Imagine a country in which personal income tax, company tax and fringe-benefit tax have been abolished, and the government debt repaid. The goods and services tax stands at 12.5 per cent, and is soon to start falling; other indirect taxes have been either abolished or converted into user charges. Government spending is about half its present level, and still falling.

Such utopianism is unfashionable in these anti-ideological times. Yet this is the vision for New Zealand in the year 2013 that Sir Roger Douglas depicts in his new book. Given Douglas’s spectacular and unexpected success in dismantling most of New Zealand’s supply-side obstacles while Finance Minister in 1984–88, his proposals for completing the country’s liberalisation deserve to be taken seriously.

Douglas gives a detailed account of how his reform drive was halted in early 1988, when David Lange, then New Zealand’s Prime Minister, cancelled a Cabinet-approved fiscal-reform package including a 23 per cent flat-rate income tax, a guaranteed minimum family income scheme, and means-tested user charges for some government services. The National government elected in 1990 introduced some user charges and deregulated the labour market, but otherwise failed to resume the reform momentum. It lost interest in the privatisation program. In his chapter on New Zealand’s state-owned enterprises, Douglas argues that the fate of the Electricity Corporation shows that the gains of corporatisation must be consolidated by privatisation if they are not to be eroded by political forces. Even the privatised utilities are not safe: Telecom is required to maintain the existing nationwide telephone service, and is consequently losing market share faster than expected to its competitor, Clear Communication.

The fiscal situation is even worse. Public spending in New Zealand’s absorbs 40 per cent of GDP annually, the budget deficit 7 per cent; government debt now amounts to 66 per cent of GDP. Debt-servicing costs are rising and forcing a re-evaluation of government services. Most of Unfinished Business is devoted to schemes for getting government out of direct service financing and delivery in education and health care, and replacing the current disastrous pay-as-you-go national superannuation scheme with a properly funded private alternative. Douglas’s defence of this approach is straightforward. ‘Why do we insist on taxing middle-income people heavily, only to give their money back to them in some way?
Wouldn’t it be better to dramatically reduce taxes for these people and let them buy the services they need directly, e.g., education and health. This would allow the government to concentrate on those who need help’ (p.59). The very simplicity of the argument will be resented and distrusted by those who prefer things to be obscure and complicated, so that only they can understand them.

Douglas claims that his beliefs and general philosophy stem from his association with the New Zealand Labour Party. This seems strange only to those social democrats who are more attached to means than to ends: who believe that only big government can guarantee social justice. Yet Douglas prescribes a degree of compulsion and redistribution that confirms his social-democratic pedigree and distinguishes him from the strict libertarian. All adults would be obliged to have their children educated, to take out health insurance (including for post-retirement health needs), and to invest a minimum capital sum of NZ$122,500 in a superannuation scheme. The poor would be protected by a range of measures: a Guaranteed Minimum Family Income and direct help with education, health and superannuation expenses. By thus being brought into the market for basic services, the poor would be less likely than now to lapse into dependency; and the poverty traps that accompany selective welfare programs would be largely eliminated by deep cuts in income tax.

Douglas’s impatience with libertarian sensibilities, and his desire to ensure that everyone makes the best of himself through his own efforts, reappear in a section on the problems of New Zealand’s indigenous people. While on this subject he is refreshingly free from patronising sentimentality, he fears that emphasis on ownership rights to land and fisheries threatens to turn Maori into absentee landlords, whose rents would amount to a new form of welfare hand-out just as demoralising as the present kind. The prosperity of the human race now depends on information and technology, and Maori need to come to terms with this along with everyone else. There is no reason in principle why they shouldn’t recover the entrepreneurial spirit they displayed in the 1840s and 1850s.

Are the reforms likely to happen? Unfinished Business reproduces Roger Douglas’s now famous 1989 speech on the politics of reform, which says that reform should proceed swiftly and on a broad front, so as to bring on the benefits of reform as fast as possible to compensate each sector for the pain of restructuring. But in recent years economic reform has been discredited by the recession; and resuming the reform drive of the mid-1980s will be hard. Douglas correctly recognises that reform programs must ensure that those who bear the brunt of reform are kept safe during the transition; hence his emphasis on providing a generous welfare safety-net.

But who will carry out the reforms? Douglas is now disillusioned with the New Zealand Labour Party; indeed, all the existing political parties are ‘absolutely committed, with minor variations, to the same old worn-out recipes for economic and social disaster. We waste our time trying to distinguish between them’ (p.253). He stands ready to form a new party, which, under New Zealand’s new proportional-representation electoral system, would probably obtain a few seats. He proposes
that some reforms be enshrined in legislation, as the independence of the Reserve Bank already is; an obvious candidate is a balanced-budget rule. He also suggests subjecting government White Papers and party manifestoes to extra-parliamentary, independent audit.

The strongest pressure for reform will come from the costs of not reforming: mounting fiscal crisis, leading eventually to disinvestment, stagnation and decline. But a necessary condition of successful reform is a coherent program of mutually reinforcing measures. New Zealanders are fortunate to have had such a comprehensive and lucidly presented example of one placed before them. It's a pity no one tidied up the frequently inadequate referencing or compiled an index.

Michael James is Editor of Agenda.

Too Much of a Good Thing


Reviewed by H. M. Boot.

Governments have a strong incentive to be seen to be doing something in labour markets at times of high unemployment. This is as true of a government led by Mrs Thatcher as of one led by Paul Keating. In the 1980s public spending on vocational training in Britain increased in real terms by more than 300 per cent to reach £3 billion by 1989. Youth-training schemes, expanded from one to two years, were made virtually compulsory for unemployed school leavers, and the numbers on training programs rose by over five times. Qualifications obtained from these programs are 'competency-based', and certified National Vocational Qualifications (NVQs) range from semi-skilled to post-graduate equivalent levels. It is anticipated that 80 per cent of the work-force will be in jobs where an NVQ framework is installed by the end of 1992.

The parallels between these features and recent proposals to develop government-financed training programs in Australia under the Prime Minister's One Nation statement and the Carmichael Report are unmistakable. The only significant difference is that Australia, having started rather later, is not yet as far advanced as Britain. As in Australia, there are few people in Britain willing to face the howls of abuse likely to greet anyone willing to question these developments. J. R. Shackleton, the author of this book, is willing to take that risk.

Training Too Much? focuses on three main issues: the failure of British conservative governments to provide adequate justification for large-scale intervention in vocational training; the lack of effective evaluation of the net benefits derived