muldoon responded with a massive state-funded investment program known as "Think Big." Despite higher income tax rates and a series of currency devaluations, public debt increased sevenfold between 1975 and 1984, inflation persisted at double-digit levels from 1974 to 1982 (when Muldoon instituted a wage and price freeze), unemployment rose steadily from 1977 through 1983, and growth rates followed a stop-go pattern around a sluggish mean. Between 1974 and 1984, GDP per capita rose just 0.2% per year, compared with the OECD average of 1.8% (see Table 1); and New Zealanders realized with rising chagrin that their world rank in GDP per capita was slipping steadily. (For other key indicators, see Appendix A, which provides figures charting unemployment, inflation, and real income over time.)

Table 1. Average Annual Growth Rates in GDP per Capita

<u>Period</u>	<u>New Zealand</u>	<u>OECD Average</u>
1955-60	1.8	2.1
1960-65	2.8	3.9
1965-70	1.6	3.6
1970-73	2.6	4.2
1974-84	0.2	1.8

Source: OECD, *Economic Surveys: New Zealand*, 1975, 1988/89.

By the early 1980s, influential members of New Zealand's economic and political elite were convinced that the country's economic problems were structural in origin. Encouraged by the IMF, World Bank, and OECD, economists in the Treasury prepared a comprehensive reform program. Inspired by developments in

economic theory, including public choice theory, the Treasury economists argued for a new order based on fundamental reversals of values and priorities: efficiency over equity, growth over stability, competition over security, monetarism over Keynesianism, and private over public ownership.

In 1984, the Labour party regained power after nine years in opposition. Eschewing its socialist traditions, Labour surprisingly adopted the Treasury liberalization program, which came to be known as "Rogernomics" in honor of Roger Douglas, the party's Minister of Finance until 1988. The reform process that Douglas began continued for roughly nine years--the first six under Labour cabinets headed by David Lange (1984-89), Geoffrey Palmer (1989-90), and Mike Moore (1990) and the last three under a National ministry led by Prime Minister Jim Bolger and Minister of Finance Ruth Richardson. Following the 1993 election and referendum, Bolger signalled an end to the liberalization process by replacing Richardson, but thus far all the major reforms remain intact.

The extent and pace of systemic economic change in New Zealand during the reform years were breathtaking. With only some exaggeration, many observers compare the thoroughgoing program of market liberalization, deregulation, corporatization and privatization to the dismantling of communism in Eastern Europe. The scope of the restructuring defies easy summary. Bollard (1992) devotes more than four pages to a schematic table (reproduced below as Appendix B) tersely listing the major policy changes. Among the most notable are the opening up of the economy to international competition and investment; the removal of monopolistic advantages, regulations, and subsidies from virtually every sector; a shifting of taxes from income to consumption and a flattening of income tax rates; a decrease in state employment of about 80,000 including 29% in the core public service (Schwartz 1994b); the hiring and firing of government executives based on performance contracts, including one for the head of the Reserve Bank that commits him to deliver an inflation rate of 0-2%; and a labor relations law based entirely on the principle of individual contracts.

Despite successive governments' remarkable ability to enact and implement these sweeping changes, the promised payoff in improved economic welfare was slow to materialize. Even sympathetic observers concede that the duration of the adjustment and its social costs have been much greater than expected. Ten years after the reforms began, the record of economic performance is at best mixed. Inflation was brought under control by 1988 and has been running under 2% since 1991. Interest rates have fallen with prices. Trading sectors have become more competitive internationally, with productivity gaining 28% from 1989 to 1993. On the negative side, real wages fell during the reform period, and unemployment peaked at over 11% in 1992 (it remains high at

nearly 9%). The income distribution has become markedly less egalitarian, and many New Zealanders believe an underclass is developing. As for the bottom line, the restructuring failed to produce its ultimate objective, economic growth, until 1992. New Zealand experienced essentially no growth in per capita GDP from 1984 through 1991, and the recovery from the trough of the 1990-91 recession was modest and unsteady until 1993 when a growth rate estimated at 5.2% (for the year ended March 1994) began to inspire optimism at last.

Questions, Methods, and Themes

Analysts and commentators have devoted much attention to five perplexing features of New Zealand's economic liberalization:

1. *Why were right-wing reforms initiated and largely accomplished by a left-wing party?* Economic liberalization in New Zealand was based on a deeply anti-statist philosophy, and it greatly increased economic insecurity and disparities of income and wealth. The Labour Party had a socialist heritage, a trade-union organizational base, and a poor and working-class electoral constituency. Moreover, its noneconomic policies won applause from progressives and leftists at home and abroad. How can this paradox be explained?

2. *Why was reform so much more radical in New Zealand than in other democracies?* Globally, reforms in a free-market direction were hardly unusual in the 1980s. Besides Thatcherism in Britain and Reaganism in the U.S., many smaller democracies (including several governed by parties of the left) moved to deregulate, liberalize, and privatize their economies. (Williamson 1994, Schwartz 1994a) But New Zealand accomplished a more extreme change than any other democracy, not only in relation to where it started but also with respect to where it ended up. Was this merely an overreactive swing of the pendulum, or is there a structural reason why New Zealand moved from one side of the spectrum to the other?

3. *Why were reformers able to maintain their momentum through two elections and a change of governing party?* Advocates of market liberalization commonly worry that democracies may not be capable of economically sensible policies because voters will not tolerate short-term pain on the promise of long-term gain. New Zealanders experienced plenty of short-term pain, and many of the reforms were unpopular for other reasons as well. Why did the electoral stop signal to which politicians responded in 1993 not appear (or not deter them) in 1987 or 1990?

4. *Why was economic performance after the reforms so poor?* Observers have noted that, unlike third-world and former

communist countries, New Zealand offered almost ideal conditions for successful market liberalization. Does New Zealand's long, costly, and uncertain transition therefore show that orthodox prescriptions for restructuring are fundamentally misdirected? (Schwartz 1991) Did it result instead from policymakers' technical mistakes? (Bollard 1994) Or is there another explanation?

5. *In voting for electoral reform, did New Zealanders repudiate the economic reforms; and will the new political system bring about a rollback of the new order?* During the debate before the referendum, two new parties that had sprung up in opposition to market liberalization strongly favored MMP, whereas its leading opponents believed that proportional representation would jeopardize free-market policies. Did the two sides assess their interests correctly?

In the remainder of this paper, I address each of these questions in turn. My answers draw on three sources of information: extensive (but not exhaustive) reading, only some of which is acknowledged in the references; personal observation while living and teaching in New Zealand from May through November 1986 and during a research trip in October-November 1993; and interviews and discussions with more than forty participants and well-informed observers during and after my second visit. (The individuals with whom I talked are acknowledged in Appendix C.)

This paper does not attempt anything like a complete story. Writers closer to the scene have already provided excellent comprehensive accounts.⁵ Instead, I seek only to highlight certain effects of political institutions and processes that are not always fully appreciated. In so doing, I hope to respond to Stephan Haggard's recommendation that studies of market liberalization "pay more attention to the legislative, partisan, and ultimately electoral dimensions of reform." (Haggard 1994, 470)

Although I support what I say with statistical data and evidence supplied by others as much as I can, my analysis is fundamentally interpretative, rather than definitive in any scientific sense. Nevertheless, it is informed by my understanding of developments in the scientifically best developed branch of democratic theory, the formal theory of social choice, from which I have drawn the working hypotheses that guide and shape the argument.⁶ Briefly put, these premises are as follows:

- The fundamental pattern of politics and policy in a democracy depends on the dimensionality of the policy space.⁷

- Politics in a multidimensional policy space is unstable, permitting rapid swings in political fortunes and dramatic, peculiar reversals in policies.⁸
- Understanding political dynamics and outcomes in such a space depends on observing how policies are recombined in order to induce shifts in support coalitions (which must ultimately affect votes in elections).⁹
- The instability of politics in a multidimensional space increases as the fraction of voters needed for a winning coalition decreases. Therefore, pluralitarian democracies are especially unstable.¹⁰

Why Did Reform Begin Under Labour?

To understand why right-wing economic policies were sponsored by a governing party with a socialist heritage and an otherwise leftist reputation, it is necessary to appreciate five key developments in New Zealand politics during the fifteen-year period before the reforms began: the rise of multi-dimensional politics, a shift in the class composition of the major parties, Robert Muldoon's dominance over the National Party, the bias of the electoral system against Labour, and the revolt of the New Zealand Party.

From Unidimensionality to Multidimensionality

From the 1930s until about 1970, partisan competition in New Zealand was organized almost exclusively around economic issues and economic class divisions. One of the best-known results of social-choice theory is that unidimensional political competition has a stable majority-rule outcome at the position favored by the median voter (Black 1987), and pragmatic parties in a two-party system should converge toward this position (Downs 1957). New Zealand elections from 1943 to 1969 conformed closely to this model. After the Depression brought Labour to power for the first time in 1935, voters massively endorsed its welfare-state policies in the 1938 election. (See Appendix D for a summary of election results from 1935 through 1993.) Before the next election in 1943, National abandoned ideological opposition to "socialism," promising instead to administer the welfare state more capably and with less obtrusive controls than would Labour. National's fortunes then improved steadily, culminating in a majority in 1949 and its biggest victory in 1951, a snap election called to capitalize on the government's suppression of an unpopular waterfront strike. (Chapman 1981)

During the 1943-69 period, the convergence and stability of New Zealand politics are demonstrated by close elections (the

average margin between the major parties was only 3.6%), small shifts in votes (the vote share of the governing party changed on average only 3.5%), and infrequent changes in government (power was transferred in only three of ten elections). Most significantly, policies were highly stable. "The boundaries of political debate between the two main parties were tightly drawn. While there were important differences of perspective, both parties subscribed broadly to the liberal social democratic policy framework settled in the 1950s. Arguments between them were about detail, often quite small detail, rather than fundamental policy issues." (James 1992, 33)

This stable system began to change in the late 1960s, when a series of highly emotional, non-economic issues started to cut across New Zealand's peaceful consensus. These divisions had to do with foreign policy, environmentalism, group rights, and social norms.

Vietnam came first. As a loyal ally of the United States, New Zealand had sent a small contingent of troops to fight the communists there. As in the U.S., the antiwar movement became the formative political experience of many members of the postwar baby boom generation. After the war ended, the peace movement turned to an anti-nuclear crusade, spurred on by French bomb tests at Moruroa atoll, two thousand miles east across the Pacific, in New Zealand's backyard. A third, intensely contentious foreign policy issue was the question of sporting contacts with South Africa, traditionally a chief competitor in rugby, New Zealand's national sport.

Close on the heels of Vietnam came environmental protest. In 1970, many New Zealanders demonstrated and 265,000 signed petitions against a plan to raise the water level in pristine but remote Lake Manapouri, as part of a scheme to supply hydroelectric power to an aluminum smelter. In 1972, a group of youthful activists organized the Values Party, the world's first green or postmaterialist political party.

By the mid-1970s, a new militancy had taken hold among the previously quiescent Maori (New Zealand's indigenous people, who constitute about ten per cent of the population). Thousands marched on Parliament to protest the continued alienation of their land, and in 1977, a 507-day sit-in at Bastion Point succeeded in stopping the sale of Maori land for a suburban housing development. Militants subsequently pushed persistently for greater recognition of Maori language and culture and for reparation of economic and other grievances based on violations of the Treaty of Waitangi, the 1840 pact between Maori chiefs and the British that opened the way for European colonization.

As did other developed countries, New Zealand also experienced rising conflict over rapidly changing sex roles,

patterns of family life, and moral norms. Despite New Zealand's historic position on female suffrage, New Zealand women were relegated to a distinctly secondary position in the economy and politics. A vigorous women's movement challenged this status, initially through small-scale, participatory groups, then increasingly through involvement in electoral and party politics. Several feminist goals, including abortion rights and improved status for single mothers, angered social conservatives, as did an allied movement for homosexual law reform.

In a simplified depiction, it is possible to think of these various issues as constituting a single non-economic, social, or postmaterialist dimension that cut across the old dimension of conflict based largely on economic class. Certainly, the activist cadres of the movements for change often overlapped heavily. Nevertheless, at the mass level and in electoral politics, each issue had special potential to attract (or alienate) population groups that were at least partially distinct. Thus a more precise analysis would depict New Zealand politics as having become multi-dimensional, rather than just two-dimensional.

In either case, social choice theory predicts the loss of a stable equilibrium.¹¹ Once politics moves beyond unidimensionality, spatial models reveal a pattern of cyclic majorities, in which any majority can be defeated by evoking new issues and/or by recombining policies so as to motivate critical defections to a new ruling coalition. Such a system may experience frequent and sometimes radical policy reversals. Because coalitions are formed through a process of explicit or implicit logrolling across issue dimensions, the policies that prevail with respect to any given issue are more likely to reflect the wishes of a passionate minority than the central or consensual tendency of the majority.

Subsequent sections of this paper will show how a pattern of multidimensional, unstable, minorities-rule politics helps to explain several of the puzzles about economic reform in New Zealand. For the moment, I shall pause only to note the evidence (drawn from Appendix D) of markedly increased partisan volatility and government instability, compared with the unidimensional 1943-69 era. (McRobie 1992) Although three of the eight elections from 1972 through 1993 were extremely close, the other five were all landslides; overall, the average difference in vote shares between the first and second parties increased to 4.8%. A stronger indicator of volatility is the average change in the governing party's vote percentage, which rose markedly to 6.8%. Four of the elections resulted in new governments, and three very nearly did.

A more direct indicator of multidimensionality, as well as of volatility, is the striking increase in minor party activity.

In the ten elections from 1943 to 1969, minor parties won 2% or more of the national vote on seven occasions--Democratic Labour in 1943 and Social Credit continuously from 1954. (Social Credit had a Poujadist base of small businesspeople and small farmers, but it also served as a protest vehicle for voters discontented by the similarity of National and Labour.) In the eight elections since 1972, eight minor parties have reached 2% of the vote on a total of fifteen occasions--Social Credit (and its successor, the Democrats) six times; Values three times and its descendant, the Greens, once; and once each for the New Zealand Party, NewLabour, the Alliance, New Zealand First, and Christian Heritage. In addition, Mana Motuhake, founded in 1980, became the principal contender to Labour in the four Maori seats before joining the Alliance in 1993. As a consequence, the winning party's average share of the popular vote fell to 43.6% compared with 48.1% in the Downsian period.

The Changing Class Basis of Labour Party Leaders

Most of the young people who became politically active because of the new, non-economic issues were well-educated. Some were upwardly-mobile offspring of working-class families; many others came from prosperous professional, business, or farming backgrounds. In a one-dimensional system, they would have gravitated to the National Party on the basis of economic interest. However, in the 1960s and early 1970s, National was the party in power, and the protests over Vietnam and Lake Manapouri were directed against its policies. Some of the more radical protestors stayed in direct-action pressure groups or joined Values, but their pragmatic and ambitious comrades moved into the Labour Party.

There, as Gustafson (1976) has shown in an excellent monograph, they occupied a virtual organizational vacuum. Labour's branch membership in 1969 was only 25% of what it had been in 1938, despite a doubling of voter enrolment. This decline was due to a combination of influences--the changing class composition of the workforce away from Labour's traditional blue-collar base, complacency of workers due to continuous full-employment prosperity, and a major exodus in response to the "Black Budget" of the short-lived 1957-60 Labour government, which foolishly tried to solve a fiscal crisis by taxing cars, tobacco, and beer.

With an almost empty cohort above them, the university-educated new class of Labour activists rapidly moved ahead in the party, and soon began to win parliamentary selection (nomination) contests. Table 2 summarizes the change in the class composition of the four Labour governments that came to power between 1935 and 1984.

Table 2. OCCUPATIONS OF LABOUR MPs

<u>Occupation</u>	<u>1935</u>	<u>1957</u>	<u>1972</u>	<u>1984</u>
Professional, semi-professional	17.9%	24.4%	40.0%	73.2%
Business, other white collar	26.8	35.5	27.3	12.5
Manual workers, farmers, union officials	55.3	36.7	32.8	14.4

Source: Gustafson (1992, 276)

In the overwhelmingly professional 1984 caucus, nineteen MPs (34%) had been teachers or university lecturers and ten (18%) had law degrees. The composition of Cabinet mirrored that of Caucus. In contrast, the first Labour cabinet had only one professional among its twelve members; most of its leaders had been self-educated manual workers.

Although the largest group among Labour's 1984 leaders joined the party as part of the Vietnam generation, some MPs from non-manual occupations came to the party via other routes. One group were Labour members by inheritance. Roger Douglas, for example, was the son and grandson of Labour MPs, but he himself was trained as an accountant and had run family businesses. The second group, including Deputy Prime Minister Geoffrey Palmer and Associate Finance Minister David Caygill, left the National Party later in the 1970s out of distaste for its leader from 1973 to 1984, Robert Muldoon, who was himself an important cause of dealignment in the parties' traditional support bases.

Muldoonism¹²

Under the electoral regime that is now drawing to a close, New Zealand's disciplined two-party system, coupled with the small number of MPs and the physical layout of the House chamber (two sides confronting each other across the floor), created an intensely adversarial atmosphere in Parliament. Like rugby teams grappling in a scrum, the parties engaged in a struggle for dominance. At stake were the morale of each caucus and their images in the press, which in turn shaped reputations among the wider public and prospects in the next election.

The outcome of these contests often depended on the personalities of the parties' leaders. Following the pattern set by Richard ("King Dick") Seddon a century ago (Nagel 1993),

partisan, forceful, domineering party leaders have usually prevailed over thoughtful, conciliatory, statesmanlike opponents. When National lost to Labour in 1972, its leader, John R. ("Gentleman Jack") Marshall, a patrician liberal, was no match for Labour's Norman Kirk, a leader of the first type. Despite misgivings, the National caucus replaced Marshall with his pugnacious deputy, Robert M. Muldoon. After Kirk's unexpected death just two months later, Muldoon proceeded to dominate New Zealand politics for the next eleven years.

Muldoon was "in the National Party, but not of it" in style, background, and policies. His readiness to launch harsh personal attacks and to scapegoat unpopular minorities made him hated and feared, not only by Labour adversaries but also by many who would normally have supported National. On the other hand, his childhood poverty as the son of an invalid father and a mother who supported the family by working as an upholsterer enabled Muldoon to understand and identify with "the ordinary bloke," to whom he appealed with both social and economic policies.

National's defeat in 1972 was due in part to Vietnam and other non-economic issues that caused it to lose the votes of many members of the educated, affluent younger generation. Muldoon counter-balanced these defections by mobilizing the hostility of less educated, older citizens--many of whom were former Labour voters--against disruptive, "extremist" protestors in the anti-war, Maori rights, and anti-apartheid movements. Conflicts over tours by South Africa's Springbok rugby team produced the discomfiting spectacle of police in full riot gear doing battle with thousands of demonstrators. Many observers believe that Muldoon's anti-protestor policy enabled National to win the extremely close 1981 election. (If it seems strange that sports could be so politically consequential, recall that rugby in New Zealand has been compared to a national religion, and that the African boycott of the 1976 Montreal Olympics was because New Zealand participated in the Games after competing in rugby against South Africa.)

Muldoon's appeal to what he liked to call "Rob's Mob" changed the composition of the National Party. One long-term activist observed that before Muldoon became leader, "I could have gone into a room and known it was a National Party gathering just by glancing around but [after Muldoon] I'd go to the National party gatherings and think I was at the local football club....He brought a whole new group in." (Gustafson 1986, 125) When poll respondents' prime-ministerial preferences were graphed against their socio-economic status, a new inverted-V pattern emerged instead of the monotonically declining pattern one would expect for the leader of a conservative party. On a six-level class scale, Muldoon's popularity peaked at level III, followed closely by levels II and IV. He was unpopular among Labour's traditional base in the poorest levels V and VI--but he also

fared badly among the top Level I. (James 1986, 92)

Muldoon's popularity among the middle and lower-middle classes depended not only on his appeal to their social conservatism but also on his solicitous concern for their economic interests, which centered first and foremost on the maintenance of economic security. In 1975 he offered a new National Superannuation plan that enabled New Zealanders to retire at age 60 with a pension that, for a married couple, equalled 80% of the average wage--all to be financed out of general government revenues. (Easton 1980) Despite its fiscal profligacy, Muldoon justified his program ideologically as a move away from the "socialistic" contributory plan Labour had set up;¹³ and in fact most of his economic policies during his first term represented a gradual move toward a moderately more liberal order. He liberalized interest rates, started to remove government controls over the financial markets, introduced a crawling peg exchange rate, reduced consumer subsidies, restructured farm subsidies, moved against compulsory unionism, and opened the way for competition in transportation between trucking and railways.

But in 1978 Muldoon reversed course in response to economic and political threats. Unemployment began to climb; and in the 1978 election, National narrowly escaped defeat. With paper-thin vote margins in numerous electorates, National was now "hostage" to Rob's Mob. (James 1986, 91) Muldoon did not dare attempt innovations that threatened their security. Moreover, it is doubtful that he wanted to. "Having experienced hard times himself as a child and young family man, he was determined that people should be hurt as little as possible..." (Gustafson 1986, 122) To protect the ordinary bloke, he reverted to New Zealand's statist tradition and embraced a series of desperate, dramatically interventionist programs. After the second OPEC oil price shock in 1979, in an ill-fated attempt to create jobs, end dependence on foreign energy, and improve the balance of payments, Muldoon pushed through Parliament the massively-subsidized "Think Big" import-substitution projects--including expansions of a refinery and a steel mill and plants to produce synthetic fuel, petrochemicals, and methanol. (Douglas and Callen 1987, ch. 14) In the early 1980s, as unemployment continued to rise and double-digit inflation persisted, Muldoon imposed a wage and price freeze and controls on interest rates.¹⁴

Muldoon's interventionism, coupled with his powerful personality and determination to hold onto office, arrested what would have been the normal course of National's development toward "more market" policies.¹⁵ Key members of his cabinet, notably Derek Quigley and Jim McLay, were openly advocating liberalization. Outside of Parliament, Sir John Marshall and much of the party organization were vocally restive as well. In the "Colonels' Coup" of late 1980, Quigley, McLay, and Jim Bolger

attempted to replace Muldoon with Deputy Prime Minister Brian Talboys. Although the plotters initially claimed support from a majority of Caucus, Muldoon's determined counterattack persuaded Talboys, a reluctant challenger, to announce his retirement from Parliament. In the contest to succeed Talboys as Deputy, Muldoon used all his skill and influence to defeat Quigley. In 1982, after Quigley criticized the Think Big projects and advocated a free-market approach to economic management in a speech to the Young Nationals, the Prime Minister forced him to resign from Cabinet. Muldoon was now totally embattled against rising demands for liberalization from the financial community, the Treasury, and his own party.

The New Zealand Party Revolt

As the 1984 election approached, the festering discontent among market advocates in the National Party erupted in a full-scale revolt. Bob Jones, previously a leading financial supporter of National, launched the New Zealand Party with the explicit purpose of defeating the Muldoon government in order to bring National around to a free-enterprise stance in 1987. A libertarian in personal philosophy, Jones offered an unorthodox mix of policies: heavy emphasis on education, a strong law-and-order policy coupled with decriminalization of marijuana use and other victimless crimes, a conservationist approach to the environment, and in foreign policy not just anti-nuclearism but also the complete dismantling of New Zealand's armed forces, which Jones said would be effective only "if the Tongans invade us." (Aimer 1985) But the central program and *raison d'être* of the New Zealand Party was its call for free-market economic policies, reduced welfare spending, and lower income taxes.

Jones was already well-known as a self-made millionaire property developer, writer, political commentator, and patron of ballet and boxing. In a phenomenon similar to the Ross Perot campaign in the U.S. eight years later, his money, colorful personality, and blunt talk made the NZP an overnight sensation. As the new organization quickly fielded candidates in every constituency, its standing in polls rose as high as 20%--a level of support that subsided to 12.2% in the election itself, due mainly to tactical voting. The NZP's 236,385 votes amply surpassed the 136,660 margin between Labour and National, so Jones did not hesitate to claim responsibility for achieving his objective, the defeat of Muldoon.

After looking at poll data, political scientists were more skeptical. Only an estimated 85,000 NZP voters had supported National in 1981; most of the rest came from Social Credit, which tumbled from 20.6% to 7.6% of the vote. (Aimer 1985) On the basis of second choices expressed by poll respondents, Alan McRobie (1984, 29) argues that, had the NZP not existed, most of

its voters were so alienated from National that they would have gone instead to Labour, Social Credit, or nonvoting. Consequently, he believes, the NZP caused the defeat of a National candidate in only one constituency. Although McRobie is probably right, the conventional wisdom among New Zealand politicians and observers is that, if the New Zealand Party did not actually cause the Labour victory in 1984, it turned what would have been a close election into a landslide.

In any case, both the conventional wisdom and McRobie's analysis imply that the NZP presented Labour with both a danger and an opportunity for 1987. If the National Party dumped Muldoon (as it did shortly after the election) and moved strongly to adopt pro-market policies (as it did not do until after 1987), then NZP voters would return to their natural home in National, making a repeat victory by Labour enormously more difficult. On the other hand, if Labour could leapfrog past National on the newly emerged interventionism-liberalization dimension, then the NZP revealed the availability of a large pool of voters, many of whom were strategically located in marginal constituencies--a consideration that was especially important to Labour because of a structural problem in New Zealand politics.

The Bias of the Electoral System Against Labour

Whether or not the New Zealand Party was critical to Labour's 1984 victory, its campaign displayed a pattern of discontent with National's interventionism that must have offered Labour a tempting way to avoid in the next election a problem that had proved extremely frustrating in 1978 and 1981. In both of those elections, Labour actually received a plurality of the popular vote, but National won a majority of seats in Parliament and thus retained control of the government. (See Appendix D.) The possibility of this sort of anomaly is, of course, inherent in any system that aggregates votes by districts in order to choose a government, but the fact that such an outcome occurred in consecutive elections suggests that the electoral system was structurally biased against Labour.

Despite allegations to the contrary by Labour, the bias was probably not a product of nefarious manipulation. New Zealand's quinquennial redistricting has been carried out since 1887 by a nonpartisan Representation Commission that has been emulated in Britain and Australia--and deserves to be a model for the U.S.¹⁶ However, because the criteria guiding the Commission include "community of interest," each of New Zealand's cities usually constitute one or more highly compact, exclusively urban districts. Surrounding them, often in a doughnut-and-hole or horseshoe pattern, are geographically larger districts comprised of suburbs and hinterland. The urban districts, especially those in low-income areas, typically delivered large Labour pluralities

(as did the four Maori electorates).¹⁷ In the more diverse suburban and hinterland districts, National usually won, but by smaller pluralities.¹⁸ In short, Labour's vote was excessively concentrated.

Labour attempted to combat its systemic electoral disadvantage in three ways. First, during the 1983 redistribution, its representatives subjected virtually every proposal of the Representation Commission "to intense scrutiny and questioning." (McRobie 1989, 123) Second, during the 1984 election campaign, the party pledged to appoint a Royal Commission on the Electoral System, a promise that it carried out, thus setting in motion (to the subsequent regret of most of its leaders) the process that culminated in the 1993 referendum. Third, once in office, the party enacted free-market economic policies that would appeal to NZP and other voters in marginal constituencies, even though it thereby ran a risk of alienating traditional Labour supporters. In essence, the party would trade surplus votes of poor and working-class voters in safe constituencies for the pivotal votes of affluent business and professional people in marginal districts.¹⁹

Summation

The preceding analysis can be distilled into four factors that together provide a political explanation of why economic liberalization occurred under a putatively leftist Labour Party.

First, and underlying everything else, the intrusion of divisive non-economic issues destabilized New Zealand politics. As a result, parties' support bases were no longer consistent in class terms, and their policies were no longer compelled by political advantage to converge at the center. The way was opened for radical policies and dramatic reversals of historical positions.

Second, liberalization began under Labour because it had not already been carried out under National. Muldoon's dominance, his beliefs, and his political dependence on "the ordinary bloke" prevented his party from responding to the need for economic adjustment with the "more market" policies that surely would have prevailed in the late 1970s and early 1980s under alternative National leaders.

Third, the shift in class composition of the Labour party elite--which Muldoonism both responded to and accelerated--produced a change in the policy preferences of its parliamentary leaders. With few exceptions, they no longer had any visceral identification with poor and working-class people; their own interests, associations, and lifestyles led them to identify instead with New Zealand's affluent classes; and their "leftism"

lay in noneconomic issues, to which most of them gave priority.²⁰

Finally, in immediate partisan strategic terms, free-market economic policies gave Labour a chance to offset its electoral disadvantage by winning over ex-National voters whose disillusionment had been dramatized by the New Zealand Party.

Why Were the New Zealand Reforms So Radical?

The preceding analysis explains why Labour leaped to the "right" of its rival on the dimension of economic liberalization vs. traditional interventionism, but it does not account for why New Zealand moved so much faster and further than other democracies that were also moving in a free-market direction during the 1980s.

The primary answer to that question is no mystery and has been noted by others (e.g., Schwartz 1994a, Bollard 1994). New Zealand's pluralitarian political institutions imposed no checks and balances that could block, delay, or water down the program of the party in power. Reformers had no fear of presidential veto, no need to compromise with a second chamber, no worry about judicial review. Because one-party majorities controlled Parliament, leaders did not have to negotiate with coalition partners. In short, the same institutions that had enabled New Zealand to become the social laboratory of democracy in the 1890s, a model welfare state in the 1930s, and a last ditch bastion of interventionism in the early 1980s also allowed it become the darling of the IMF and the international financial community by the early 1990s.

The role of institutions was, however, only permissive. An explanation of the radicalism of New Zealand's restructuring requires appreciation of three additional factors: (a) the role of the Treasury as the driving force behind reform; (b) the absence of effective opposition within the bureaucracy, Cabinet, and Caucus; and (c) the fact that the reforms were carried out over a span of almost nine years by two different governing parties.

The Dominance of Treasury

The pre-eminent role of the Treasury in New Zealand's reform process has been ably described and analyzed by several observers (e.g., Boston 1989, 1992; Schwartz 1994b; Goldfinch and Roper 1993). They have chronicled its conversion in the 1970s to market liberalism, its mounting frustration under Muldoon, and its close alliances with reforming Finance Ministers Roger Douglas, David Caygill, and Ruth Richardson. Rather than duplicate their accounts, I shall offer here only a few comments

about the relationship between this remarkable institution and New Zealand's political system.

Ultimately, although small scale also contributes, the near-monopoly position of Treasury with respect to economic policy advice is a corollary of the unitary, centralized structure of New Zealand's political institutions. The best analogy for Americans would be to imagine that one agency combined the functions of the Office of Management and Budget, the Council of Economic Advisors, the Department of the Treasury, the Congressional Budget Office, the General Accounting Office, and most of the economists and policy analysts who work for executive agencies and congressional committees. (New Zealand does have a separate and important Reserve Bank, but it has been controlled by ideological allies of the Treasury.) Except in a few specialized struggles (notably with the Department of Labour in 1987 [Walsh 1989]). the main source of competent competing policy advice during the Lange ministry was the Prime Minister's Advisory Group, which comprised eight to ten members (Boston 1990, 76). This tiny group was no match for the Treasury, which in 1990 employed 361 staff members and spent NZ\$70 million on consultants. (Boston 1992, 197)

Treasury's influence did not, however, result only from the paucity of competitors. Even its adversaries express admiration for its competence, discipline, persistence, and political skill. These positive qualities combined with a zealous, cohesive commitment to free-market economic doctrines that made it, in Lange's opinion, "almost like a religious cult."

By 1983, chafing as Muldoon ignored their advice and implemented policies they considered bizarre, Treasury officials knew that Labour's finance spokesman Roger Douglas already favored a more-market approach. In 1980, former Labour leader Bill Rowling had dismissed him from Labour's front bench for advocating such policies, which he publicized in a widely read book (Douglas 1980). After David Lange supplanted Rowling in 1983, he made Douglas Labour's spokesperson on finance. Subsequently, according to Oliver (1989), the Treasury officer seconded to Douglas helped complete the conversion that made him a true believer.

Recognizing that an historic opportunity was at hand, Treasury prepared briefing papers for the new government that constituted a comprehensive reform program. After the election, at Cabinet's behest, they were published under the title *Economic Management*. (N.Z. Treasury 1984) This volume is, essentially, the blueprint for Rogernomics. With the heady success of Labour's first term, Treasury's self-confidence and ambition reached a highwater mark. Its 1987 briefing papers, entitled *Government Management* (N.Z. Treasury 1987), included a chapter on the theory of the state and an annex on the ethics of social

policy (Boston calls these documents Treasury's "credo") plus an unsolicited second volume on educational policy.²¹

Contrary to some popular images, Treasury was not all-powerful during the liberalization. Legally, it was still an advisor, and its advice was not always taken. The Lange-Douglas Government seems to have moved faster than Treasury advised to float the exchange rate in 1985, and it permitted huge wage hikes in 1986 against Treasury's recommendation. In Labour's second term (to be described below), Douglas decided on his own to push for a disastrous flat-rate tax plan;²² and Treasury was unable to achieve its goals in several important policy areas, including education, health, industrial relations, and welfare. These setbacks turned out to be a delay rather than a defeat when the National Party government in 1990 proved more amenable.

Nevertheless, during the reform years, Treasury had in essence reversed the conventional relationship between Ministry and bureaucratic advisors in a Westminster system. Treasury became the principal initiator and source of purpose; Government became the implementer or on occasion the advisor who counselled that a particular action was not (politically) feasible. To know what Governments would do, one had to read Treasury's briefing papers, not party programs. In fact, for reasons described below, Labour did not even publish a manifesto before the 1987 election. Lange reflects ruefully on the contrast between the two organizations:

I don't blame Treasury....I have more respect for Treasury than I have for the Labour Party, in the sense that they were a consistent, cohesive, intellectually convicted group of people that exercised strength and muscle and an all-pervasive right to go to the Prime Minister to achieve their end, whereas we in politics were unable to form a coherent base.

The Dynamics of Cabinet and Caucus

Incoherent or not, the politicians still had to consent to the measures brought forward in seemingly unending succession by Treasury and its ministerial allies. In view of the fact that most of these policies were controversial at best and plainly unpopular at worst, how were the reformers able to prevail so often?

Although Lijphart characterizes New Zealand as majoritarian and I call it pluralitarian, in fact Parliament operates in a way that is highly conducive to minority rule. To be sure, formal decisions in the House are taken by majority vote. But on nearly every decision of consequence, the parties vote as disciplined blocs, with each member bound to follow the decision of the

majority in his or her party's caucus, regardless of personal judgment or constituency preferences.²³

As critics of disciplined parties have pointed out, a majority of a majority can be a minority as small as 26%. But New Zealand political practice takes this arithmetic a step further. Under the doctrine of collective responsibility, the members of Cabinet are also expected to support its decisions; if they cannot they should resign or expect to be dismissed.²⁴ (Ringer 1991, 63) During the Labour government of 1984-90, out of a Caucus of 56 or 57, twenty were (at most times) members of Cabinet; in addition, another eight or so held other offices that induced them to vote with the Ministry. (Boston 1990, 64) Consequently, eleven votes in Cabinet could control the passage of laws in a Parliament of 95 or 97 members.²⁵

This arithmetic logic was compounded further by the reformers' superior preparation and understanding of economics (aided by Treasury), the force of their personalities, and their skillful exploitation of group dynamics. During Labour's first term, what Colin James (1986, 177) has called "a cascade of acquiescence" usually included Lange on the bandwagon early on. But even in the second term, after Lange had broken with Douglas, the reformers usually were able to prevail in Cabinet. The process was described to me as follows:²⁶

The way they used to run it at Cabinet was that whatever the next proposal was, whether it was a major privatization issue or the next round in social reform laws,...Roger would take the paper to Cabinet (often if he could get away with it, not circulating it in advance...). Then Douglas would have his key speakers all lined up to fight. They were very well prepared. Douglas even went with speech notes.... Immediately, he would be followed by Prebble, by Caygill, by Goff, which were seen as the key ones. And then, because Lange wasn't as well prepared or supported on his side, they usually created a momentum. Then usually Palmer would join in about that point....It was totally predictable.

In this way, the reformers continued to control many policy decisions even after they had lost the support of the Prime Minister. However, because Caucus elected the Prime Minister directly and Lange had a majority there, his enemies in Cabinet were unable to topple him--thus there was a standoff that lasted almost a year. (Boston 1990, 75)

Time and the Effect of Two Reforming Parties

However breakneck the pace of change, no government could reverse so much so dramatically all at once. New Zealand's transformation depended on the fact that governments committed to

intensified market liberalization remained in power continuously for at least eight years.²⁷ Even in its second term, with the Lange-Douglas split and the turmoil of three prime ministers in fourteen months, the Labour ministry continued to be, from former Treasury Secretary Graham Scott's perspective, "still a bloody classy government." Its record in this period includes the Reserve Bank Act, the establishment of a legally mandated inflation target of 0-2%, and corporatization or privatization of most of the state sector. Nevertheless, the resistance of Lange, the Party, and the majority of Caucus prevented Treasury from accomplishing its agenda in health, education, welfare, and industrial relations. Consequently, the election of a National government willing and able to move ahead in those areas was a crucial episode in the reform process.

The fact that New Zealand's restructuring was carried out under two different parties also helps explain an important aspect of its radicalism--the sharply regressive impact it had on the distribution of income. Comparing this unfortunate effect with the more favorable experience of Australia and Spain, Williamson and Haggard (1994, 570) rebuke New Zealand's policymakers:

In New Zealand, however, the statistics on income distribution suggest rather clearly that the benefits were enjoyed by the rich and the losses borne disproportionately by the Labour Party's natural constituency, the poor. This is not to argue that such a result is an inevitable outcome of liberalization, but rather to recognize that it is indeed a potential outcome when no attention is paid to avoiding it.

There is some justice in this charge. Treasury's advice was driven by an overriding concern for efficiency, which its leaders considered amenable to economic analysis, in contrast to distributional issues, which they viewed as moral questions to be decided by politicians.²⁸

The question then becomes, how much attention did political leaders give to distributional equity? Market liberalization affected New Zealand's income distribution in five ways-- by deregulating financial markets, by causing unemployment, by restructuring taxes, by policies affecting wages and the labor market, and by the level of transfer payments and other state benefits. During its six years in office, the Labour government created inequality in the first three ways, but it sought to prevent poverty and preserve a measure of social equity through more traditional policies in the last two areas. The National Party's extension of the liberalization process moved both the labor market and state benefits in directions that cut (at least in the short run) the incomes of workers and the poor. Thus the inequality that resulted from economic reform in New Zealand was

compounded by the fact that the process was carried out by two political parties.

Why Did Liberalization Continue Through Two Elections and Two Governments?

The belief that most people in a democracy will not willingly pay short-term costs for long-term gains or relinquish particularistic advantages for the sake of collectively superior outcomes led to the once-popular view in political science that only authoritarian governments could accomplish radical economic restructuring. We have seen how the institutions of parliamentary sovereignty, cabinet government, and party discipline in New Zealand helped create something approaching the proverbial "elective dictatorship" that enabled economic rationalizers to plunge ahead at a breathtaking pace. But the "dictatorship" had to renew its license every three years in a free election. The eight years of intensive economic restructuring spanned the elections of 1987 and 1990. How was liberalization able to survive these tests? Before answering this question, it is necessary to provide an outline of political developments from 1987 to 1990, some of which have already been foreshadowed.

Political Background

In the 1987 election, whether or not Labour had consciously planned it, the vote-trading pattern described earlier clearly occurred, to Labour's great benefit. After Labour in effect adopted the New Zealand Party program, Bob Jones (along with many other wealthy business leaders) gave enthusiastic public support to Rogernomics, and the New Zealand Party practically evaporated. Social Credit renamed itself the Democratic Party but was unable to reverse the precipitous decline that had begun in 1984. Thus the August 1987 election was close to a straight two-party fight.

Labour emerged with a resounding victory. Although its plurality over National slipped from 7.1% to 4.0%, its large majority of seats did not decline at all. Its vote had been effectively redistributed toward marginal and National-leaning constituencies. In safe Labour seats, despite the decrease in third-party activity, Labour's vote total actually fell in absolute numbers, as some disillusioned former supporters decided not to vote; but these defections were not numerous enough to cost the party any seats.²⁹ Meanwhile, in urban electorates, including the pivotal marginals, the majority of former New Zealand Party rebels moved over to Labour, thus preserving its 1984 gains.³⁰

Two months after the election, stockmarkets all around the world nose-dived. The New Zealand sharemarket, which was caught up in a speculative bubble due to Labour's financial deregulation, fell farther than any other. In December, ostensibly in order to reduce the deficit and restore confidence in the markets, Roger Douglas announced that the Government intended to privatize state-owned enterprises and institute a flat-rate income tax. These startling reversals of Labour's socialist and redistributive traditions caused consternation in the Party outside Parliament. After a month of agonizing, Prime Minister Lange unilaterally announced that the flat tax would not necessarily go forward.

For the remainder of its second term, Labour was torn apart by an increasingly messy, bitter, and public struggle between the two leaders. In December 1988, Douglas proclaimed that he could no longer work with Lange, and Lange dismissed him as Finance Minister. Douglas and his allies retaliated with a protracted campaign to unseat Lange. In August 1989, they succeeded in persuading caucus to vote Douglas back into Cabinet,³¹ which led to Lange's resignation as Prime Minister in October.

Lange's replacement, the constitutional reformer and scholar Geoffrey Palmer, had been an excellent Deputy Prime Minister (as well as Minister of Justice and Minister for the Environment), but, in the familiar pattern of New Zealand politics, he was not the sort of personality to restore unity and morale to the fractured Labour caucus. In a desperate move to stave off electoral oblivion, they replaced Palmer just two months before the November 1990 election with the energetic, ebullient, and voluble Mike Moore. The ploy may have helped, but not much. At the polls, Labour suffered a disastrous defeat, losing 28 seats and falling almost 13% in the popular vote. Much of its former support went to two minor parties, the Greens and NewLabour. NewLabour also held the seat of its leader, the former Labour President and MP Jim Anderton, who left the caucus in 1989 when he refused to vote for the privatization of the Bank of New Zealand. National emerged with a huge 67-29 parliamentary majority and almost 48% of the popular vote.

Three Explanations

In schematic terms, there are essentially three answers to the question of why economic reform continued after both the 1987 and 1990 elections: consensual, elitist, and coalitional. In my view, each of the theories captures part of the truth. The first two are interpretations favored by each of the opposing sides in New Zealand's continuing controversy over the reforms, and each theory has been well developed in partisan writings. The coalitional theory has been less developed and less emphasized, so I shall give it more attention.

The People Agreed with the Reformers

The consensual theory, an argument propounded by admirers of Roger Douglas, runs as follows: Labour won in 1987 because its economic reforms were working and were popular with a majority of voters. By 1990, Lange's war with Douglas had caused a protracted recession by undermining business leaders' confidence in whether the new order would be maintained. Because National had signalled its acceptance of free-market policies, the electorate turned to the party that offered a better hope of extending the reforms and restoring prosperity.

I shall present evidence bearing on the consensual theory by considering the 1987 and 1990 elections in turn.

1987. Up to the time of the election, some sectors, notably financial services and real-estate, were enjoying a boom (which ended two months afterwards with the sharemarket crash); but prosperity was at best equivocal and unevenly distributed. GDP had risen an average of 2.9% per year during Labour's first term, but with slippage to under 1% in the middle year, followed by revival to 2.6% in the year before the election.³² Following the end of Muldoon's wage and price freeze, double-digit inflation prevailed throughout the term; the rate was at its highest level --19%--in 1987. Unemployment nearly doubled between 1985 and 1987, reaching about 90,000 in the latter year. Among those who were working, real disposable income had plummeted to the end of 1985, then risen in the first half of 1986 before flattening out, except for the highest third, who enjoyed a continued rise to early 1987. (See Appendix A.) Overall, high, middle, and low wage and salary earners ended up about where they started in 1984. The real winners, of course, were those who made money from capital gains and dividends.

Economic performance therefore gave voters reasons for both discontent and hope. What were their judgments about Rogernomics on balance? Table 3 (on the next page) presents the best available data, which is from the national post-election survey designed by Jack Vowles and associates. A plurality of all voters and a majority of Labour voters express satisfaction with both the direction and speed of economic policy. The consensual theory is thus consistent with the evidence for 1987 (although, as I'll show later, this evidence does not entail that Rogernomics was the sole or even the primary cause of Labour votes, even among the two-thirds who approved of the Government's economic policy).

Table 3. OPINION ON CHANGES IN ECONOMIC POLICY AMONG 1987 VOTERS

	<u>Overall</u>	<u>Labour</u>	<u>National</u>
Wrong Direction	20	5	38
Right Direction, Too Fast	23	21	27
Right Direction, Right Speed	47	65	24
Right Direction, Too Slow	3	4	1
Don't Know	7	5	10

Source: Vowles 1990

1990. The evidence of recession from 1987 through 1990 is unequivocal. (I won't attempt to address the issue of how much it was caused by Labour's internal warfare.) GDP grew not at all, and actually declined on a per capita basis. The contraction brought inflation down to just under 8% in the election year. Unemployment rose steadily and sharply throughout the period. Disposable real income of workers who still had jobs rose about 5% for the top third, but was flat for the middle-income group, and down about 2% for the lowest third.

Having learned a lesson from their second straight defeat, the National Party began to signal a new course soon after the 1987 election when Jim Bolger demoted Muldoon to the last seat on the back bench and appointed the free-market purist Ruth Richardson to be Finance spokesperson.²³ The detailed economic program in National's 1990 manifesto for the most part endorsed goals and policies that resembled those Labour had pursued. The sharpest difference was in industrial relations, where National pledged to restore voluntary unionism and institute greater freedom in the choice of bargaining units. (Boston 1991)

Sophisticates who read manifestoes could therefore anticipate most (but not all) of the liberalizing policies National would pursue in office, but most voters appear not to have understood National's intentions as clearly. In the 1990 New Zealand Election Survey, Vowles and Aimer repeated their questions about the direction and speed of Labour's economic reforms. The results, shown below in Table 4, contrast markedly with those from 1987:

Table 4. OPINIONS IN 1990 ABOUT ECONOMIC POLICY CHANGES
OVER THE LAST SIX YEARS

	All	LP	NP	G	NL	NV
Wrong Direction	41	14	61	36	52	35
Right Direction, Too Fast	32	43	26	34	33	27
Right Direction, Right Speed	13	24	5	12	4	15
Right Direction, Too Slow	9	15	5	13	6	19
Can't Say	5	5	3	5	5	13

(All = entire sample, LP = Labour voters, NP = National voters,
G = Green voters, NL = NewLabour voters, NV = nonvoters)

Source: Vowles and Aimer 1993, 81

As a comparison of Tables 3 and 4 shows, opinion on economic policy had shifted markedly between the two elections. By 1990 a large majority of the population thought that it was either going too fast or headed the wrong way. Most strikingly, 60% of National voters in 1990 disapproved of the direction of economic policy under Labour. In short, prima facie evidence about public opinion does not support the consensual theory in 1990. However, as I'll suggest below in developing the coalitional theory, there was undoubtedly a significant fraction of the electorate whose judgments and behavior were consistent with this interpretation, even in 1990.

The Reformers Betrayed the People

If the consensual theory depends on retrospective approval of policies because they work, the *elitist* theory invokes the older New Zealand norm that legitimacy depends on voters having bestowed prospective approval. The elite in question is a tight alliance of what Jesson calls the "libertarian Right" that formed at the intersection of government and the economy soon after (or perhaps just before) the 1984 election. Its principal members have been leading business executives (mainly in the financial sector and represented by the Business Roundtable), policy advisors in the Treasury and Reserve Bank, and their allies in the Labour cabinet (and, later on, in National's cabinet).

(Jesson 1987, 1989; Roper 1992)

To carry out what proponents of this view see as a "bureaucratic coup" or "hijacking" of the Labour government, it was necessary for the elite reformers to betray the people's trust by violating a longstanding operative ideal in New Zealand's political culture. This was the mandate norm, which bound otherwise unfettered leaders through an ex ante contract with the voters--in principle, the leaders of a government should enact a policy if and only if it was included in their party's preelection manifesto. (Mulgan 1990) Because the reformers believed that many elements of their program would not be acceptable to the people--at least certainly not in advance, they ignored the mandate norm. Labour's 1984 manifesto was deliberately vague about economic policy, but its references to "consensus," a "prices and incomes policy," and an "investment strategy" with "an active role for government" suggested that it would be at least as interventionist as National had been. (Mulgan 1990, 15-6) Once in office, however, the Lange government proceeded full steam ahead with Rogernomics.

The business community rewarded Labour with huge donations channeled through Roger Douglas. These helped the party win again despite its cavalier attitude toward manifesto promises. In fact, the party did not even publish its full manifesto (only a brief booklet instead) until two weeks after the 1987 election, due to conflict between extra-parliamentary leaders who wanted a detailed statement and MPs who wanted to preserve maximum flexibility. The party's victory without a manifesto seemed to vindicate the latter's position. Douglas (who did not intend to run again in 1990) and his allies proceeded to bring forward numerous unpopular policies that were either not forecast in pre-election policy statements or that directly violated campaign promises. Among these were tax reforms that benefitted the rich, radical state sector reforms, privatization of profitable state enterprises, and higher costs for university students. (Mulgan 1990)

In 1990, recognizing that Labour was a steed that could carry them no further, the Treasury-BRT elite shifted to National. So also did voters disillusioned with Labour and hoping that National would fulfill its slogan, "Creating a Decent Society." After National won, it soon became apparent who held the reins, as the new government implemented "Rogernomics-plus," a harshly radical plan that had only been partially previewed in the manifesto (James and McRobie 1993, ch. 3) and that directly violated several pre-election promises.

There is much truth in the elitist theory. An elite alliance does exist. Its potent combination of ideas and money explains much more directly than voters' desires the course of events in New Zealand over the past ten years. Moreover,

politicians' violations of the manifesto tradition have disillusioned New Zealanders. The evidence is plain in precipitous declines in three key indicators of political health:

- *the sense of political efficacy*--on a six-point scale in 1963, 39% scored at the top and none at the bottom; in 1990, 13% were at the top and 39% at the bottom (Vowles 1994);
- *confidence in politicians*--33% in 1975, 4% in 1992 [Jackson 1993, 17];
- *voter turnout*--86% in 1984, 76% in 1990 (Nagel 1988, Vowles 1994).

Consequently, as I shall argue below, the desire to regain control over government was undoubtedly a major motive underlying the successful electoral referendum.

Nevertheless, in the simplified form that I have given it, there is too much that the elitist theory cannot explain. Although the extremity of Douglas's course was not foreseen in 1984, everyone knew he would become Minister of Finance if Labour won, and he had been advocating a more-market direction since 1980. Certainly by 1987, the philosophy of Rogernomics was known to all, even if its specific next steps were not. And, in 1990, National may have given misleading signals about employment, superannuation, and benefits, but it made plain its general acceptance of Labour's reforms and it clearly set out its intention to radically restructure industrial relations. If the general idea of market liberalization was so unpopular, why did Labour win resoundingly in 1987, and why didn't more people vote for NewLabour and the Greens in 1990?

The Reformers Took Advantage of Coalitional Dynamics

The consensual and elitist theories are both fundamentally evaluative. The former seeks to justify the reform process by contending that the voters gave it their approval; the latter seeks to condemn it by arguing that voters could not and did not give informed consent. In their quest for legitimation by majority rule, both theories are within the populist tradition of New Zealand political thought, in which the will of the people is believed to have positive content and to be the ultimate source of legitimacy. (Vowles, 1987) They differ in that the approval given in the Douglas version of the consensual theory is largely retrospective: "Governments need the courage to implement sound policies, take the pain at the beginning, and be judged on the basis of the good results that follow." (Douglas 1993, 218) As believers in the mandate norm, the critics of elitism insist on an ex ante contract between voters and government, based on explicit promises in the party manifesto.

The coalitional interpretation can be turned to evaluative uses, but as I shall develop it here, its fundamental purposes are analytical and explanatory, and I justify it not only by its consistency with evidence but also by the value it adds to understanding what happened in New Zealand.

The Labour Government was best known for two policies: its right-wing economic reforms and its left-wing defense policy. As the 1987 election approached, some observers suggested that the nuclear-ships ban was the concession, sop, or bribe that kept the party's leftist activists loyal despite their distaste for Rogernomics. In the most sophisticated multivariate test of this hypothesis, Jack Vowles (1990, emphasis added) shows that "controlling for all other variables, respondents taking positions supportive of the Labour government on defence and the economy were each 17 per cent more likely to vote Labour than those who took opposing positions." The majority of respondents who switched to Labour in 1987 agreed with the party on both economic and defense policies; but among those who stayed with Labour in both 1984 and 1987 despite agreeing with the party on only one of the two issues, anti-nuclear/anti-Rogernomics voters were more than twice as numerous as the pro-ANZUS/pro-Rogernomics group. Vowles concludes that "the two policies were at least of equal importance....Only with the combination of the two could the government have so easily survived the test of re-election in 1987."

This logic (which can also be extended to other moral and social issues, such as women's rights, homosexual law reform, and Maori claims) depicts an implicit logroll, a sort of logroll by distraction. Vowles goes on to note the irony of the exchange:

Perhaps...a solution to the puzzle can be found in the neglect of economics by most Labour party members, supporters, and voters over the last decade or more. Behind the New Zealand Labour Party of the 1980s can be seen...the so-called "post-materialist" politics which has been identified as the source of the Green parties of western Europe. The social group strongest in support for Labour [in 1987] is a section of the new middle or "service class" elsewhere a foundation for post-materialist or "green" politics. Many New Zealanders preoccupied with peace have tolerated and tacitly or overtly endorsed the course of Rogernomics because its material consequences have been unappreciated or ignored. The economic policy issues rank lowest with Labour voters....Incapacity or unwillingness to address sordid material issues on the part of many Labour voters has perversely allowed a new materialism to conquer New Zealand...

The only problem with Vowles' analysis is that he neglects the large fraction of Labour voters who could not afford to be

post-materialist. Rogernomics and anti-nuclearism were best understood by, and of most concern to, better educated, relatively affluent New Zealanders. However, the party's core supporters were poor and working-class voters. The end of an economy based on job security and an egalitarian income distribution threatened them more than any other part of society. As we have seen, Labour fared relatively worse in its safe seats in 1987, as many disillusioned poor and working-class citizens decided not to vote. As David Lange admits, by 1987 "we had definitely alienated, horribly alienated a significant part of traditional Labour support...there's no doubt about that." Nevertheless, Labour held all its safe seats. What kept the majority of its poor and working-class base intact?

Lange invokes family and "tribal" loyalties arising from "what amounted to the cult of Michael Joseph Savage."³⁴ The political science variable that corresponds to this explanation is party identification, which Vowles shows was by far the single strongest factor accounting for 1987 vote choices. But was the loyalty of traditional Labour identifiers only a matter of emotional inertia? I contend instead that poor and working-class voters had a rational basis for party identification because of Labour's policies in two crucial areas: industrial relations and social welfare.

Historically, probably the sharpest difference between National and Labour had been the former's hostility toward, and the latter's alliance with, trade unions. From the 1960s on, Labour's new class of activists and MPs found the party's cloth-cap image something of an embarrassment and the union bureaucrats' unpopularity a political liability. Nevertheless, the affiliated unions through their card votes were an important force at party conferences; and the unions continued to supply significant organizational resources to the party.

In 1983, the Muldoon government abolished compulsory unionism (which Labour had instituted in 1936 [Sharp 1986]), and union membership plummeted. In response, the unions made an all-out effort on behalf of Labour in 1984 and were promptly rewarded when the new government reinstated compulsory unionism. Unionists were also extremely restive about wages after Muldoon's freeze. Despite unsteady efforts to encourage restraint, the Government continued the traditional national awards system and permitted substantial wage hikes, especially in the 1985-86 bargaining round, when 98% of settlements were for awards of 15.5% or higher. (Boston 1987, 172) Late in its first term, the Government did enact a liberalizing reform, the Labour Relations Act 1987, but this law was worked out in consultation with the more progressive unions and was far milder than either Treasury or the Business Roundtable wanted. (Walsh 1989)

In short, despite Rogernomics, trade unionists still had

significant influence over a Labour government, particularly with respect to policies affecting their central organizational interests; and they had ample reason to believe they would fare worse under National.

Low-income New Zealanders' traditional loyalty to the Labour Party rested on its generous provision of direct cash benefits to pensioners, the unemployed, and other needy citizens and on its sponsorship of state-supplied education, housing, and health services. These policies brought into the Labour coalition not only recipients of benefits and services, but also numerous middle-class public employees--teachers, health providers, and social-service workers (who thus had a material as well as post-material basis for their inclination to Labour).

Throughout Labour's first term, Prime Minister Lange emphasized that the purpose of economic liberalization was to make the capitalist goose bountiful enough to support the welfare state. Although the Government undertook few social-policy initiatives, it was generous in maintaining established programs. Douglas's drastic overhaul of the tax system was carefully structured to maintain income levels among the poorest beneficiaries.³⁵ In education, Labour reduced class sizes by hiring 2,000 more teachers and awarded pay increases of 25-36% to teachers in 1985/86. Health workers also fared well; nurses won pay increases of 31-38% as a result of Lange's personal intervention in a wage dispute. (James and McRobie 1987, 20) Labour appointed a Royal Commission on Social Policy in 1986, and in 1987 Lange campaigned on the theme that in a second term the Labour government would deliver the social policy benefits that a more productive economy would make possible.

To sum up, in 1987 Labour differed significantly from National in four distinct dimensions: economic management, defense, industrial relations, and social policy. Its stands on each of these issues appealed disproportionately to a different element in its 1987 electoral coalition: market liberalization to a segment of affluent business and professional people, anti-nuclearism to the post-materialist middle-class who were especially numerous among party activists, compulsory unionism and relative liberality on wages to the trade unions and the blue-collar workers they represented, and welfare state policies to service providers and poor beneficiaries. The last three groups were already part of Labour's coalition in 1984, and the party could not win in 1987 unless they remained predominantly loyal despite Rogernomics, which (as we have seen) won over the pivotal first group.

Thus Labour's re-election in 1987 depended on what was in essence a coalition-of-minorities strategy (Downs 1957).³⁶ Not every element in the policy package was acceptable only to a literal minority.³⁷ But the groups who cared passionately enough

that their votes (and other contributions) were swayed by each issue were surely minorities, not only within the electorate as a whole, but also within the Labour camp. Moreover, some members of each of these minorities were uneasy about, or even flatly opposed to, some other element or elements in the policy package. In particular, enthusiasts for the free market were hostile to trade unions and increasingly skeptical of the welfare state. Conversely, the three groups in Labour's old coalition feared that Rogernomics would unleash rampant greed, inequality, and insecurity.

As is well known, such a coalition is potentially unstable.³⁸ Because none of its constituents is fully satisfied by the existing policy bundle, each can be lured away by a new suitor who offers a better combination of policies. As it turned out, however, at the next election, the only group in Labour's 1987 coalition to whom National offered a better deal was the pivotal free-market constituency.

In 1990, National matched Labour's policies on the two crucial issues of 1987--market liberalization and ANZUS. National's acceptance of the economic reforms--signalled soon after the 1987 election by the appointment of Ruth Richardson as finance spokesperson--made it easy for the former New Zealand Party constituency to return to the National fold, especially after Labour's internal struggle ended with Prime Minister Mike Moore affirming that "Rogernomics has had its day." (James 1992, 255)

National's promise not to repeal the nuclear-ships ban came close to the election in March 1990 and clearly was a pragmatic political move. Wayne Eagleson, National's Campaign Director in 1993, explains that with few economic differences remaining between the two main parties, "If we hadn't changed our policy, the whole election campaign would have been fought on the nuclear issue"--perhaps giving the demoralized Labour Party a new lease on life.

National's about-face on ANZUS cut the last bond between Labour and many voters who were dismayed by the market reforms and/or the Cabinet's disunity. They departed for the new Green party, NewLabour, nonvoting, and even National.³⁹ Overall, on election day in 1990, Labour held only 58% of its 1987 voters; 13% went to National, 7% to NewLabour, 6% to the Greens, and 14% stayed home. (Vowles and Aimer 1993, 11)

The Labour voting coalition had shrunk back to a core that was comprised mainly of New Zealand's economically least advantaged groups. Out of 48 demographic categories included in the 1990 National Election Survey, Labour retained pluralities among only nine: Maori, Polynesians, wage workers, union members, Housing Corporation mortgagees, renters of state housing,

boarders, and recipients of three or more state cash benefits. (Vowles and Aimer 1993, 32-3)

The National Party had no electoral need for these people. Once in office, it enacted the next stage of market liberalization with a series of draconian measures at their expense. The Employment Contracts Act 1991 dismantled New Zealand's century-old system of collective bargaining, replacing it with a new regime built entirely around individual contracts and based on a law that gave no legal recognition to trade unions. (Harbridge 1993) The Housing Corporation began charging tenants market-level rents and sold off its subsidized mortgages. All housing assistance henceforth was to come from the Department of Social Welfare in the form of vouchers that critics said left beneficiaries much worse off. (McLeay 1992) When the new government faced an unexpectedly adverse fiscal situation, Ruth Richardson's "mother of all budgets" in December 1990 sought to achieve balance mainly by tightening eligibility standards and cutting cash benefits; as a result, the disposable incomes of most beneficiaries fell sharply, in some cases by as much as 30%. (Boston 1992, 11; Stephens 1992)

Why Was the Adjustment Period So Long and Costly?

From the perspective of critics from the left, the question that heads this section is misphrased. The long recession of 1986-92, they would argue, was not the cost paid for successful restructuring but instead constitutes evidence that orthodox remedies are fundamentally questionable (Schwartz 1991). Similarly, they would see the upturn since 1992 as merely a weak cyclical recovery, a bounce after hitting rock bottom, rather than a turning of the corner toward sustained prosperity.⁴⁰

More sympathetic critics, as well as policymakers responsible for the reforms, invoke three arguments to explain New Zealand's long wait for economic growth: (a) Its reformers violated standard prescriptions for the correct sequencing of policies during economic restructuring. (b) Lange's break with Douglas weakened business confidence and consequently protracted the recession. (c) The fiscal legacy of Muldoon's foolish interventionism imposed a heavy drag on the economy for years after he left office.

The first factor is often presented as primarily a technical or intellectual failure. Arguments (b) and (c) clearly involve political causes, but the focus in both cases is on the putatively misguided whims of individuals who happened to be prime ministers. I contend that a full understanding of each cause requires an appreciation of how it was related to the coalitional dynamics described above.

Botched Sequencing?

Accorded to Bollard (1992; 1994, 97-8), New Zealand violated all the established economic principles for sequencing, which are to

stabilize before attempting structural reform, to ensure balance in the government sector; deregulate product markets and labor markets before financial ones, to ensure that commodity and not capital flows determine the real exchange rate; and deregulate domestic markets before external ones, to allow local interests to absorb any economic rents and to retain internal balance before liberalization.

Instead, New Zealand began by deregulating the exchange rate, the financial sector, and foreign trade and investment during a period when the government sector was imbalanced. The fiscal deficit kept interest rates high, which brought about capital inflows that nearly offset the Lange government's initial devaluation. The first product market liberalization occurred in agriculture, followed (more gradually) by manufacturing. Both sectors were put under enormous pressure by high exchange and interest rates coupled with rising wage costs due to the unreformed labor market. Consequently, massive disinvestment occurred, causing a rising rate of unemployment that was further aggravated by large-scale redundancies in the corporatizing state sector. The high cost of unemployment benefits and other social costs combined with the shrinking tax base to blow out the fiscal deficit, and the government could not restore balance by raising tax rates because it had already committed itself to a restructured, low-tax regime. Instead, Labour sought to reduce debt and maintain international credit ratings by rushing ahead with privatization and other asset sales. Finally, under National in 1991-92, drastic labor market reforms combined with continuing unemployment drove down wage rates, which helped the trading sectors regain competitiveness. Rising tax revenues and sharp cuts in government spending (especially for welfare) enabled New Zealand to achieve a fiscal surplus for the fiscal year that ended in June 1994--the first in nearly twenty years.⁴¹

This history prompts Williamson and Haggard (1994, 580) to describe New Zealand's reform program as "technically botched" (with the snide aside that perhaps this was because Roger Douglas was an accountant rather than an economist). However, Douglas, his colleagues, and his advisors were well aware of the orthodox sequencing prescriptions. "We had huge debates [about sequencing]....It was a real worry."⁴² Douglas (1993, 224-25) replied to such criticisms as early as 1989 in an address to the Mont Pelerin Society:

A great deal of technical debate has gone on worldwide about the best order for reform and the alleged sequencing errors

of governments, both here and elsewhere. Those armchair theorists postulate the desirability of tackling the labour market or the tradeable-goods market before embarking on the deregulation of sectors such as finance, for example. At a purely analytical level the debate is entertaining but no clear-cut answers emerge. Moreover, as a practitioner of reform, I find the question fundamentally irrelevant. Before you can plan your perfect move in the perfect way at the perfect time, the situation has already changed. Instead of a perfect result, you wind up with a missed opportunityIf there is an opportunity to implement a reform that makes sense in the medium term, grab it before the moment passes.⁴³

Judgments of competence or wisdom aside, the opportunities that policymakers in a democracy seize are provided and constrained by politics. Granting that the basic direction of reform was set by the beliefs and determination of the reforming advisors and ministers, their course followed a channel of political opportunity. Specifically, the coalitional analysis above helps considerably to explain three crucial elements in the sequencing of the reforms: (a) why the financial sector was deregulated first, (b) why agriculture and manufacturing were deprived of shelters and subsidies so early in the process, and (c) why the achievement of labor market reform and fiscal balance came last.

The Financial Sector. Histories of Rogernomics and participants both agree that an emergency devaluation during the 1984 interregnum shaped everything that followed, both by creating a crisis atmosphere that enabled Douglas to plunge ahead radically and by setting in motion the dismantling of controls on international financial transactions. However, these moves, along with the early deregulation of banking, removal of interest rate controls, and liberalization of the stock exchange, were also consistent with powerful political forces. The main pressure for free-market policies came from the financial sector of the business community, which dominated both the New Zealand Party campaign and the Business Roundtable.⁴⁴ This sector boomed from 1984 to 1987 while the rest of the economy was stagnant at best. Leading financial entrepreneurs made fortunes that were fabulous by New Zealand's previously egalitarian standards. In 1987 they were the main sources of the large sums passed on to the Labour campaign through Roger Douglas. Thus Labour's removal of financial controls may have been economically premature but it proved politically timely.

Agriculture and Manufacturing. Except in the Depression, Labour never enjoyed much success among farmers, who were (and are) one of the bedrock constituencies of the National Party. Even in its 1984 debacle, National held 18 of 19 rural electorates in which agriculture predominated, and its margins in

13 of them were classified as safe. (James and McRobie 1987) As New Zealand's principal exporters, farmers historically favored free trade, and their subsidies were introduced to compensate them for the high input costs they incurred because of the sheltering of the rest of the economy. Consequently, the leadership of Federated Farmers advocated removal of the subsidies but only in step with a general free-market liberalization of the economy. (Roper 1992) Instead, the Labour government moved almost immediately to strip agricultural subsidies from the budget. Labour leaders understood quite well that this action was politically feasible for them because farmers were not part of their electoral base. David Lange recalls the decision as follows:

I remember when we did it. I spoke to the Cabinet, actually, and then to the Caucus. I said we're going to do something...that's going to be painful to a lot of people. It will be revolutionary to them. We'll lose about a fifth of our farmers. I said we have to do it. I said, the irony is that in some future years, the National government will do to our people exactly what we've done to theirs.

Manufacturers were also at the core of the National Party, and Labour moved early to expose them to international competition. However, the jobs of Labour's working-class supporters were also at stake, so liberalization proceeded at a more gradual pace for industry than agriculture. Indeed, the reformers justified moving first against farmers by the pressure they subsequently brought to bear for liberalization in the rest of the economy. Graham Scott sums up their reaction as, "If you're going to take our subsidies away, we're going to make bloody sure you take everybody else's away, too."⁴⁵

Labor Market Reform, Welfare Benefits, and Fiscal Balance. Lange's "our people" were, of course, trade unionists and state beneficiaries. Labour's politically imperative desire to cushion as much as possible the blows that liberalization inflicted on them was a major reason for the "botched" sequencing. Believing that excessively high wage rates were an impediment to international competitiveness and a source of unemployment, Treasury pushed hard for radical labour market reform but was stymied under Labour. When National came to power, its leaders were ready and able to follow advice that would demolish the legal foundations of trade unionism, which was the ally of its competitor and toward which many National members felt an historic enmity. Similarly, unlike Labour--which substantially increased many benefits during its second term--National had no political reason to spare the poorest New Zealanders when it needed to achieve a fiscal balance that Government and Treasury leaders believed was economically essential.

In short, liberalizing the labor market and establishing

fiscal balance (to the extent that the latter depended on curtailing social spending) were both politically feasible for National but not for Labour. Because reform began under Labour, and National did not come to power until six years later, these steps occurred late in the reform process, rather than early, as the orthodox theory says they should.

Lange vs. Douglas

Supporters of Roger Douglas also blame New Zealand's long recession on the harm done to business confidence by the public struggle between Lange and Douglas from early 1988 until Lange's resignation in August 1989. In addition, the Cabinet breakdown exacerbated the deficit. Douglas's policy package had balanced tax cuts with cuts in other areas of spending. The collapse of Cabinet's ability to decide coherently meant that Douglas eventually got part of his tax cuts, but other ministers were able to protect their departments' spending.⁴⁶

Lange's detractors attribute the breach to alleged personal motives and influences, notably wounded vanity after journalist Bruce Jesson published an article depicting him as a mere front man for Douglas⁴⁷ and his romantic involvement with speechwriter Margaret Pope, whom he later married after divorcing his first wife. Perhaps there is truth in their charges, but one might as well ask what eccentricities of zealotry or groupthink led Douglas and his colleagues to propose an end to the progressive income tax; for the flat-tax plan--which actually went beyond the advice of Treasury--was the ultimate symbolic repudiation of Labour's ideological heritage.

Thus the battle between Lange and Douglas was far more than a personal vendetta. Fundamentally, it was a collision--previously delayed by the common interest of both sides in electoral victory--between the contradictory elements of Labour's unstable coalition. On one side were Labour's recently arrived (and temporary) New Right allies and their upwardly mobile converts within the Parliamentary party. On the other side were the Party's traditional elements which, despite disparate priorities, all shared at least a vestigial loyalty to the party's redistributive and statist principles and a material or moral stake in what Chapman (1992) calls "the struggle to preserve a progressive tax base for welfare and the positive state." In this battle, few observers doubt that Lange stood, however imperfectly, for the policies and philosophy preferred by the great majority of the Labour Party outside of Parliament.

Muldoon's Legacy

If the argument for Lange's having retarded recovery rests mainly on the intangible of business confidence, the impact of his predecessor Robert Muldoon can be measured in dollars--all on the red-ink side of the ledger. Douglas estimated that the failure of the Think Big projects combined with the cost of defending the currency during the 1984 election campaign (when Muldoon refused to devalue) accounted for over 40% of New Zealand's \$NZ24 billion official overseas debt in 1987. (Douglas and Callen 1987, 223) In addition, Muldoon's extravagant National Superannuation giveaway has remained a major fiscal (and political) problem ever since.

Aside from contributing to the difficulty of the reformers' task, Muldoon's legacy drives home a lesson about New Zealand's political system. The fact that the very same institutions could be used to impose diametrically opposed policies in such a short span of years demonstrates how conducive they could be to policy instability and reversals.

Because Muldoon was such a commanding figure and so out of step with the general tendency within his party toward more-market policies, it is tempting to speculate about historical counter-factuals. After all, one of the main inferences from the indeterminacy of multidimensional politics is that the desires, strategies, and skills of leaders can make a real difference in history. (Riker 1983, Nagel 1993) Suppose that Muldoon had continued down his tentative path toward liberalization. Or, if my earlier portrayal of his emotional and electoral loyalty to the ordinary bloke makes that alliance appear unbreakable, then suppose that Muldoon had not become leader or had not survived the Colonels' coup. Both junctures involved close calls. If Norman Kirk's fatal illness had become evident two months sooner, the National caucus might have decided it could win with Marshall in 1975; and if Brian Talboys had been more ambitious or less scrupulous, he could probably have toppled Muldoon in 1980.

Under these counterfactuals--which can also be seen as paralleling the expected course if New Zealand politics had remained unidimensional through the 1970s--then liberalizing reforms would have begun (or continued) under National in the late 1970s rather than under Labour in 1984. If this had happened, Graham Scott speculates, "We would have been so much better off." Structural adjustment could have been accomplished at a time when the economy was growing, so it could more easily have absorbed redundant workers and the resources used by bankrupt firms. "The lost opportunity for New Zealand was that we could have started the process of liberalization at a time when the debt was low, when we had a AAA credit rating, the exchange rate was actually about right;" and by doing it more slowly, without huge imbalances and the subsidies that Muldoon

slowly, without huge imbalances and the subsidies that Muldoon piled on, there was a possibility that "it all could have been done very much more peacefully," without the need to "hack" social spending so much to restore balance.

Instead of the gradual, almost tranquil adjustment sketched in Scott's wistful scenario, New Zealand experienced nine years of wrenching change, turmoil, and trauma. In 1993 the period of radical economic transformation came to an end (so it would appear) with an equally radical political change. The concluding section of this paper examines interactions between the two reforms.

What Are the Relations Between Economic and Electoral Reform?

The root causes of economic and electoral reform intersect at two places. First, as I noted earlier, in addition to destabilizing old alliances and policies, the new multidimensionality of New Zealand politics after 1970 spawned an increased number of minor parties. As their adherents were frustrated by the inexorable logic of first-past-the-post elections, some of them joined Social Credit diehards in a minority constituency for proportional representation. Second, also as noted earlier, both the economic reforms and the appointment of the Royal Commission on the Electoral System can be seen (in part) as attempts by the Labour Party to correct the electoral bias that had denied it victories in 1978 and 1981.

From these fortuitously shared origins, the two reform movements appear to have developed quite independently until after the 1990 election. In that campaign, following a series of events too complicated to present here (Jackson 1993, Nagel 1994a, Vowles 1994), both parties promised to follow the recommendation of the Royal Commission and put the question of the electoral system to the people in a referendum. Once in office, the National Party government kept its promise, but simultaneously attempted to defeat reform with a number of unsubtle maneuvers.

One of these strategems was to hold two referendums. The first, in September 1992, was non-binding but constituted a sort of primary election. In it, voters were asked, first, whether FPP should be retained and, second, if FPP were to be replaced, which of four alternatives (including MMP) they preferred. The results of this poll shocked everyone. An astonishing 85% voted to reject FPP, and MMP won its primary with 65% (McRobie 1993, Levine and Roberts 1993). This landslide was widely interpreted as revealing overwhelming anger and disillusionment with politicians and the political system--largely, it was thought, as a result of economic restructuring. Fourteen months later, in November 1993, the final binding referendum was held, and MMP won

over FPP by a much narrower margin, 54%-46%.

The economic reforms may have influenced the outcomes of the electoral referendums in three ways (which are not mutually exclusive): (a) Voters unhappy with the results of the reforms may have vented their economic frustrations on the political system. (b) Voters may have chosen MMP because they were disillusioned with the political system as a result of the process by which liberalization was enacted, regardless of their opinions about the substance of the reform measures or their own gains or losses in the new order. (c) Voters (or, more likely, elites) may have backed or opposed electoral reform according to their expectations about whether the economic reforms would be more or less likely to survive under MMP. I shall briefly examine each of these hypotheses.

Backlash?

There is an immediate if superficial case to be made for the frustration-venting backlash hypothesis. The landslide vote in 1992 came near the trough of economic discontent. By the time of the closer vote in 1993, the economy was clearly beginning to grow. However, this bit of evidence is by no means conclusive. Many more people voted in the 1993 referendum, which accompanied a general election; turnout then was 76.5% as compared with only 55% in 1992. In addition, between the two votes, defenders of FPP rallied behind the lavishly-funded Campaign for Better Government, which carried out a sophisticated media blitz that capitalized on voters' distaste for secondary aspects of MMP.⁴⁶ More direct reasons for doubting the backlash theory come from surveys taken in 1990 and 1992, which showed only minor tendencies for groups hurt most by economic change to give MMP more backing and no relation between support for MMP and attitudes toward privatization and deregulation. (Vowles 1993) However, I have not yet studied survey analyses of the closer 1993 vote, in which even a minor backlash vote might have been pivotal.

Disillusionment?

Similarly, I do not yet have survey data that would test the effect on the 1993 vote of disillusionment due to the process by which market liberalization was enacted. However, Stephen Mills of Insight Research, who handled polling for the pro-FPP Campaign for Better Government, is unequivocal in his judgment:

[MMP proponents'] best argument was that FPP allowed a small group in Cabinet to do whatever they want. That was just a nuclear argument. If they'd used that with the level of ferocity we used our arguments, we'd never have got within

25 or 30 points of them....Proportional representation advocates were a lonely little group of people talking to themselves for years and years; and then the broken promises, the distaste for National and Labour that came through gave them an opportunity.

As an observer in New Zealand just before and after the referendum, my impressions are vividly consistent with Mills' conclusion. On talkback radio, in letters to the editor, and in private conversations, supporters of MMP returned again and again to the same themes: Under FPP, the people had lost control of their government. One-party rule had created an elective dictatorship (cf. Mulgan 1992). Leaders had pushed through policies supported by only a small minority without compromising and without seeking broad-based consent. In contrast, under MMP, no one party could rule. Parties would have to compromise with each other to enact policies. Governments would be based on widespread support. "Consensus" decisionmaking would prevail.⁴⁹

The economic liberalization process also may have created disillusionment with the political system through a second, more indirect route.⁵⁰ The extreme instability of parties' policies--both their abandonment of traditional commitments and their frequent reversal of positions taken just a few years or even months earlier--caused a severe loss of confidence in political institutions and a sharp decline in party loyalty. This was particularly true of Labour voters, whose leaders had, far more than National's, cast their party adrift from its historic anchors of ideological and class loyalty. Consequently, they were ready for political reform, even if it would be detrimental to the party they had habitually supported.⁵¹

In short, there are strong reasons to believe that the process of radical economic reform that New Zealand's pluralitarian institutions made possible caused the demise of those institutions by disillusioning and demoralizing many citizens.

Expediency?

At the elite level especially, many supporters and opponents of electoral reform based their positions on beliefs about the effect that MMP might have on the fate of New Zealand's economic liberalization. On the pro-MMP side, the interventionist Alliance and New Zealand First parties vigorously supported electoral reform, as did most of their voters. (For Alliance leader Jim Anderton, this stance required a personal about-face, because as Labour Party President, he had once strongly opposed proportional representation.) On the pro-FPP side, the Campaign for Better Government was led and bankrolled by leading business people who feared that a multi-party MMP system might give the

parties to agree to roll back key economic reforms.⁵² More crudely, the prevailing alignment of pro-market people with FPP and interventionists with MMP might reflect simple extrapolation: The pluralitarian system had enacted free-market reforms; therefore, those reforms would continue to fare better under FPP. Conversely, revoking the reforms should be easier under a different system. Were these inferences correct? How will New Zealand's free-market reforms fare under the new political system?

Locking the Barn Door So the Horse Can't Return?

There are strong theoretical reasons for believing that the fate of New Zealand's new economic order will be less at risk under MMP than it would have been under FPP. The argument is straightforward and can be put in any of several forms. In social choice terms, a pluralitarian system is less stable than systems requiring the agreement of larger coalitions. Unstable systems can bring about wide swings across the policy space, including policy reversals. Thus the retention of FPP would increase the chances that someday a new ruling coalition might develop that would reverse the free market order, just as the Labour and National coalitions of 1984 and 1990 had reversed interventionism. Conversely, a stable system by definition is more likely to preserve the status quo, or not move far from it. In New Zealand by 1993, a free-market economy was the status quo. In other words, enacting MMP in the hope of rolling back economic reforms was worse than locking the barn door after the horse had escaped, because the lock would also prevent the beast from wandering back in.⁵³

As far as I know, a strong argument similar to this was first made publicly two weeks before the referendum by political scientist Jack Vowles (1993) in an article published by New Zealand's leading business newspaper.⁵⁴ Six months later, the belief that MMP would mean policy stability had apparently become common in New Zealand.⁵⁵

New Zealanders' widespread identification of MMP with "consensus" government may, however, carry this compelling logic too far. MMP will end plurality elections, the two-party system, and single-party government; but the other elements of Lijphart's majoritarian model remain intact in New Zealand--cabinet government, Parliamentary sovereignty, unicameralism, and absence of federalism. In a formal sense also, MMP means only that legislation will require the support of representatives who have been elected by a majority of voters rather than a plurality (or less) as in the past. The strongly adversarial culture of the political elite makes it unlikely that New Zealand will develop anything like a consociational politics of accommodating nearly everyone.

consociational politics of accommodating nearly everyone.

Consequently, New Zealand will move only from pluralitarian to majoritarian (in a strict sense) decisionmaking. Majority-rule systems are also unstable (though less so than pluralitarian systems).⁵⁶ Consequently, there is a real possibility under MMP that a majority coalition will form that is hostile to key elements of the liberalized economic system.

This scenario goes considerably beyond the business leaders' nightmare of a small interventionist party blackmailing its coalition partners into an incremental softening of the economic reforms. Proportional representation will make possible the survival and growth of parties that probably would have withered away due to tactical voting under the old system. (Indeed, the persistence of both the Alliance and New Zealand First in 1993 was helped greatly by their anticipation that the electoral system would change.) Under strong leadership and especially if economic outcomes are adverse, such parties might be able to win the support of a majority of voters.

The possibility of such a development is shown by the Selwyn by-election in August 1994, which was called to fill the seat vacated by the resignation of Ruth Richardson. In this normally National Party constituency, the results were National 42.2%, Alliance 40.5%, Labour 10.3%, and New Zealand First 5.5%.⁵⁷ If a similar pattern continues into the first MMP election, the Alliance will become the principal opposition party, and Labour may be forced to the interventionist left. If so, a coalition of three interventionist parties might gain a majority, just as the three anti-government parties received a majority in Selwyn.

This is only one scenario, and there are many reasons why it might not come about: By-elections are poor predictors.⁵⁸ The Labour rump might hold fast to a basically pro-market position and ally with National. National might (and probably will) implement a strategy of encouraging the development of three parties on the right (including one led by Sir Roger Douglas) on the theory that their aggregate electoral appeal will be greater than its alone. If this strategy succeeds, a coalition on the right could win a majority. (Nagel 1994b)

In any case, whether one favors or fears a rollback of free-market policies, New Zealand's new political system should not be judged primarily by its effect on substantive outcomes. From a democratic perspective, economic reformers in that country failed chiefly in their frequent willingness to put substance ahead of process. If the end of pluralitarian democracy means that future policymakers will have to win broader agreement for major initiatives, then the new electoral system may help restore to health a wounded polity.

Endnotes

1. Thus I find it conducive to clearer thinking to replace Lijphart's dichotomy of majoritarian and consensus democracy with a continuum. Pluralitarian institutions such as New Zealand's now mark one extreme. Next come decision practices that are majoritarian in the strict sense (such as runoff elections as in France or the alternative vote as in Australia). Various supermajoritarian institutions follow (e.g., the 60% cloture requirement in the U.S. Senate). At the other extreme are truly consensual norms, such as the rule of unanimity.
2. There has also been movement toward change in other elements of the model (Jackson 1994).
3. This section relies heavily on Bollard (1992), which is the source for much of the data presented. Other sources include Boston and Holland (1987), Holland and Boston (1990), Boston et al. (1991), Douglas and Callan (1987), and Scott (1994). Statistics are also drawn from the New Zealand Official Yearbook, the Financial Times, the New Zealand Report, and Across the Pacific.
4. When I attribute a quotation or other information to a source without including a reference to a publication, I am drawing on these interviews.
5. I am greatly indebted to the comprehensive histories written by the insightful journalist Colin James (1986, 1992). His pre-election books with Alan McRobie are also valuable sources (e.g., James, McRobie, and Morton 1987; James and McRobie 1993). Also informative, but from a decidedly critical perspective, are two books by journalist Bruce Jesson (1987, 1989). The policy-oriented political scientist Jonathan Boston and his associates have put together fine collections written mostly by scholars (Boston and Holland 1987, Holland and Boston 1990, Boston et al. 1991, Boston and Dalziel 1992). Other important collections include Easton 1989, Walker 1989, and Roper and Rudd 1993. Understanding of voting choices has been greatly advanced by the development of the New Zealand Election Survey, first fully developed in 1990 and superbly analyzed by Vowles and Aimer (1993).
6. I will not attempt any formal derivations or representations, so this paper is an example of the growing genre known as "soft social choice."
7. This understanding stems from Downs 1957, and ultimately from Arrow 1963 and Black 1987. For a brief overview, see Ferejohn 1989.

8. [SELECT AND ADD A FEW KEY REFERENCES.]
9. For models, see Riker 1982, Lewin 1988, and Carmines and Stimson 1989.
10. I am extrapolating downward from results showing that instability decreases as the size of the required majority increases above 50%. (Caplin and Nalebuff 1988; ADD A COUPLE MORE REFERENCES) "Unstable" here means only that governments and policies can change often, not necessarily that the regime is in doubt or the society troubled by unrest and violence. In a brilliant essay, Miller (1983) argues that instability in the first sense may actually promote stability in the second sense, because everyone has hope of winning some victories some of the time. However, New Zealand's recent experience suggests that if policies and political alignments change too radically, societal instability and regime change can result, even in a country with a long and relatively tranquil democratic tradition.
11. [SOME REFERENCES NEEDED?]
12. This section relies heavily on Gustafson (1986) and on interviews with Bernard Galvin, Barry Gustafson, J.M. McLay, and Graham Scott.
13. Labour's plan established what would have become a massive state-run investment fund. Although Muldoon attacked Labour's program from the right ideologically, the financial irresponsibility of his own giveaway created a huge fiscal and political problem that has haunted New Zealand governments ever since. In a second irony, the chief architect of Labour's plan was Roger Douglas, who had not yet undergone his conversion to anti-statist doctrine. Even then, however, he was eager to spur economic growth through radical innovations; one of his main objectives was to use the investment fund to raise New Zealand's low savings rate.
14. During the early 1980s, New Zealand did take one major step toward a more open economy--the free-trade agreement with Australia known as CER (Closer Economic Relations). However, Graham Scott, who headed the negotiating party, depicts CER as forced on Muldoon by the Australians, who in effect told him, "We're heading north [toward Asia], and you can come with us if you like, or you can stay here and rot if you like."
15. Ian McLean, an agricultural economist, popularized the phrase "more market" in a book published in 1978. Later that year, he became a National MP.
16. McRobie 1989 is the definitive source on the New Zealand redistribution process and its outcomes.

17. For an explanation of the Maori electorates, see Nagel 1994a.
18. The dwindling number of rural electorates are mostly safe National seats, except for a couple in which mining or forestry are important.
19. In interviews, key participants in the Labour party and government at the time express doubt that the vote trade was the product of deliberate strategy, but nearly all agree that it captures the short-run political impact of Rogernomics (as data presented below will verify).
20. All of this was recognized by Gustafson (1976, 37) almost a decade before the advent of Rogernomics: "To the casual observer..., the NZLP's attitudes may well appear to have altered in regard to its socialist ideology, its class-consciousness, its orientation towards its traditional manual-worker electorate, and towards the primacy traditionally given to economic issues."
21. Meanwhile, the Department of Education, expecting that Labour would win and the incumbent Education Minister would stay on, did not bother to prepare any briefing papers. To their surprise, Lange himself assumed the Education portfolio in 1987. He uses this story to show the inequality of the contest between Treasury and "hopeless" departments like Education.
22. Graham Scott believes that there is a case for a flat tax contingent on preconditions that were not yet in place in New Zealand. Consequently, the flat tax was never a Treasury proposal, but Treasury loyally worked hard to provide Douglas with analysis and other help.
23. Labour candidates for Parliament must sign a formal pledge to obey the decision of caucus if elected. With its less collectivist tradition, National has no pledge, but its members rarely cross the aisle. (Jackson 1987)
24. My interviews revealed how strongly these norms were held, even among members who disagreed with Government policy.
25. Some accounts take the pyramiding of power even further by noting that within Cabinet there was a Policy Committee dominated by Douglas and his two Associate Ministers of Finance, David Caygill and Richard Prebble. (The latter is also the brother of an influential Treasury official.)
26. [ASK SOURCE FOR PERMISSION TO ATTRIBUTE]
27. The National government since 1992 is hard to characterize. Free-market partisans would argue that it ceased to be a reforming ministry in 1992, when the pragmatist Bill Birch was given de facto control of Ruth Richardson's Finance portfolio.

(Birch was formally appointed Minister of Finance after the 1993 election, and Richardson resigned from Parliament in 1994.) On the other hand, National has remained opposed to any significant rollback of the reforms, and initiatives already underway have continued to have forward momentum.

28. Interview with Graham Scott. Treasury did, of course, describe distributional implications of policies for ministers, but as a policy advocate it seems to have aimed always at efficiency. See also N.Z. Treasury 1987.

29. In the 63 electorates with minor or no boundary changes since 1984, the average changes in Labour's vote were as follows: +1,315 in 16 safe National electorates; +619 in 19 marginal electorates; -93 in 24 safe Labour electorates; and -1,817 in four Maori electorates (also safe for Labour). Clearly, Labour was moving up the social ladder. (Details of this analysis are available on request.) Overall turnout fell precipitously, from 85.5% of the age-eligible population in 1984 to just 77.6% in 1987--the lowest rate since at least 1928 (Nagel 1988). (Voting participation declined even further in 1990 before rising slightly in 1993 [Vowles and Aimer 1994].)

30. Levine and Roberts 1987, Johnston 1989. Most NZP voters in rural constituencies went back to National, no doubt because Labour's agricultural policies had devastated the farming community. Because most of these seats were already safe for National, only the urban NZP voters mattered.

31. In the Labour Party, Caucus elects the Cabinet, while the Prime Minister assigns portfolios.

32. Calculated from data in the New Zealand Official Yearbook 1993.

33. Following its 1984 defeat, National initially gave more-market signals when the caucus replaced Muldoon with Jim McLay, an economic liberal. However, by early 1986 the vengeful Muldoon had helped engineer a new caucus election in which McLay was defeated by Bolger, an economic pragmatist. Thus the direction that National would take economic policy if it won in 1987 was uncertain at best, and supporters of Rogernomics in that year had good reason to prefer Labour.

34. Savage was Labour's first and most beloved Prime Minister. His historic role in New Zealand was similar to that of Franklin D. Roosevelt in the U.S.

35. As was his flat-tax plan after the 1987 election.

36. I don't claim that this de facto strategy was deliberately planned, though it may have been. In my earlier interviews with Labour Party insiders, I did not pose the coalitional hypothesis explicitly, but instead just probed about its constituent elements. Upon catching the drift of my questions, Stephen Mills, Labour's polling coordinator and strategist in 1987 and 1990, protested that the idea of holding a coalition together with policies aimed at different interest groups is more "an American idea" that didn't really apply to the Labour government. "I think everybody was just swept along with that government up until the point where they started to look at what it was really doing and who it was really hurting and at that stage our base just started to crumble." However, in a later interview with Tony Timms, Secretary of the Labour Party since 1985, I spelled out the hypothesis, describing it as a "crude" interpretation. He replied, "That's not crude at all. That's exactly the way it was."

37. The complexity of what constitutes a majority or a minority position is demonstrated by a remarkable government-commissioned poll of opinion on the ANZUS issue taken during April-May 1986. (National Research Bureau 1986) Overwhelming majorities supported both remaining in ANZUS (71% to 13%) and banning nuclear-armed vessels from N.Z. ports (66% to 28%). When asked the "crunch question" of what to do if forced to choose between ANZUS and the ban (which the U.S. response necessitated), a 52% to 44% majority preferred to stay in the alliance. This result embarrassed the Lange government, and for a time it delayed releasing the results. However, close observers noted that the poll also asked how important the issue would be in determining the respondent's vote. Those who said it would be "very important" (27% of the sample) preferred the ban over ANZUS by a 58% to 38% margin. Thus a political party could make a profit in votes by siding with minority of the public as a whole--which is what Labour did. (To complete the story, there is strong evidence--and general agreement--that opinion shifted against ANZUS over time, as the ban on nuclear ships became a symbol of national identity and pride and because of resentment against the American attitude.)

As for the other issues in Labour's bundle, compulsory unionism was clearly a minority issue. Polls over many years show support only in the 20-30% range at best. A strong pro-market stance was surely favored only by minorities in 1984 and 1990, but a majority at least agreed with it in 1987 (how intensely I do not know). (See Tables 3 and 4.) As for welfare and social policies, the response would undoubtedly depend on question phrasing and the specific policies in question. "Dole blodgers" are heartily disliked by most of the public, but on the other hand, New Zealanders do not want to see fellow citizens impoverished. Support for universal benefits (health, education, and superannuation) has always been high.

38. The instability of a coalition of passionate minorities is simply a more concrete way of expressing the instability of politics in a multidimensional issue space.
39. David Lange emphasizes the variety of destinations for anti-nuclear voters, many of whom were "fair-weather friends" not part of the traditional Labour constituency. "Indeed, that was why the anti-nuclear movement in New Zealand was successful--because it was not a party of the double-jacketed, bearded, pot-smoking left. It was actually the Presbyterian mothers in Gisborne [a provincial city]."
40. Interview with Brian Easton.
41. Financial Times, July 5, 1994.
42. Graham Scott interview.
43. Citing former Czech Finance Minister Vaclav Klaus, Graham Scott offers a similar defense: "People raise this issue; but the reality of it is that in the real-time political circumstances, you do what you have to do when you get a chance to do it, and you keep your mind on the principles and the targets and the vision that you've got...but if you hang around waiting to get everything in what might or might not be the right order, you'll lose the opportunity you have to get started."
44. The split within the business community is epitomized by the division between the leaders of what was then New Zealand's largest corporation. Fletcher Challenge was the result of a merger between a production/construction organization, Fletcher's (which depended heavily on government contracts and protection), and a financial services company, Challenge. Sir Ron Trotter, the combined firm's CEO whose background was on the Challenge side, chaired the Business Roundtable. In contrast, Sir Hugh Fletcher shunned the BRT and strongly opposed the reforms. (Interviews with Brian Easton and Graham Scott)
45. See also Douglas 1993, 223-26. The pressure--and the disparity--were still evident in the 1990s, when Federated Farmers vigorously protested National's waffling toward protectionism.
46. Interview with Graham Scott.
47. Jesson later incorporated the article in an influential book (Jesson 1989). Jesson's own purposes were not merely to expose personalities. He is a consistent critic of the economic reforms (cf. also Jesson 1987) who ran for Parliament in 1993 as an Alliance candidate. (The Alliance, founded by Jim Anderton, is a federation of five dissident parties on the left: NewLabour, the Greens, Mana Motuhake, the Democrats, and the Liberals.)

48. These issues were the increase in Parliament under MMP from 99 to 120 members (thus the slogan "MMP = More MPs") and the fact that party lists under the MMP plan would be closed (not allow voters to express preferences for individual candidates).
49. These seemed to be the dominant arguments at the popular level. The spokespersons and activists of the Electoral Reform Coalition also used these themes; but as Mills suggests, some of them remained preoccupied with the traditional fairness case for PR.
50. I owe this point to Jonathan Boston.
51. Levine and Roberts (1994) report that 63% of 1993 Labour voters supported MMP, compared with only 20% of National voters. Alliance and New Zealand First voters backed the reform by 89% and 79%, respectively.
52. FPP advocates in the business community also argued that, given its exposed position in the international economic system, New Zealand would need continued decisive government in order to be able to adapt to economic shocks.
53. Of course, in the original maxim, the horse was stolen. Proponents of a strong version of the elitist theory might assert that even if an interventionist coalition gained control of Parliament, it would not be able to overcome the potent combination of Treasury, wealthy interests, and the need to placate volatile markets, domestic and international. Together, these interests would keep the horse locked up in their own barn.
54. Economist Alan Bollard (1993) also commented about the concept in a speech a few weeks earlier.
55. Judging from comments by Graham Scott in an interview on May 27, 1994. Scott himself does not share this belief. He prefers the principled, consistent policymaking that the pluralitarian system made possible while he was Secretary of the Treasury. Under MMP, he fears, coalition bargaining will result in creeping revisions of policy without intellectual justification.
56. Indeed, most of the original "chaos" theorems were derived for majority rule.
57. I am grateful to Kathy Kerr of the U.S. State Department for giving me these results.
58. A similar outcome occurred in the 1992 Tamaki by-election, called to fill the seat vacated by the death of Sir Robert Muldoon; but the Alliance subsided to 18% in the 1993 general election (which, however, was held under FPP).

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TABLE 4 Economic Reforms

Factor market	
Finance industry	
Abolition of credit growth guidelines	1984
Removal of separate requirements for trustee banks, building societies, finance houses, stockbrokers	1985-1987
Removal of quantity restrictions and other entry barriers to banking	1985-1986
End of formal financial controls (reserve ratio requirements, sector lending priorities)	1985
Removal of interest rate controls	1984
Abolition of export credit guarantees	1984
Removal of ownership restrictions on financial institutions	1985
Liberalization of stock exchange	1986
Energy industry	
Corporatization of state coal mines	1987
Financial restructuring of oil refinery	1988-1991
Legalization of oil company ownership of service stations	1988
End of price control (except on natural gas)	1984-1988
Sale of state natural gas exploitation/distribution interests	1988-1990
Sale of other state energy holdings	1990-1992
Corporatization and restructuring of electricity generation, transmission and distribution	1986-1991
Transport industry	
Removal of restrictions on road and rail carriage	1983-1986
End of quantity licensing of trucking	1984
Corporatization of state rail, air, and bus services	1982-1984
Tendering of local authority bus services and liberalization of licensing requirements	1990-1991
Deregulation of taxi industry	1990
Opening up of domestic aviation industry	1987
Granting of number of landing and on-flying rights to foreign airlines in New Zealand	1989
Corporatization or sale of airports and Airways Corporation	1986-1991
Corporatization of ports	1989
Deregulation of stevedoring industry	1990
Removal of cabotage on coastal shipping	1991
Research and development	
Removal of concessions for research and development to put on equal footing with all investment	1984
Cost-recovery of public R&D work	1985
Establishment of a contestable pool of public funds (Foundation of Research Science & Technology)	1990
Corporatization of government research bodies (Crown Research Institutes)	1992

Labor market	
Introduction of voluntary unionism	1983
More market-based bargaining under Industrial Relations Act Amendment: compulsory unionism reinstated	1984
Some contestability in union coverage under Labour Relations Act	1987
Radical reform via Employment Contracts Act (voluntary unionism, contestable unions of any size, any arrangements for employer/employee bargaining at joint or individual level)	1990
Industry	
Product markets	
Termination of supplementary minimum prices on agricultural products	1984
Agricultural tax concessions removed	1985
Termination of concessional financing of primary producer stocks held by producer boards	1986-1988
Review of compulsory producer marketing board arrangements	1987
Termination of domestic boards for eggs, milk, wheat	1984-1988
Termination of export market development incentive schemes	1984
Phase out of export performance tax incentives	1984-1987
Industrial regulations	
End of wage/price freeze	1984
Termination of price control, and replacement by (unused) price surveillance powers under Commerce Act	1984-1988
Removal of quantity licensing on almost all industries, and end of quality regulation on most	1986-1988
End of all state-regulated monopoly rights (except letter post, air traffic control, and milk distribution)	1984-1986
Removal of some occupational licensing	1985-1990
Removal of producer cooperative tax advantages	1989
Termination of restrictions on shop trading hours	1989
Business law	
Establishment of Commerce Act as liberal efficiency-based regime to govern mergers and trade practices	1986
Fair Trading Act governing consumer rights	1986
Review of securities legislation and takeover law (extent of efficiency approach still under discussions)	1988-1991
Review of intellectual property regime (patent, copyright, trademarks, and designs acts)	1990-1991
Review of Town and Country Planning	1987-1990
Resource Management Act to govern more liberal planning and environmental legislation	1991
Crown Minerals Act to clarify property rights to mineral resources	1991

(continued)

Appendix B (continued)

International trade and monetary policy

Import protection			
Phasing out of import licensing requirements	1983-1989		
Reduction of import tariffs according to "Swiss" formula, to 10% from average 28%	1986-1992		
Further one-third reduction in import tariffs (planned)	1992-1996		
Removal of special protection features for eighteen specific "industry plan" sectors and incorporation into general tariff reform program	1984-1992		
Slower reduction of tariffs on two remaining "special" industries (motor vehicles and components; textiles, clothing and footwear)	1987-1996		
International capital controls			
Removal of controls on external investment/borrowing	1984		
Free entry of foreign direct investment (approved by New Zealand Overseas Investment Commission)	1985, 1989		
Very liberal regime for portfolio investment and repatriation of profit	1985		
Exchange rate controls			
Deregulation of foreign exchange trading	1984		
Twenty-percent devaluation against basket of currencies	1984		
Free float of currency on foreign exchange markets without direct control	1985		
Monetary policy			
Devotion of monetary policy instruments to deflation, with target of "price stability" (0%-2% price increase) by 1992-1993	1989		
Tight monetary policy (M3 growth held below rate of inflation)	1987-		
Independence of Reserve Bank from government, formalized through Reserve Bank Act	1989		
Government sector			
State trading operations			
Removal of almost all state regulated monopoly rights	1984-1989		
Corporatization of twenty-four state-owned enterprises (in transport, finance, tourism, forestry, broadcasting, utilities, and service industries)	1987-1988		
Restructuring to isolate natural monopoly elements of state-owned enterprises	1989-1991		
Full or partial privatization of Air New Zealand, Bank of New Zealand, Petroleum Corporation, Tourist Hotel Corporation, Shipping Corporation, Rural Bank, Government Life, Forestry Corporation, Post Office Bank, Telecom Corporation and others	1987-1991		
Further privatization planned via divestment of asset sales, sale of rights, share sales, etc.	1991-		
Requirement for local authorities to corporatize Local Authority Trading Enterprises (LATEs) and tender out services	1990-1991		
Encouragement to local authorities to sell holdings in airports, port companies and local utilities	1991		
Sale of other assets, e.g., irrigation schemes, fishing rights	1983-1988		
		Taxation	
		Broadened tax base through "Goods and Services Tax" on virtually all final domestic consumption without exception (now 12.5%)	1986
		Flattening and lowering of personal income tax rate, with top rate standardized to corporate tax levels, and aimed to minimize poverty traps.	1988
		Standardization and simplification of corporate taxation to minimize evasion and cut administrative costs	1985
		Removal of most other indirect taxes	1986-1991
		Removal of tax concessions for savings, etc., to put on neutral footing	1987
		Expenditure control	
		Attempts at reduction in government expenditure, especially in areas of administration and industry development	1985-
		Assignment of proceeds of sale of state-owned enterprise assets to repay public debt	1987-
		Public sector management reform through Public Finance Act	1989
		Reform of core government departments on corporate lines through State Sector Act of 1988, with separation of policy, provision and funding	1986-
		User-pays principles for remaining state trading activity	1986-
		Redesign of government accounts on more commercial basis, accrual accounting, output-based monitoring systems through Public Finance Act	1988
		Abolition of fifty quasi-non-governmental and quasi-governmental organizations	1987
		Renewed attempt at reduction in social spending (education, health, social welfare, superannuation)	1991
		Social services	
		Reform of compulsory education system, based on elected boards of trustees	1988-1990
		Quasi-corporatization and fee-paying for tertiary education institutions	1992
		Integration of state housing assistance into private sector rental and mortgage provision	1991
		Tightening of requirements and reduction of levels of unemployment benefits and other government social transfers	1990
		Tightening of requirements, extension of age, and reduction of benefits for government-funded old-age pension scheme	1989-1991
		Separation of funding from provision of state health services, establishment of Crown Health Enterprises, and expectations of private sector crowd-in	1992
		Likely development of private funding arrangements for health provision	1992

Appendix C

INTERVIEWS AND DISCUSSIONS

Interviews were generally tape recorded and followed (roughly) a line of questioning I had prepared in advance. (I also had informal discussions with some interviewees.) Most interviews were with people who had been participants or otherwise had direct knowledge of the events I asked them about. I interviewed the people listed below at the times and places indicated. I have used most interviews for background purposes only, but I have quoted, sometimes extensively, from several that were especially pertinent and authoritative. I am grateful to all of these individuals for their generosity and candor.

Michael Bassett

Historian; Labour MP, 1969-75, 1978-90; Cabinet Minister, 1984-90
Auckland, November 16, 1993

Sir George Chapman

National Party President, 1973-82; Chair, Marginal Seats Cttee,
1990 and 1993
Wellington, November 9, 1993

Wayne Eagleson

National Party Campaign Manager, 1993
Wellington, November 18, 1993

Brian Easton

Economist, author, columnist
Former director, NZ Institute of Economic Research
Wellington, November 2, 1993

Bernard Galvin

Head of Prime Minister's Office, 1976-80
Secretary of Treasury, 1980-86
Wellington, November 4, 1993

Fred Gerbic

Labour MP, 1980-90; former trade union organizer and labor
conciliator
Auckland, November 16, 1993

Gary Hawke

Economic historian; Director, Institute for Policy Studies
Wellington, October 29, 1993

Appendix C (Continued)

John Henderson
Director, Prime Minister's Advisory Group, 1985-89
Wellington, November 2, 1993

Jonathan Hunt
Labour MP, 1966-
Wellington, November 3, 1993

Eddie Isbey
Labour MP, 1969-87; former trade union president
Auckland, November 13, 1993

Sir Ross Jansen
Chair, Hamilton Regional Health Authority
Hamilton, November 11, 1993

Sir Kenneth Keith
Member, Royal Commission on the Electoral System
Wellington, October 29, 1993

David Lange
Labour MP, 1977- ; Leader of the Opposition, 1983-84;
Prime Minister, 1984-89
Mangere Bridge, November 15, 1993

J. M. McLay
National MP, 1975-87; Minister of Justice, 1978-84
Deputy Prime Minister, 1984; Leader of the Opposition, 1984-86
Auckland, November 16, 1993

Stephen Mills
Insight Research
Wellington, November 9, 1993

Stephen Rainbow
Wellington City Councillor; a founder of the Green Party
Wellington, November 3, 1993

Phil Saxby
Secretary, Electoral Reform Coalition
Wellington, November 19, 1993

Graham Scott
Secretary of Treasury, 1986-92
Washington, DC, May 25, 1994

Tony Timms
Secretary, Labour Party, 1985-
Wellington, November 22, 1993

Appendix C (continued)

Justice John Wallace
Chair, Royal Commission on the Electoral System
Wellington, October 29, 1993

Margaret Wilson
President, Labour Party, 1984-87
Hamilton, November 11, 1994

Discussions were more informal and interactive than interviews, and were not recorded; in many cases we had more than one meeting. Most of the people listed below are scholars, usually political scientists. Quite a few have also been political participants, often in important roles. In addition to sharing ideas and knowledge with me, many of the individuals listed have been extremely generous in helping me stay informed about New Zealand while in the U.S. and/or in extending personal hospitality while I was in New Zealand. I am deeply grateful to everyone. In addition, I thank and apologize to others who are not included because my memory is faulty, or because our interactions were briefer.

Peter Aimer
Jonathan Boston
Helena Catt
Margaret Clark
Phillip Field, MP
Mark Francis
Barry Gustafson
David Hamer
Paul Harris
Pete Hodgson, MP
Keith Jackson
Colin James
Stephen Levine
David McCraw
Elizabeth McLeay
Alan McRobie
John Morrow
Nigel Roberts
Andrew Sharp
Alan Simpson
Jack Vowles

Appendix D
PARLIAMENTARY ELECTION RESULTS, 1935 - 1993

Year	Winning Party	Labour		National		Minor Parties		Name
		Vote %	Seats	Vote %	Seats	Vote %	Seats	
1935	Labour	46.1	55	32.8	19	2.5 7.8	2	Country Democrat
1938	Labour	55.8	53	40.3	25			
1943	Labour	47.6	45	42.8	34	4.3		Dem.Labour
1946	Labour	51.3	42	48.4	38			
1949	National	47.2	34	51.9	46			
1951	National	45.8	30	54.0	50			
1954	National	43.8	35	43.9	45	11.0		Social Credit
1957	Labour	48.3	41	44.2	39	7.2		Social Credit
1960	National	43.4	34	47.6	46	8.6		Social Credit
1963	National	43.7	35	47.1	45	7.9		Social Credit
1966	National	41.4	35	43.6	44	14.5	1	Social Credit
1969	National	44.2	39	45.2	45	9.1		Social Credit
1972	Labour	48.3	55	41.5	32	6.7 2.0		Social Credit Values
1975	National	39.7	32	47.4	55	7.4 5.2		Social Credit Values
1978	National	40.4	40	39.8	51	16.1 2.4	1	Social Credit Values
1981	National	39.0	43	38.7	47	20.7	2	Social Credit
1984	Labour	43.0	56	35.9	37	7.6 12.3	2	Social Credit New Zealand
1987	Labour	48.0	58	44.0	39	5.7		Democrats
1990	National	35.1	28	47.8	68	6.9 5.2	1	Greens NewLabour
1993	National	34.7	45	35.1	50	18.2 8.4 2.0	2 2	Alliance N.Z.First Christian Her.

Sources:

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1987, 1990: *Appendices to the Journal of the House of Representatives*, E.9

1993: Vowles and Aimer 1994