

Roger Douglas' Way

John Hyde

The New Zealand economy is not out of the woods yet, but structural reform, nicknamed Rogernomics after Roger Douglas, the Minister of Finance who oversaw, encouraged and led it, has made a future prosperous New Zealand a distinct possibility. There has been nothing as radical as Rogernomics, not even Thatcherism, since the reforms that produced the Asian Tigers---Korea, Hong Kong, Taiwan and Singapore. It therefore fascinates economists.

New Zealand's reforms were, moreover, achieved within the framework of democracy, and have necessarily called for fundamental changes in attitudes. The reforms are, therefore, a remarkable political phenomenon---a phenomenon with lessons for Australians, who are currently cynical and despairing about their own politics. Our economy is drifting toward problems of a similar magnitude to those which beset New Zealand, yet the Hawke government is drifting also. Instead of marshalling resources behind a strategy to reverse our decline, it is preoccupied with gamesmanship---the pilots dispute, chasing the Green vote, an unprincipled subsidy for Kodak, and so on. Most of its low-quality decisions are traced to the Prime Minister and Labor is no longer believed to be well led.

In spite of widespread disenchantment with Labor, there is no enthusiasm for the Opposition. People are as cynical about them: "They won't do it." "The men of principle have been sidelined." "Leopards don't change their spots." Many voters expect a Coalition government to return to the ways of the young old-men of the Fraser years. They doubt that Peacock has the stomach for dealing with our long-run structural problems, and sadly some businessmen again believe the Liberal Party can be bribed and bullied into handing over tariffs and regulations. Here too, leadership is a perceived problem.

Not only are not all Prime Ministers leaders, but some leaders are not Prime Ministers. Douglas, who is a hero among free-market liberals, is such a leader. He recently addressed a meeting in Christchurch of the Mont Pelerin Society. His topic was "The Politics of Successful Structural Reform". Some of the finest minds in the world, from Nobel Laureates down, listened very carefully to him.

These scholars have long known, and preached, more-or-less what is necessary to avoid and, in economic terms to reverse, the British Disease, the Dutch Disease, the New Zealand Disease, the Australian Disease, etc. What is more, the world has provided them with more than enough field evidence to confirm their theories. But they have not devised a political strategy to implement their recommendations. Instead, their theories about politics tend to be pessimistic. Public choice theory, which explains very well why politicians damaged the New Zealand and Australian economies, encourages them to expect lawmakers go on kowtowing to vested interests and treating the next election as the end of time.

Yet there was Douglas, with the authority that comes with success, arguing that politicians' real interests coincide with those of their electorates. He claimed that "quality decisions", far from being politically impossible, are the key to structural reform and also to political success in government. "[Politicians and voters] can take the costs upfront for larger medium-term gains; or focus on short-run satisfaction to be sandbagged later by the accumulated costs.

"Voters ultimately place a higher value on enhancing their medium-term prospects than on action that looks successful short-term, but only by sacrificing larger and more enduring future gains....

"There is a deep well of realism and common sense among ordinary people....[who] accept low incomes as students to earn more later...save for old age and invest for their children. They want politicians to have guts and vision to deliver sustainable gains in living standard.

"[Only] inadequate politicians see instant popularity as the key to power. If their rating slips, they feel threatened. They look for policies with instant appeal to create continuous public bliss." In this class of political behaviour Douglas cited the package of interest rate subsidies on home loan mortgages offered during the South Australian election first by the Liberals and then by Labor.

Mr Douglas contends that where the Lange government implemented quality policies the polls show on-going voter approval for them, and wherever it stopped short of quality the polls show rising disapproval. He defines "Quality" as the actions which deliver most benefit to the nation in the medium term.

His is an optimistic view of politics in which it is possible for politicians to do what they believe is right for the longer run, be frank and be popular---all at the same time. The electorate, at least under some circumstances, will vote for politicians who take away subsidies, tariffs and other privileges. (Next week I will write about what Douglas believes is necessary to produce those circumstances.)

Roger Douglas was almost certainly a necessary condition for Rogernomics. He was not, however, a sufficient condition.

Circumstance and bad politics had taken New Zealanders to the edge of an abyss and they had peered into it at the bones of nations, such as Argentina, whose people had thought that they could go on living on privileges financed by each other. New Zealanders had already been influenced by the world-wide revival of classical-liberal ideas. These had been made respectable again by the abject failure of socialism and by organisations such as the Mont Pelerin society and its host, the Sydney-based Centre for Independent Studies. New Zealand's senior bureaucrats in Treasury and the Reserve Bank were economically literate and cared. All of these other circumstances apply with approximately equal force to Australia now. Who, however, is our Roger Douglas?

In the end we die and only our reputations remain. For those politicians who are unconvinced by the foregoing, Douglas has this thought: "The politicians who sought success through ad hoc solutions which evaded real problems damaged the nation and destroyed their own reputations."

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