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‘About turn’: an analysis of the causes of the New Zealand Labour Party’s adoption of neo-liberal economic policies 1984-1990

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Abstract

This is the inside story of one of the most extraordinary about-turns in policy-making undertaken by a democratically elected political party. In 1984, the Fourth Labour Party Government in New Zealand embarked upon a programme of extreme economic liberalism that lasted six years, and transformed a heavily state-managed economy into a largely market economy. In doing so, the New Zealand Labour Party reversed a fifty year-old Keynesian consensus shared by the major political parties, and abandoned its own traditionally social democratic economic principles. The underlying causes of this extraordinary policy shift have not been adequately explained, and it is the aim of this paper to remedy that deficiency, by making use of a series of interview transcripts with several of the leading players in that economic revolution. We rehearse two structural explanations and three agential explanations of the policy shift, and our conclusion is that the agential explanations are the more convincing.

1. Introduction

The New Zealand Labour Party [NZLP]’s wholesale switch from its traditional social democratic economic policy to a radical neo-liberal economic policy during two periods of office in 1984-1990, was a remarkable political event, and it warrants close scrutiny. The scale of this switch was breathtaking, involving a programme of privatisation and deregulation that was deeper and broader than either Reaganism in the USA or Thatcherism in the UK. Dismantling the heavy-handed state regulation of the economy, the NZLP implemented the following measures: deregulation of financial markets; removal of exchange rate regulations; floating of the NZ dollar; abolition of price controls and interest rate controls; relaxation of overseas borrowing; abolition of import licensing; reduction of trade barriers; abolition of industrial production controls; removal of agricultural subsidies; a general sales tax, to move the burden from direct to indirect taxation; privatisation of state assets, including NZ Steel, Telecom, and the national rail network; restrictions on trade unions; public sector reform, including short term contracts, performance management, and private sector consultants in the civil service; and removal of consultative organisations from economic policy-making.

Easton (1994: 215) described these economic reforms as “blitzkrieg”, while Denmark (1992: 282) commented that “Labour abandoned, virtually overnight, its Keynesian paradigm and assumed the mantle of monetarism”. The NZLP brought to an end the interventionist consensus that it had done so much to promote during the 1930s, and that had dominated New Zealand politics for forty years. The central question is “Why did a political party with impeccable social democratic credentials adopt an extreme neo-liberal economic policy?” This question has not been sufficiently addressed in the literature, which has concentrated more on the process and substance of the reforms, and their implications for New Zealand society, than on their causes. We answer the question by making use of a rich vein of material obtained by interviews of many of the people closely involved in the reforms, including Labour government cabinet ministers at the time.

In our analysis of the causes of the NZLP’s economic reforms, we employ the structural-agency theoretical framework, and divide the causes into two categories: 1) two structural causes – New Zealand’s economic crisis; and the international ideological hegemony of neo-liberalism; and 2) three agential causes – pliable political institutions; pragmatic economic culture; and policy entrepreneurship. Our conclusion is that the agential factors are more powerful than the structural factors.

2. Theoretical Framework

In the literature on the NZLP's neo-liberal economic revolution, there has been little attempt to theorise it. In this article, we have adopted the theoretical framework provided by the structure/agency antinomy. The main question addressed by this antinomy is, as Colin Hay (1995: 189) puts it,

“What model of the nature of political actors are we creating in our explanations? Are these actors the unwitting products of their context, helpless individuals with minimal control over their destiny, floundering around in a maelstrom of turbulent currents; or are they knowledgeable and intentional subjects with complete control over the settings which frame their actions? Are the effects we wish to explain...the products of the unfolding logic of a structure (or set of structures) over which individuals (individual or collective) have no control...[or] the products of agents displaying their agency, making unconstrained choices?”

A solely structuralist account would entail complete determinism: “Within structuralist accounts, explanations are not sought in terms of the motivations, intentions, strategies and actions of agents, since these are seen as mere artefacts of ultimately determinant structures” (Hay 1995: 194). But such a picture is not one that we see in the case of the NZLP's economic reforms, where, as we shall see, there is evidence of considerable individual and collective agency. By contrast, a solely agentialist account would entail complete voluntarism, where the structures themselves are the product of human will: agentialists “reject deterministic explanations...[their] focus is largely upon the *micro-practices* of social interaction as opposed to the *macro-embeddedness* of action within broader social and political structures” (Hay 1995: 195-6, emphasis in original). But such a picture is again wide of the mark as far as the NZLP's economic revolution is concerned, because it ignores the fixed structural context within which, as we shall see, the principal actors had to act.

The truth is that a convincing explanation of the causes of the NZLP's economic about-turn must take into account *both* structural *and* agential factors. The real question is, therefore, what is the balance between the structural and agential factors: were the structural factors more important than the agential factors, or *vice versa*? Our answer to this question is that while the structural factors were important, the agential factors were more important. We have arrived at this conclusion largely because of the testimony contained in the 19 interviews conducted by Reardon in 2001 during his visits to New Zealand, Australia and London, in which leading players in, and well-placed contemporary observers of, the reform process, freely gave their revealing accounts of the inside story.

Let us now turn to a consideration of the structuralist, and the agentialist, factors, respectively.

3. Structuralist Factors

There are two main structural factors which purport to explain the NZLP's economic reform policy: 1) New Zealand's economic crisis; and 2) the international ideological hegemony of neo-liberalism.

3.1 NEW ZEALAND'S ECONOMIC CRISIS

The explanation offered here is that the incoming Labour Government in 1984 was faced with such an acute and imminent economic crisis that it had little option but to introduce drastic economic reform measures. The economy was in virtual melt-down or free-fall, in that the collapse of the exchange rate threatened national bankruptcy. This immediate economic crisis was the culmination of a long period of economic decline since the early 1970s, following UK entry into the European Economic Community (EEC) in 1973, which ended New Zealand's favourable export terms to the UK market; the oil hikes in the early and late 1970s, which precipitated a global recession; and a declining agricultural sector, caused by the collapse of world prices of wool and other primary products. As a result, New Zealand had a chronic balance of payments deficit; its current account deficit rose to 15% of GDP by the mid-1970s; there was a growing public sector debt; a high inflation rate; and a sharply rising level of unemployment.

The previous National Party government, led by Robert Muldoon, exacerbated the underlying weakness of the New Zealand economy by a myriad of disastrous state interventions. As Margaret Clark (husband of Bernie Galvin, head of the Prime Minister's department under Robert Muldoon's National Party premiership) (2001) observes, “The degree of regulation was simply

unbelievable...virtually every pair of scissors required an import licence. There were some regulations in place that weren't far removed from the sort of laws that were floating around Eastern Europe at about the same time". Jim Anderton (backbench Labour MP who opposed the reform programme and established a new party to uphold social democratic traditions, and who is currently Deputy PM to the Labour Party's Helen Clark) argues that "Muldoon...tried to hold the country in a social and economic *stasis*. This eventually built up a head of pressure, and the situation had worsened during the early 1980s to the extent that people were clamouring for some kind of change. Therefore, by 1984, when the fourth Labour government came to power, there was tremendous pressure for economic change". (Anderton 2001a). According to Phil Goff (a Cabinet Minister in the Labour Government), Muldoon and his colleagues "were in denial about what needed to be done. They postponed making some very difficult decisions, which in the long run meant other people having to do it in a much quicker way in more difficult circumstances" (Goff 2001).

In other words, the incoming Labour government was left with no alternative but to bite the bullet and impose severe neo-liberal economic measures on the country. Richard Prebble, the Treasury Minister who, with Roger Douglas was the co-author of the economic reform programme, paints a graphic picture of the dire circumstances in which the new government found itself, and the uncompromising decision that it had to take:

"The group of ministers elected by the caucus to be the Finance ministers were in favour of deregulating Muldoon's programme, which had taken the programme of the loony left...and proved they didn't work. He had full price control, he had gone in for this huge programme of 'Think Big'...He was subsidising sheep, everything. Having gone through the election campaign, attacking the Muldoon government and thinking that I was perhaps exaggerating a little bit, I discovered when I came to office that things were even worse than my worst nightmare. We didn't know that every one of the 'Think Big' projects had a letter from Sir Robert Muldoon, saying if things go wrong, the government will bail you out. In the case of New Zealand Steel, that cost over NZ\$2 billion, a letter of comfort he'd never told Parliament about, or probably hadn't even told his Cabinet. Treasury...briefing documents...showed problem after problem...I put them down, thinking 'We're going to be a one-term government. We've had it. There's no political way of fixing this problem...We've just got to do it...That was the consensus of the Cabinet...There was no way we could get re-elected. It was an appalling situation, and it was going to be touch and go whether we had to call in the IMF. We discussed that for a while and said, 'No, no, if it's got to be done, it's miles better that we do it'" (Prebble 2001).

Colin James, a leading political journalist in New Zealand, says that the reason why the reforms were so extreme, was because the crisis was so severe: "Problems had been building up for years and years...but any day soon it was clear that the dam was going to burst, and we had to act extremely quickly...any application of market liberalisation theory to New Zealand would always be more intense here because things were in such a mess" (James 2001).

3.2 INTERNATIONAL IDEOLOGICAL HEGEMONY OF NEO-LIBERALISM

The second structural explanation for the NZLP's economic reforms is that the reformers were in the grip of the international ideological hegemony of neo-liberalism. Keith Locke (2001) argues that "The government's policies were part of an international current of New Right economics that were developing against the traditional Keynesian approach. It was all about extending the power and reach of global companies and breaking down protectionism. Thatcherism and Reaganism were the two most obvious examples of this. Douglas and his followers were absorbing material such as neo-liberal theory from overseas, and their developing agenda was based upon that. The Treasury had its share of neo-liberals, who in turn captured Douglas and the other Finance Ministers". Anderton (2001b) claims that the NZLP's neo-liberalism "was an internationally-driven initiative". The argument here is that the neo-liberal ideology of Reaganism and Thatcherism was sweeping the West, and the NZLP became entangled in its net. On this view, the so-called Washington Consensus formed an epistemic community which 'imposed' its neo-liberal nostrums on impressionable young rising stars in the NZLP and the Treasury – a group of first generation graduates, beginning to occupy influential positions in the party and the Treasury, whose formative years were in the 1960s, and who were looking for a viable alternative to the failed Keynesianism that had dragged New Zealand to the bottom of the

Western economic league. Several key players in the Treasury had been graduate students in the USA, where they were exposed to neo-liberal economic theories. As Clark (2001) notes:

“Graham Scott, a senior Treasury advisor who has researched his PhD in the USA, was certainly a neo-liberal, as was his close colleague, Roderick Dean. They had been absorbing a lot of the current thinking about economic reform from the United States, throughout the 1970s, when a lot of these ideas started to move into the mainstream away from the fringes such concepts had occupied for years, and this continued until well until the 1980s. Both of these men provided the chief intellectual underpinnings to the entire reform programme here in New Zealand. They maintained close links with neo-liberals in the US and elsewhere”.

Moreover, the Reserve Bank of New Zealand (RBNZ) had, from the late 1970s onwards, established formal links with the International Monetary Fund (IMF) and the World Bank (WB), including sponsorships to enable researchers, economists, Treasury officials and MPs from both main parties to study at several US universities where neo-liberal theories were *de rigueur*. Anderton (2001a) argues that the reformers gained credibility from their association with this external ideology: “What was happening internationally helped the reformers to gain a patina of respectability... They could point to a substantial body of work, which seemed to suggest that this was the way of the future, and because they had access to that work and were well prepared, they seemed to have all the answers”. Kelsey (1995: 55) goes farther, claiming that “The US influence was so pervasive that these theories were implemented in almost undiluted form... Even more dangerous was the application of American theory, such as the radical deregulation of the finance sector, to New Zealand policy without it ever having been adopted as policy in the US”.

4. Agentalist Factors

Turning to the agentalist factors, we find a very different picture of the causes of the NZLP's economic reform programme. Here it is argued that the reforms were not forced upon the NZLP, but deliberately chosen by key actors. There are three main agentalist factors that purport to explain the revolution: 1) pliable political institutions; 2) pragmatic economic culture; and 3) policy entrepreneurs.

4.1 PLIABLE POLITICAL INSTITUTIONS

The argument here is that the New Zealand polity was comparatively easy to manipulate by the reformers, because it offered considerable scope to individual and collective agents to flex their muscles. As Margaret Hayward (private secretary to Labour Prime Minister, Norman Kirk, 1972-75) (2001) puts it:

“Basically, the political institutions allowed Roger [Douglas] to drive the changes through. There were very few checks and balances within the New Zealand political system in those days - some would argue that it is still the case today - and that really helped those promoting a particular economic line immensely. I can't overstate that point enough... they had *carte blanche* to do pretty much as they pleased unchecked... it was ultimately the system that allowed them to get away with it... It speaks volumes about the nature of our democracy that the entire political system, whether governmental institutions or the Labour Party itself, allowed this to happen”

There were three elements of pliability in New Zealand's political system: unicameral legislature; concentration of executive power; and the Labour Party's lax manifesto procedure in 1984.

4.1.1 unicameral legislature

New Zealand has only one parliamentary chamber, which means that there is little check on its power, and therefore passage of the neo-liberal economic reform measures was relatively easily accomplished. As Tony Simpson, policy advisor to current Deputy Prime Minister, Jim Anderton, notes: “we are a very small society with a unicameral legislature. The upper house was abolished in the 1950s as it was seen as ineffective and unnecessary in so small a society, and one can argue that a safety mechanism... that exists in other societies is simply not present here in New Zealand. That, inevitably,

therefore, puts a lot of power into the hands of the legislature, and of course we do not have any developed or meaningful system of powerful regional government” (Simpson 2001).

4.1.2 concentration of executive power

Geoffrey Palmer (Labour Party Prime Minister 1989-90) explains in his book, *Unbridled Power* (1979), that there was a lack of political restraint on the governing political party in New Zealand, because all power was concentrated in the hands of the Prime Minister, the Cabinet, and to a lesser extent the party caucus. Moreover, within the Cabinet, procedures could be waived by the Prime Minister, and this gave powerful ministers such as Roger Douglas an opportunity to manipulate a weak Prime Minister, David Lange (Henderson 1991: 75). Hayward (2001) states that:

“David never gave any leads on anything at all, and he would not face anyone down. Sometimes he would go to quite extraordinary lengths to avoid confrontation, on one occasion sneaking out of a back window to avoid a big argument with a couple of backbench MPs. He never knew what was going to happen until Cabinet meetings got underway because he allowed people like Roger to run the show...David was, and is, a decent human being who always had the best of intentions. His heart was always in the right place, but despite being one of the most intelligent people to hold the premiership, he didn't really know what to do with it, beyond a handful of general ideas that nobody could really disagree with”.

4.1.3 Labour Party's lax manifesto procedure in 1984

Roger Douglas was able to write the general election manifesto for the Labour Party because of lax procedures which operated when Muldoon unexpectedly called an election in July 1984. Normally, the parties' manifestos are prepared in September ready for general elections in November, but this snap election provided Roger Douglas with an opportunity to bypass the normal procedures and draft the party's manifesto without much interference from other party members. As Clark (2001) records:

“By calling a snap July general election in 1984, outside of the usual November cycle, Muldoon unwittingly played into the hands of Roger and his supporters. Election manifestos are normally assembled in the September here before the normal November poll, by special party meetings. There is a wide degree of consultation with the party membership, and the Labour Party had traditionally had an awful lot of input from specialists in particular fields as well as the usual array of interest groups...[But] given that it was a snap election, Labour didn't have the time to go through the normal channels consensus and consultation, therefore the party didn't consult on the manifesto at all...Therefore, one can convincingly argue that party mechanisms eased the passage of the liberalisation programme at a crucial stage from the minds of people like Roger Douglas to the plans for action in the first days of the new government”.

4.2 PRAGMATIC ECONOMIC CULTURE

The argument here is that ideology did not play such a critical role in the NZLP's economic reform process as Kelsey and others claim, because, as Simpson (2001) notes, New Zealand has a very pragmatic culture: “New Zealanders tend not to think ideologically, and are automatically suspicious of those who do...if someone is prepared to make a go of fixing a particular set of problems and presents a convincing and practical case for doing so, then that will automatically command the support of a lot of people. We tend to work along the lines of ‘how can we make it work’ rather than apply pure theory to certain situations as might be the case in other, more socially sophisticated, western democracies”. This is not to say that New Zealanders are always *politically* pragmatic: on the contrary, they are intensely ideological about some political issues, such as the nuclear-free policy and apartheid in South Africa. As Elizabeth McLeay, Professor of Politics at the Victoria University of Wellington, points out, “The nuclear-free policy was highly ideological when realistically we couldn't afford it...it was a huge issue in terms of our standing in the international community and our political alliances with countries like the US, Australia and the UK...[which] were absolutely critical for our defence and national security. We're just a small country, and we need friends. The nuclear-free issue was...intensely ideological because it wasn't necessarily in New Zealand's best interests to pursue it. So although New Zealanders may profess to instinctively shy away from big ideas and claim to be suspicious of them and those who promote such viewpoints, we're ultimately as ideological as anyone

else” (McLeay 2001). However, on *economic* issues, it seems that New Zealanders are (or at least were, up to the 1980s) pragmatic rather than ideological.

On this interpretation, the economic neo-liberals were able to prevail, not because of their ideological credentials, but because they were the only people who seemed to know anything about economics. There was a high level of ignorance about economics within the ranks of the Labour Party, as Hayward (2001) observes:

“The press didn’t discuss such issues - they were seen as the preserve of a handful of specialists, pretty much speaking a language of their own. Besides, there is a bit of anti-intellectual reverse snobbery in New Zealand; we’re not all quite horny-handed sons and daughters of toil, but some would have you believe that stereotype. We were very ignorant about economics as a political party back then. People were more concerned about social and foreign policy issues than economic affairs...There was a real obsession about one or two big themes, such as the nuclear free issues and Maori affairs...it’s frightening to think that, looking back, we were not having any debates at all about the economic crisis New Zealand was heading towards. I remember that in Labour Party meetings at the highest level, Ministers and MPs were scared to question Roger in case they lost face by showing their ignorance about financial matters”.

Michael Bassett, a Cabinet Minister in the fourth Labour Government, agrees, claiming that this economic illiteracy had dogged the fortunes of the NZLP for generations:

“there has always been a vacuum in the Labour Party’s economic thinking...There have always been plenty of wish lists floating around but no sound thinking. There has always been a tendency for activists, senior MPs, Cabinet ministers and others involved in the policy-making process to focus on social issues and foreign affairs rather than come up with a programme of economic reform or a coherent strategy for economic management. One could convincingly argue that this is one of the reasons why the Labour Party has spent so many years of its life in opposition. We were traditionally never trusted with the economy anyway, even during the brief period when we did form governments, which were usually very short-lived...I don’t remember many serious debates about economic strategy during my lifetime in the Labour Party...It wasn’t until the fourth Labour government came along in 1984 that you had a critical mass of people who were economically literate” (Bassett 2001).

That the economic literacy shown by the reformers was not based on obeisance to ideological truths derived from foreign scholars, is confirmed by Bassett (2001):

“I have now interviewed more than half of the Cabinet that took office on 26 July 1984, and amongst the standard questions I asked is ‘Do you recall being influenced by any significant book of opinion about economic management in the years immediately prior to 1984 that you feel assisted with the tasks that confronted us as a government? Were you inspired to reach for any as the government got underway after 1984?’. Not one former minister, including Roger Douglas and Richard Prebble, has cited a book, or an event, or a person, let alone a body of opinion, that influenced them”.

Goff adds further testimony, rejecting Kelsey’s claim that the reformers were heavily influenced by US neo-liberal ideology:

“I totally deny the hypothesis of Jane Kelsey and others. I had read Hayek and Friedman, but only as an economics student several years before, and certainly not from the viewpoint of a politician looking for a theoretical blueprint. It was an entirely pragmatic thing. New Zealand faced some very difficult and extremely unpleasant economic realities, and we had to be mature enough to face up to those...but there was no ideological slant to it whatsoever from my point of view, and I believe that it’s very disingenuous of Jane Kelsey and many others like her to suggest otherwise. The idea that there was some kind of US-led plot to experiment with the effects of neo-liberal reforms on the New Zealand economy is one of the more extreme myths that I’ve heard this group of people peddle. Ultimately, as a Labour Government we faced a given set of problems and pragmatically we applied a given set of solutions to address those problems in the way that we saw best” (Goff 2001).

Similarly, Richard Prebble, Douglas's principal henchman, affirms that their reforms were based essentially on an indigenous, pragmatic, rather than an external, ideological, foundation:

"There were many indigenous ideas floating around. It was a New Zealand problem and we looked at it pragmatically, although we were looking too at what was happening overseas. Although a lot of theory was being widely read and discussed by the reformers, they were, all of them, practical, not theoretical politicians...I am a pragmatic person...I want practical and pragmatic solutions that will work. Nothing else interests me...I was resistant to external proposals such as what later became Thatcherism, which was selling off state assets for less than they are worth...I argued early on that the high inflation rate was resulting in a shift of wealth from Labour's natural constituency...it was a very real problem for lots of Labour-voting pensioners" (Prebble 2001).

Roger Douglas was, in fact, a polymath rather than an ideologue: he was not in thrall to any particular set of ideas, but read widely across the economic *piste*, as Bassett (2001) recalls: "Roger was always an eclectic reader who provided his own unique intellectual underpinnings. He had an interesting collection of friends that he bounced ideas off, and they were all reading widely". Indeed, Douglas was something of a maverick. Hayward (2001) notes that during the third Labour Government, he "was the exact opposite of what he later became. He was one of the most interventionist and pro-state figures around: as a minister, he even wanted women to be given what became known as baby bonuses, effectively extra cash from the state for producing children, which all seems very Eastern bloc, looking back". But she points out that, at the same time, Douglas co-authored a controversial pamphlet called *The Red Book*, which proposed to reduce the power of trade unions in decision-making.

All this suggests that Douglas was very much his own man, choosing policies instrumentally to suit circumstances, and rejecting ideological labelling: "I don't think that I've ever regarded myself as 'wet' or 'dry', although I've been labelled both at different times" (Douglas 1993: 7). Indeed, for Sheppard (1999: 11), this is the key to his success: "Douglas would never have been able to proceed with his agenda had he actually been just another ideological zealot, a guise in which he is often depicted. He was, in fact, a canny political operator". James (2001) states that "Roger was never deeply into the theory side. He saw it as practical and not as ideological". In Clark's view (2001), far from being used by international neo-liberalism, Douglas made use of it to serve his own ends: "given that there was a world-wide trend towards deregulation and market liberalisation, this undoubtedly helped Douglas to push his own agenda through". As Stephen Church (2001) puts it, "Like most New Zealanders, he [Douglas] was a pragmatist prepared to use any means to fix a particular problem. New Right Theory, in his view, provided the solution to New Zealand's economic problems. Through these he formed a coherent plan".

There are also several practical reasons why the economic reforms resonated with the New Zealand public. One reason is that New Zealanders were frustrated not only by the extensive economic restrictions imposed upon them, but also by the oppressive social restrictions that they had to bear. As Clark (2001) points out, "It wasn't just about economic restrictions...New Zealand was socially too a very regulated society...our licensing laws were just one step away from prohibition...The point was that because people felt so tightly regulated, politicians like Roger Douglas...had a hook, something to latch the case for reform on to".

Another reason is that market liberalism was portrayed by the reformers as the best means to achieve the ends of social democracy. Goff (2001) recalls that "We were all of the view that tackling economic weaknesses and creating a strong economy would be the best way to combat poverty and social inequality". James (2001) holds that the reformers "saw themselves as traditional social democrats. Roger Douglas' 'mechanisms' were aimed at bringing about a greater degree of social justice in the sense of making people independent, so it started out as mainstream Labour Party stuff". Simpson (2001) explains that "The message was sold in the first instance that if we got the economy right, we would be in a position to deliver the social equity that was also being demanded. A classic case of making people wait and getting them to tighten their belts. People really wanted to believe it, and there was such a lot of goodwill towards the new Labour government...After a long period of National Party rule, people were prepared to give the benefit of the doubt on a lot of issues". More cynically, Kelsey (1995: 33) interprets the phrases employed by Douglas – such as "a fair tax system" and "the targeting

of public resources to those in greatest need” - as using the language of social democracy to sell the economic policies of neo-liberalism.

Finally, there is pragmatism in the fact that the NZLP combined neo-liberal economic policies with at least some left wing social and foreign policies. For instance, McLeay (2001) notes that “as regards housing, Labour adopted a very traditional approach, and did not uncritically adopt Treasury’s ideas”. Although some market solutions were attempted in social policies, nevertheless, state spending on education, health, and Maori welfare was increased “dramatically” during 1984-90, and an explicit centre left agenda was pursued on Maori land rights and on nuclear powered and armed warships, as Pat Moloney, a political theorist at the Victoria University of Wellington, points out:

“Under the fourth Labour government, we had economic liberalism but not social liberalism, and that’s very unusual. I can’t really think of anywhere else in the world where that’s been the case. On the one hand, the fourth Labour government was pursuing this extremely radical privatisation programme...whilst on the other hand, they were strong on environmental protection, opposing the apartheid regime in South Africa, and...the whole nuclear-free policy...with the fourth Labour government in the 1980s, we had a New Right of sorts, but without one wing” (Moloney 2001).

4.3 POLICY ENTREPRENEURS

The third agential factor is policy entrepreneurs. Here the argument is that even with pliable political institutions and a pragmatic economic culture, the NZLP’s economic revolution would not have occurred without energetic ‘policy entrepreneurs’ or champions of the reform programme. The main policy entrepreneur was Roger Douglas, who, as Labour’s Finance Minister, oversaw the inception and implementation of the reforms. Douglas played such a pivotal role that the reforms were popularly known as ‘Rogernomics’, and his associates were called ‘Rogernomes’. Douglas’s strong personality dominated the fourth Labour government, and he was the central figure in the Cabinet. Indeed, Prebble (2001) argues that Douglas was effectively Prime Minister: “I think David Lange discovered it had become a Roger Douglas and not a David Lange government. David lacked the essential qualities of leadership. He was a nice guy...and probably the most intelligent person ever to be Prime Minister of New Zealand. He lost control, and in some ways was just too nice, and not prepared to face people down or make the sort of difficult decisions that leadership by its very nature demands”. Hayward (2001) confirms this picture of Lange: “Lange was the front man...He was a weak leader. Perhaps he was something of a stooge...Lange couldn’t say no to anyone”. Douglas not only overwhelmed Lange, but he skilfully wrong-footed his opponents. He declared that during the reform process, “I had the principle that it was much harder to shoot me down if I kept one step ahead” (quoted in Russell 1996: 53). Kelsey (1995: 33) states that Douglas’s “critics and opponents were always on the defensive and left debating last week’s reforms”.

Douglas had begun preparing the ground for this seminal role many years before the election of the fourth Labour Government. He had served as a junior minister in the third Labour Government (1972-75), when he started to lay the groundwork for a shift in economic policy, through his advocacy of tax reform. By the early 1980s, when the Labour Party had returned to opposition, Douglas resigned his shadow ministerial responsibilities to develop new ideas on economic restructuring. Two key figures accompanied him in carrying out this aim, both junior finance ministers – Richard Prebble and David Caygill – who with Douglas formed the so-called ‘Treasury Troika’. Kelsey (1995: 32) writes that “David Caygill...was the more intellectual, able to present the case for liberalisation in its theoretical terms. Richard Prebble...was forceful and streetwise, able to argue the case with dissenting groups inside and outside the party”. Outside the Treasury circle, Michael Bassett, a subsequent Internal Affairs Minister, was a strong supporter of the reform programme, as was Trevor de Cleene. Together with several others in the parliamentary Labour Party, this group formed, as James (2001) puts it, “an elite. They were selected [as Labour Party candidates] because...they were the brightest and best available. They accepted a leadership role and accepted the divorce from ordinary New Zealanders that that brought with it”. Hayward (2001) describes the crucial role of this group:

“There was a group within the parliamentary party who were becoming increasingly economically literate by the end of the 1970s and certainly by the beginning of the 1980s. They were the only ones bothering to do any thinking or even any reading on economic

affairs, so basically they had the run of the show...the sad thing was that nobody else in the Labour Party or the wider media or public showed any interest whatsoever in discussing economic issues...the economic debate completely by-passed the vast majority of party members, including, eventually, the Prime Minister himself. This small group led by Roger played a very canny game. They started off by talking about the need for economic regeneration in New Zealand in such general terms, that it would be impossible for anyone to disagree with them...Specific policies of how to go about achieving this economic regeneration were not mentioned or defined at this stage, and that was a deliberate tactic on the part of Roger, Richard and others”

Douglas extended this network to prominent figures outside parliament, including key figures in the Business Roundtable, and officials in the Treasury. Indeed, in the early 1980s, a number of Treasury aides were seconded to Labour Party front bench speakers (Douglas rejoined the opposition front bench team in 1983), and there was a gradual consensus within these “policy communities” (Goldfinch 2000) that if Labour won the 1984 election, it would pursue a deregulatory economic policy. The network was at one time known as the ‘Talavera Group’ (the name deriving from the street in Wellington where Douglas lived), and resembled a talking shop or forum, rather than a think tank, as Clark (2001) recalls:

“It was basically a talking shop, and not a properly constituted think tank in the formal sense that we would understand one to be today...there’s no tradition of think tanks in New Zealand at all until the fourth Labour government period...However, what Roger and the others established in the early 1980s was, above all else, a forum in which key economic ideas were kicked around and played with openly, and that was something quite unique in New Zealand...those involved all had similar ideas though they didn’t necessarily know how to articulate them, but they were talking amongst friends...The forum allowed people to air their views and discuss some of the international material that was being circulated by Roger, Richard and the others. This was very important, because it allowed a local slant to be put on things, and it provided the opportunity for ideas to be thrashed out as to how things would work in New Zealand should a more orthodox economic programme be implemented...This was, in essence, the elite of the parliamentary Labour Party in those days. They were joined by a number of academics and thinkers, occasionally by people from overseas or those who had visited Britain or the United States recently, to report back on their experiences...Needless to say, Roger dominated the proceedings through sheer force of personality”.

Bassett (2001) is anxious to refute the suggestion that there was any improper contact between Treasury civil servants and the opposition party: “The idea that key Treasury advisors underpinned the reform process intellectually is a bit simplistic, and is one that is certainly overplayed in the media and elsewhere. Certainly there was no close association between Roger Douglas and Graham Scott [a senior treasury official] until the Labour Party won office in 1984...As far as the then Reserve Bank director, Rod Dean, was concerned, it would have been most improper for him or any other Treasury official to be in league with the opposition finance spokesman before 1984”. Nevertheless, it seems clear that a neo-liberal ‘epistemic community’ of like-minded people was being deliberately engineered by Douglas during the late 1970s and early 1980s.

Moreover, when Labour assumed office, the path of the reformers was smoothed by a deliberate policy of ‘managing’ ministers who were outside the neo-liberal circle, as Simpson (2001) explains:

“Possible dissent was dealt with in three different ways, but it was always carefully planned. First, the most extreme option was to isolate people as far as possible, and that’s what happened with Jim [Alderton]. That was very much the nuclear option, applied to people who were completely beyond the pale, and totally damned, as far as the Labour Party’s neo-liberals like Roger [Douglas] and Richard [Prebble] were concerned. Their lives would be made difficult in parliament, pressure applied to their constituency parties to deselect them, and so on. However, it did get to the stage where individual MPs like Jim...became heroes with their local parties because of the line they took in opposing what was a very extreme set of neo-liberal policies. They had to be careful on that one because it could backfire quite easily. Second, some individuals could, not to put too fine a point on it, be bought off. On one level, this included ministerial preferment, but it could also take the form of overseas travel, appointments to various bodies, and so on...Third, there was the particularly New Zealand option of overburdening potential dissenting voices within the government, whether at junior

ministerial level or within the ranks of the Cabinet. Some would identify Helen Clark¹ as falling within that category...there were some people who were so overburdened by office...that...they just didn't have the opportunity to...think about what was happening and the direction in which the party was taking the country, until it was too late".

Also, there was a lot of "peer pressure" exerted on Labour MPs not to rock the boat, because, as Simpson (2001) points out, "The Labour Party has never been particularly successful electorally in New Zealand - it usually loses elections", and so Labour MPs felt a particular responsibility to make things work.

5. Conclusion

In this analysis of the extraordinary *volte face* in economic policy undertaken by the New Zealand Labour Party in 1984-90, we have identified two structural and three agential factors that help to explain why it happened. Our evaluation of these factors leads us to conclude that the agential factors are more important than the structural factors. That is to say, we interpret Labour's economic revolution as brought about more by the deliberate choice of certain actors, than by decisions forced upon the party. With regard to the first structural factor, while it is true that New Zealand's dire economic straits necessitated drastic cuts in 1984, it is not clear that a policy of extreme neo-liberalism was the only possible response. The NZLP could have adopted a policy of currency devaluation, financial controls and economic restrictions in the hope of weathering the immediate crisis, without abandoning its social democratic economic credentials. The party deliberately chose not to adopt such an approach, because the reformers judged it to be a 'sticking plaster' solution, not addressing the underlying weaknesses of the New Zealand economy. As for the second structural factor, it is even less convincing to argue that the reformers introduced neo-liberal measures because they were in the grip of a hegemonic global ideology. While they were certainly influenced by external currents of neo-liberal economic thinking, they were essentially pragmatic operators, and they customised such thinking to suit the situation in New Zealand. In other words, they used neo-liberalism for their purposes: it did not use them for its purposes. Moreover, the malleable political institutions in New Zealand, and the energy and organisational skills of the central players like Douglas and Prebble, were crucial factors for the success of the reform project. On the whole, therefore, the NZLP's about-turn on economic policy in 1984-90 exemplifies the power of agency more than the power of structure. Whether the subsequent endorsement of that policy shift by the National Party government during the 1990s, and the partial reversal of neo-liberal economics by the fifth Labour Party government during the 2000s, are also examples of agential rather than structural forces, is another story.

¹ Helen Clark served as Minister for Conservation and Housing (1987-88), Minister for Health (1988-89), and Deputy Prime Minister (1999-90). She was Deputy Leader of the Labour Opposition (1990-93), Leader of the Labour Opposition (1993-99), and has been Labour Prime Minister since 1999.

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