Published
14-6-85

OS133.DO
New Zealand and Sri Lanka

Ideas have a great ubiquity, often ignoring professed political creeds. It is not only, or even mainly, Thatcher's Britain and Reagan's United States that are deregulating. Free markets are again in vogue in such unlikely places as Communist China and Hungary. The deregulating economies have sometimes made spectacular gains. An instance is China's now relatively unfettered agriculture, that is the bane of the Australian wheat farmer who must compete with it, with his hands tied by the Australian Wheat Board and Bulk Handling Authorities.

Australia has not been to the fore of this deregulation trend.

Two small economies, more or less at our end of the world, which made more or less our errors sooner and more largely, but which have now recanted more resolutely, merit our notice. They are Sri Lanka, which began a bold experiment with democratic capitalism in 1977, and New Zealand which began its bold experiment last year.

It has been common among critics of free markets to credit the rags-to-riches saga of Hong Kong, South Korea, Taiwan and Singapore to an ill-defined Confucian ethic (which somehow failed Mainland China and North Korea); to city state status (which applies to only two of the four); to US or British ties; to the absence of full democracy; to the 1960s and 1970s which have now passed; to anything other than the free enterprise, open economies the four adopted. None of these explanations will serve to explain Sri Lanka's emergance from the ranks of the stagnant non- developing countries. Sri Lankans are not Confucian and are in fact little different from a billion other South Asians.

Although bedevilled by racial differences from the start, at independance in 1948, Sri Lanka was in much better economic shape than Hong Kong, South Korea, Singapore or Taiwan. A democracy, Sri Lanka has been governed by alternate nominally socialist and nominally conservative governments which taxed, rationed, regulated, nationalised and restricted imports. From 1961 to 1977 the public share of measured GDP rose fron 2% to 70%. By the first half of the seventies economic growth was a bare 3% (about the same as Australia) and per capita growth was only 1% (worse than Australia). Unemployment reached 25%. A failing economy caused politics to fail. Continuing declarations of states of emergency abrogated basic human rights such as equality before the law and press freedom.

In 1977 the present president, J.R. Jayewardene, a conservative, was elected, offering constitutional guarantees of human rights, and economic reforms which included free trade, a floating exchange rate, and a free market private economy: in short, constitutional, democratic capitalism.

Of course it did not all happen over night, but Jayewardene moved quickly to float the currency, slash tariffs, abolish import and export licences, and abolish most price controls and the attendant rationing. Welfare was restricted to the needy. Need was determined by income. The highest rate of income tax was reduced from 70 to 55 percent, corporate tax reduced from 60 to 40 percent and capital gains tax abolished on shares. A free trade zone was created, public enterprises privatised or forced to compete, and much more.

Real annual economic growth rates rose to 5.5% and real per capita income rose by 20%. In varying degrees, the improved living standards affected all sectors. Inflation fell from 35% to 10%, the budget deficit from 20% of GDP to 10% and the budget itself was cut by 35%.

Contrary to initial predictions President Jayewardene, and his parliament have, in separate polls, been re-elected. Like Margaret Thatcher he gives the lie to the argument that economic reform is "politically impossible".

Across the Tasman another leader, this time a nominal socialist, is starting another experiment with freedom. Behind a smoke screen of Nuclear Free Zones and Anzus, needed to placate the mad left of his party, Mr. Lange is trying to rescue his country from economic disaster. Already he has floated the exchange rate; terminating all exchange controls; abolished all price, wage and imterest controls; abolished most subsidies, including those to the public sector; taken a long stride toward free trade; and revamped the tax system. While Australians talked and strove for a skewed, and quite artificial, consensus, New Zealand acted. Mr. Lange has a small advantage over Mr Hawke, in that he has no 'wet' Senate to frustrate his 'dry' measures as the Australian Senate has blocked, amended or slowed the passage of legislation to impose assets tests, to restrict ex-service benefits, to auction off petroleum exploration lisences and to deregulate the dairy industry. But the biggest difference is Mr. Lange's willingness to accept very coventional treasury advice and act upon it.

I felt a sense of deja vu when I read that Mr Tizard, NZ Minister for Energy, had declared that he was sick of Cabinet Ministers being lectured on the fundamentals of Friedmanism. It seems that, the world over, it is difficult for treasury officials to explain the fundamentals of anything to cabinet ministers without bruising their egos so that at the end of the day they reject what is being said and with it the national interest. Mr Lange's "he's wrong" sounded very like Mrs Thatcher's "he's wet".

Of course the jury is still out on Langeism, and it must stay out for some two to five years yet, but Australians have no more relevant or easily observed social laboratory to study than the one next door. It seems that Lange, like Thatcher, is not to be cowered by opinion polls - or the Timaru by-election. However, should Mr. Lange lose the next election, as well he may, whether dry Nationals will take over where he left off or whether Muldoon wetness will again prevail is an open question. Many Nationals, with the smell of blood in their nostrils, like many Liberals in Australia, criticise whatever is unpopular aligning themselves with vested interests against the Nation. They behave as Labour behaved in Opposition. Not many of Lange's troops are willing to risk their seats for something as peripheral to their immediate interests as New Zealand's long future. Mrs Thatcher, Mr Keating, Mr Howard, and no doubt President Jayewardene, would all understand Mr Lange's position.

The New Zealand experiment is as much political as economic. Lange is attempting to repeat Jayewardene's proof that, given the right circumstances, a democrat can successfully persue long run economic goals. It matters little whether he is inspired in his persuit by Thatcher, Jayewardene or - pace the left - Deng Xao Ping.