

The Evolution of a Corporatist State in New Zealand:  
The National Party and New Zealand's Political-Economic  
Development in the 1980s and Beyond

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## Chapter 1

### Future Development Paths for New Zealand: A Corporatist Framework

The 1970s was a turbulent decade for New Zealand. After reaching an all time high in its terms of trade in 1973, the first "oil shock" sent them plummeting. The impact of low terms of trade for New Zealand was exacerbated by a declining growth in primary product exports. The balance of payments deficit soared, inflation was rampant. To win an all too temporary respite, the deflationary policies the Government felt compelled to implement resulted in "what the OECD has described as perhaps the most serious recession in the OECD area, involving a decline in real income per head, net emigration, and rising unemployment."<sup>1</sup>

While the terms of trade have improved somewhat since the mid-seventies, and agricultural production has shown increasing signs of vitality, New Zealand's balance of payments problem, growing unemployment and excessive rate of inflation seem to be endemic. The second "oil shock" in 1979, and the possibility of future "shocks", the steadily rising current account deficit characterized by the growing deficit on invisibles which is cancelling out increasing export receipts and a balance of trade surplus, combined with a burgeoning government deficit, declining rates of investment and productivity improvement, are all factors which must be dealt with in order to overcome New Zealand's current economic malaise.

It is in this context that the 1981 election must be decided. New Zealand must find new solutions to basic problems which only seem to be growing worse. Such solutions will, of necessity, have to involve an explicit commitment to the fundamental course New Zealand's future economic and social development will take. Short-term, ad hoc solutions will not suffice. Thus, the National Party campaigned on more than just policy proposals to be implemented over the next three years;

it was offering the New Zealand electorate a comprehensive set of policy proposals purported to ensure prosperity and growth for New Zealand well into the next century. Yet, despite the importance of the National Party's development strategy given the recent electoral outcome, little serious attention has been given to actually assessing the socioeconomic and political implications of the direction in which this development strategy will guide New Zealand's future. In this study, I hope to offer such a critical assessment.

The critical assessment of the socioeconomic and political implications of the National Party's development strategy, however, requires more than just rigorous scrutiny of the National Party's specific policies and development plans. The National Party's development strategy can be evaluated properly only within the context of the broad institutional framework which comprises the New Zealand system of government. The National Party has been the party in government in New Zealand, with the exception of the brief Labour Party Governments of 1957-60 and 1972-75 since 1949, making it essentially the dominant party in the postwar era in New Zealand. Thus, the National Party has presided over those trends evident in all advanced western democracies since the end of World War II: the growing concentration of executive power within government, increasing government intervention in both the economy and in the lives of its citizens, and the marked expansion and maturation of a bureaucratic infra-structure now indispensable to the proper functioning of modern government. It seems almost inconceivable that these trends in the development of New Zealand's system of government, over which the National Party had an almost exclusive direct influence, would not, in some way, be reflected in the development strategy the National Party is putting forward



for guiding New Zealand's destiny into the next century. More likely, those interests which have predominated within the National Party as it shaped New Zealand's current system of government would also predominate as the National Party plotted out the development path for New Zealand in the decades ahead.

In this sense, the National Party's 1981 electoral victory has implications which reach far wider than just the next three years or even three decades; the National Party's most recent electoral success represents the continuation of an evolutionary process within the New Zealand system of government which the National Party has directed for almost 30 years. Similarly, I have chosen to examine only the National Party's development strategy within the current broad framework of the New Zealand system of government not just because it was the winner in the November elections, but because the National Party has so dominated and shaped that system of government since 1949.

A specific theory of corporatism would seem to offer the most insightful theoretical model for the present study. Essentially, theories of corporatism attempt to develop a conceptual framework for the interaction of the state and various types of "interest groups" within a society. Modern corporatism has many historical antecedents, dating back to the feudal institutions of medieval Europe.

As Panitch explains:

Although the varieties of corporatist theory are many, the common premise was that class harmony and organic unity were essential to society and could be secured if the various functional groups, and especially the organizations of capital and labor, were imbued with a conception of mutual rights and obligations somewhat similar to that presumed to have united medieval estates in a stable society.<sup>2</sup>

Similarly, corporatist thought has had a long and rich history, growing out of those versions of nineteenth century social and political thought which were

reactions against the individualism and competition which characterized the increasingly dominant capitalist mode of production, as well as the inescapable industrial and political conflict which the capitalist mode of production gave rise to.<sup>3</sup> The major value of corporatism was social harmony, and this was to be achieved through a universal system of vocational, industrial or sectoral organization whereby constituent units would maintain the functional hierarchy and social discipline consistent with the needs of the nation as a whole in exchange for representation in national decision-making and a high degree of functional autonomy. Thus, for the theorists of the nineteenth century, corporatist structures ideally were not based on the horizontal cleavages of socio-economic class, but instead were conceived of as being superior substitutes to social class for hierarchically structuring society along the vertical cleavages of functional groupings.

The term "corporatism" first came into modern public consciousness during the 1920s to describe the economic policies of Fascist Italy. Subsequent developments in Italy and Nazi Germany, suggesting that the corporatist ideal of social harmony was achievable only through the abrogation of liberal democracy and repression of the working class, gave corporatism such harsh pejorative connotations that the concept lost much of its analytic value. The study of corporatist trends in Western democracies seemed largely to die along with fascism in Italy and Germany at the end of World War II.

Yet corporatist tendencies in the developed capitalist states did not die, rather they accelerated in the postwar period which was characterized by increased state involvement in managing the economy and a greater emphasis on collective

group needs and interests rather than those of the individual. Rather than merely being a theoretical concept offered in opposition to the emerging social tensions and economic inefficiencies of classical laissez faire economic systems, corporatist trends now have emerged and developed along with the postwar, perhaps even post industrial, societies of Western Europe and the United States. Inevitably, theories of corporatism would again emerge as important analytic tools in the study of western democracies as corporatist tendencies within them became more apparent and social scientists began developing a modern concept of corporatism distinct from nineteenth century corporatist ideology and the abuses of fascism in Italy and Germany generally associated with it. Thus, since the 1970s there has been a veritable explosion in the study of corporatist trends in contemporary societies.

A study of corporatist trends in New Zealand would be a valuable contribution to the corporatist literature. The many similarities between New Zealand society and other advanced capitalist societies would make such a study appropriate and capable of offering important insights into the nature of the New Zealand state; yet important differences between New Zealand and other countries, in particular the severity and nature of New Zealand's economic difficulties and the prospects of a new development strategy purported to ensure New Zealand's prosperity through the rest of the decade by the same political party that largely dominated New Zealand politics throughout the postwar period, will make such a study valuable for the insights it can offer into the nature of corporatism itself.

Although still relatively young, the growing body of corporatist literature is both wide and disparate, encompassing many different conceptualizations of modern corporatism which are then applied to virtually every modern society. Therefore, I will first establish an appropriate general corporatist model for

assessing the direction the New Zealand state will take under the development strategy offered by the National Party. This general model will be drawn from the work of three of the most prominent corporatist theorists: Philippe Schmitter, J. T. Winkler and Theordore Lowi<sup>4</sup>. Their particular interpretations of corporatism appear to be both reasonably consistent and particularly applicable to New Zealand's current situation.

Schmitter's work represents perhaps the first systematic attempt to offer some semblance of consistency to the disparate and often ideologically-charged theoretical field of corporatism. Schmitter focuses on the "praxis" of corporatism, i.e., the specific set of concrete institutional practices and structures through which group interests are represented to the state. For Schmitter,

Corporatism can be defined as a system of interest representation in which the constituent units are organized into a limited number of singular, compulsory, noncompetitive, hierarchically ordered and functionally differentiated categories, recognized or licensed (if not created) by the state and granted a deliberate representational monopoly within their respective categories in exchange for observing certain controls on their selection of leaders and articulation of demands and supports.<sup>5</sup>

As Schmitter admits, such a definition is really an ideal-type description. No existing systems of interests representation may perfectly reflect each of the ideal-type system's characteristics, although Brazil and Portugal come close and many states exhibit corporatist characteristics consistent with the ideal-type. Even in a genuinely "corporatist" state, other constituent units, including political parties, religious and youth movements and territorial subdivisions, can exist along with corporate structures of representation, while non-corporatist states may still have corporatized segments for channeling certain interest group representation.

Thus, one can imagine a continuum upon which states can be placed according to the extent to which they demonstrate corporatist characteristics, with Schmitter's ideal-type on one end and states with no corporatized interest representation on the other. Similarly, Schmitter finds that corporatism exhibits a certain evolutionary dynamism in the modern state, with the distinction between government and non-government becoming less distinct:

This osmotic process whereby the modern state and modern interest associations seek each other out leads, on the one hand, to even further concentration and hierarchic control within these private governments. The modalities are varied and range from direct government subsidies for associations, to official recognition of bona fide interloceuteurs, to devolved responsibilities for such public tasks as unemployment or accident insurance, to permanent membership in specialized advisory councils, to positions of control in joint public-private corporations to informal, quasi-cabinet status and finally to direct participation in authoritative decision-making through national economic and social councils.<sup>6</sup>

Schmitter is careful to draw a clear distinction between his definition of corporatism and the predominant political theory of pluralism, for which he is trying to present a paradigmatic alternative. Schmitter begins by defining pluralism as:

...a system of interest representation in which the constituent units are organized into an unspecified number of multiple, voluntary, competitive, nonhierarchically ordered and self-determined (as to scope of interest) categories which are not specifically licensed, recognized, or subsidized, created or otherwise controlled in leadership selection or interest articulation by the state and which do not exercise a monopoly of representational activity within their respective categories.<sup>7</sup>

Both corporatism and pluralism have certain common assumptions. In each system there is an increasing importance of formal associational units of representation. The persistence and expansion of functionally differentiated and politically conflicting interests is also an important element of both theories. Within pluralist and corporatist states there is a burgeoning role for permanent

administrative staffs, specialized information, technical expertise and, as a result, an entrenched oligarchy. Finally, each system of representation is characterized by a secular trend toward the expansion of public policy and interpenetration of private and public decision arenas. As a result, Schmitter notes, both corporatist and pluralist states may even exhibit the same properties.

The key distinction is, however, the process by which each system functions. Pluralism endeavors to extend representation, while corporatism strives to compress representational interests into a fixed set of interdependent, vertically organized interest associations. For the pluralists, the state will orchestrate the multiple competing interests to render them subservient to the public good, while the corporatist maintains trust in the ability of an authoritarian leader or technocratic planner to create and preserve unity through the regulation of interest groups.

Schmitter summarizes:

In short, both pluralists and corporatists recognize, accept and attempt to cope with the growing structural differentiation and interest diversity of the modern polity, but they offer opposing political remedies and divergent images of the institutional form that such a modern system of interest representation will take. The form suggests spontaneous formation, numerical proliferation, horizontal extension and competitive interaction; the latter advocate controlled emergence, quantitative limitation, vertical stratification and complementary interdependence. Pluralists place their faith in the shifting balance of mechanically intersection forces; corporatists appeal to the functional adjustment of an organizationally interdependent whole.<sup>8</sup>

Schmitter is explicit in stating that the origins of corporatism must be found in examining "the basic institutions of capitalism and the class structure of property and power engendered by it."<sup>9</sup> As a "macrohypothesis", Schmitter suggests that basic imperatives of capitalism to reproduce the conditions for its existence and continually accumulate resources are important factors in

explaining trends toward the corporatization of interest representation. Differences in the origins of corporatism among states can be explained by differences in the nature of these imperatives of capitalism at different stages in the institutional development and international context of capitalism, especially as they affect the pattern of conflicting class interests.

Other "overdeterminative" factors, including secular trends to bureaucratization and oligarchy within interest associations, prior rates of political mobilization and participation, diffusion of foreign ideologies and institutional practices, and the impact of international war and/or depression combine with the imperatives of capitalism to make corporatism increasingly likely:

...the more the modern state comes to serve as the indispensable and authoritatively guarantor of capitalism by expanding its regulative and integrative tasks, the more it finds that it needs the professional expertise, specialized information, prior aggregation of opinion, contractual capability and deferred participatory legitimacy which only singular, hierarchically ordered, consensually led representative monopolies can provide. To obtain these, the state will agree to devolve upon or share with these associations much of its newly acquired decisional authority, subject, as Keynes noted, "in the last resort to the sovereignty of democracy expressed through Parliament."<sup>10</sup>

The establishment and interaction with corporatized interest associations is only part of the political process; hence, it can only be considered in relation to other political systems and those regime configurations within each state. This, in turn, necessitates the consideration of two subtypes of corporatism: societal corporatism and state corporatism.

Societal corporatism, according to Schmitter, appears to be concomitant with the post-liberal, advanced capitalist welfare state. It tends to evolve from long-term trends and slow incremental change with passive political acceptance. The legitimacy and functioning of the state is dependent on the activity of its

corporatist representation associations, which are mutually penetrative with the state.

State corporatism, on the other hand, is clearly associated with anti-liberal, delayed capitalist, authoritarian, neomercantilist states. Its origins are in the rapid and highly visible demise of "nascent pluralism". Corporatist representation associations under state corporatism are penetrated by the state as its dependent organs. The state's legitimacy and effective functioning rest on other foundations.

Thus, while both subtypes exhibit a basic structural similarity which sets them apart from other systems, they are the products of very different economic, social and political processes. These differences are closely related to the specific imperatives of capitalism within corporatist states:

..the decay of pluralism and its gradual displacement by societal corporatism can be traced primarily to the imperative necessity for a stable, bourgeois-dominant regime, due to processes of concentration of ownership, competition between national economies, expansion of the role of public policy and rationalization of decision-making within the state to associate or incorporate subordinate classes and status groups more closely within the political process.

As for the abrupt demise of incipient pluralism and its dramatic and forceful replacement by state corporatism, this seems closely associated with the necessity to enforce "social peace", not by coopting and incorporating, but by repressing and excluding the autonomous articulation of subordinate class demands in a situation where the bourgeoisie is too weak, internally divided, externally dependent and/or short of resources to respond effectively and legitimately to these demands within the framework of the liberal democratic state.<sup>11</sup>

Winkler offers a similar ideal-type definition of corporatism, going beyond Schmitter to define corporatism as a distinct economic system. In essence, Winkler conceptualized corporatism as an "economic system of private ownership and state control". The state directs and controls predominantly private business according



to four principles: Unity, order, nationalism and success. For Winkler, the crucial factor is not the extent of state intervention in the private economy, but the nature of the intervention: "Stripped of its essentials, corporatism is principally defined by one particularly important qualitative change, the shift from a supportive to a directive role for the state in the economy."<sup>12</sup> The state, in its supportive role, aids, protects and even influences privately controlled business. When the state takes on a directive role, it actually sets constraints on what private business can and must do, although the extent and rigidity of actual control over private economic activity may vary. Internal decision-making within privately owned business is controlled through a prescribed or limited range of choices open to capitalist owners or managers.

Under the guiding principle of unity, economic goals are seen to be best achieved through cooperative effort rather than competitive processes. Society is viewed as a united body of diverse, but interdependent, elements. The interdependence of these elements causes society to be characterized by a shared interest in collective existence not the conflict of multiple interests. The natural expression of this shared interest is collaboration and "the fundamental process of life is cooperation."<sup>13</sup> Competition generates wasteful duplication and dissipates effort. While Winkler accepts the inevitability of distinct class and functional interests, unity is achieved by cooperation organized by the state and not by pluralistic bargaining and compromise.

The second guiding principle, order, implies that stability must be positively created through state organization and individual self-restraint. Market economies are viewed as inherently anarchic and cooperation becomes a duty. Workers must work, employers must provide work, and both must collaborate at work. Thus, strikes

and lockouts are prohibited and there is compulsory arbitration of disputes. Discipline is more valued than liberty. License, not compulsion, is the corporatist vice.

Nationalism, the third directing principle, has two senses. First, it refers to a collectivist rather than an individualist system. The focus is on the nation, not class, family, religion, caste or ethnic group. National economic well-being is the aim, as opposed to personal affluence or mobility. "The general welfare has moral primacy over individual preferences or rights."<sup>14</sup> Yet, corporatism is not egalitarian, for in accepting inevitable sectional interests and a hierarchical distinction between those who direct work and those who carry it out, it must inevitably also accept unequal rewards. There is no corporatist principle favoring redistribution or equality.

Corporatism is also economically nationalistic towards the rest of the world. National performance, comparatively and internally, is the index of success. Moral arguments justify aggressive protection, efforts at self-sufficiency, including import substituting industrialization and import restrictions and an xenophobic attitude towards foreign investment with the country. Liberal free trade doctrine is rejected because it exposes the nation to the competitive anarchy of the world market. Foreign investors are suspect since they cannot be relied on to act in the national interest and have an international means of escape from state control of the economy.

Finally, the guiding principle of success refers to the efficiency in the attainment of collective goals. Because emphasis is on effectiveness versus efficiency and results versus economizing, corporatism becomes an ends rather than means oriented system. There is a "genuine rejection of the rule of law" on order to

ensure the achievement of collective goals. Laws hinder prompt responses to problems. "Codified laws and administrative rules are constraints, a source of interdiction on the state as well as the subject, preventing an adaptive response to changing situations."<sup>15</sup> The need for urgent, flexible and effective responses to problems justifies the avoidance of legal restrictions, through adopting an enabling act model of statute, discretionary formulas in administration and an inquisitorial rather than adjudicating format by the judiciary.

This principle is furthered by the notion of corporatism as a "mobilization system". Not only does the state intervene to correct economic shortcomings and re-invigorate activity, it also serves a positive function since state intervention is the best means for achieving collective success. In this capacity, the state must therefore assume at least some control over the investment process and planning.

Winkler uses this ideal-type concept of a corporatist economic system in order to attempt to determine the direction Britain would be going in during the late 1970s and 1980s. For a variety of reasons, Winkler saw the inevitability of Britain becoming a corporatist state in the near future. Of relevance to this study are five sources of the "structural genesis of corporatism".

First, Winkler noted that during any downward fluctuation in the economy, businessmen endeavor to have the government temporarily suspend the market and create stability. Thus, the British economic crisis was a precipitating cause of the current trends in Britain. Businessmen sought protection and government support, while still maintaining their freedom to make their own business decisions. While governments had been generally responsive to such demands, other fundamental changes in the British economy were "evoking a genuinely directive and enduring state intervention. Corporatism is more than a copy response to crisis. This

time there will be no turning back.<sup>16</sup>

The first of these fundamental structural changes was increasing industrial concentration. This took the form of increasing market concentration in which the number of firms controlling an individual sector or product market was low, and aggregate concentration whereby an increasing proportion of total national output was being accounted for by a relatively few firms. Under such circumstances, the government could not let such large companies fail or fall under foreign control. The government thus had to take effective responsibility for their continued existence. But at the same time, the government could not let them "succeed" either: For the state to tolerate (and in some cases to sponsor) concentration to this level and still allow profit maximization would be to license corporate plunder, to issue a permit to hold the nation to ransom."<sup>17</sup> Under such circumstances, the government has two options--either break up the large firms or constrain their profit maximization goals. Technological considerations make it unlikely that the government would choose to break up the firms, while growing concentration makes it relatively easier for the government to regulate aggregate economic performance since it would only have to concentrate on the relatively few large firms.

The second fundamental structural change is declining profitability of British firms. There is substantial agreement that this has been the case since at least 1950. This has two effects on the role of the state. First, an increasing rate of company failures adds to the concentration tendencies in the economy. Secondly, firms become increasingly dependent on outside sources of funds, including the government, as their ability to finance their activity through retained earnings declines. Business autonomy decreases and the role of the government finance

becomes even more important. The potential for corporatist financial control is thereby enhanced.

Technological development is the third structural change. This could generate pressures for more state intervention for several reasons. Technological development can lead to greater levels of pollution and the loss of jobs, especially in case of technical malfunction or failure. As these risks increase, so does the demand for greater governmental protection. Similarly, increased productivity through technical change could lead to a greater concentration at the plant level as plant size increases, again contributing to greater risks in the economy. A third factor is the cost of research and development for new technology and the capital needed to install it. Government assistance may therefore be needed, both to fund research and development and even guarantee markets.

The final structural change which is generating corporatist pressures in the United Kingdom is international competition. Chronic balance of payments deficits, decreasing currency values and increased foreign penetration of the British economy all demonstrate the adverse affect of changes in international trade on Britain's economy and the high level of risk the world market poses for Britain. Corporatism is a response to the failure of fiscal and monetary policies and efforts to increase international competitiveness. Free trade is viewed as a tactic of capitalists and not fundamental to capitalism. It is as nationalistic as protection, since Britian was a staunch supporter of free trade when it benefited Britain. Now, Britain is in the process of changing tactics. Therefore, corporatism merely reflects a shift to a different form of trade nationalism and policies are required to increase the level of protection, restrict foreign acquisitions of British firms, direct business back to British firms and control imports.

Several comments are necessary to put Winkler's arguments in the proper perspective. Winkler is clearly arguing for an ideal-type of corporatism. Whether or not it will ever be achieved (and given the current policies of the Thatcher government and the Labour Opposition, this seems much more remote for the United Kingdom now than five years ago) remains to be seen. It is clearly an evolutionary process, as Winkler's own analysis indicates. Similarly, Winkler shows a clear interaction between interest groups and the government, at least in the stages less-than the ideal. Businessmen, in this case, exchange certain of their prerogatives for the greater stability and security of the corporatist system. There is no fundamental contradiction between Schmitter's broad praxis of corporatism and this extreme form of state control.

Finally, I would like to examine the theory of "Interest-Group Liberalism" developed by Theodore Lowi. While Lowi specifically rejects the label of corporatism because of its pejorative connotations,<sup>18</sup> it will soon be made evident that Lowi is in fact describing a representative system closely related to the ideal-types discussed above. Lowi's work is especially relevant for three important reasons. First, the theory of interest-group liberalism is not based on an ideal-type definition, but was developed to explain what was actually happening in the U.S. in the 1960s. It does not go any further in hypothesizing an ideal-type corporatist state. Secondly, Lowi explains the development of interest-group liberalism in terms of the conceptual flaws in its underlying political theory-- pluralism. This is not in contradiction with Schmitter, who notes that pluralism is actually a form of corporatism,<sup>19</sup> and Lowi's analysis of pluralism is consistent with Schmitter's own description.<sup>20</sup> Both also agree that corporatism grows out of pluralism, although Lowi goes further to relate specific shortcomings of

pluralism to the problems of the resultant interest-group liberalism. This added political theory perspective complements both Schmitter and Winkler, who seem to focus more on economic determinism, since Lowi's final conclusions are highly consistent with the conclusions of both Schmitter and Winkler. Finally, Lowi traces the development of interest-group liberalism back through to the 1930s and the New Deal. Thus, they are a longer term outcome of the policy directions the U.S. took in response to a major economic crisis--and therefore a parallel with New Zealand's current situation that should not be overlooked.

Lowi summarized pluralist theory into three basic elements. First, groups which include corporations as one type, share in control of the state and possess power directly over a segment of society. Secondly, the dominant reality of modern life is groups rather than entrepreneurs and firms. Finally, the multiplication of interests will prevent social stratification. While pluralists accept that there is a conflict between those who own the means of production and those who must work, they add this is just one of a number of equally intense conflicts. Given the multiplicity of interests, it is unlikely that a whole class could last long enough to become institutionalized.

Pluralism is highly mechanistic. Just as orthodox Smithian economics, pluralist competition is automatically equilibrating. Pluralist equilibrium is achieved through the use of government, therefore, government is good because pluralist equilibrium is synonymous with the public interest.

Yet, pluralism goes further, destroying the principle of separate government. The pluralist model rejects the notion that the government is the only source of power and control. Power and control are widely distributed, and while there are certain activities that are found universally among governments, those activities

will not be performed only by governments. Time, chance, culture and politics are responsible for any pattern of functions that are associated with any government.

Most significantly, the ethic of government has been broken down by pluralism's emphasis on the group and its belief in the natural harmony of group competition which has reduced the essential conception of government to nothing more than another set of mere interest groups. Pluralism's strength rests in large part on its claim to free politics by creating a discontinuity between the political world and the socio-economic world. Yet, "the very same factors of competition and multiple power resources that frees politics from society also frees government from both society and politics."<sup>21</sup>

Ultimately, the process of policy formulation becomes paramount. Emphasis on competitive pluralism has replaced all other aspects of policy-making in the pluralist model. Lowi concludes:

Out of the emerging crisis in public authority has developed an ersatz political formula...The guidance it offers to policy formulation is a set of sentiments that elevate a particular view of the political process above everything else. The ends of government and the justification of one policy or procedure over another are not to be discussed, according to the new view. The process of formulation is justification in itself.<sup>22</sup>

From the pluralist foundation has developed Lowe's concept of interest-group liberalism. Lowi most succinctly described his concept:

It may be called liberalism because it expects to use government in a positive and expansive role, it is motivated by the highest sentiments, and it possesses strong faith that what is good for government is good for society. It is "interest-group liberalism" because it sees as both necessary and good that policy agenda and the public interest be defined in terms of the organized interests in society. In a brief sketch, the working model of the interest group liberal is a vulgarized version of the pluralist model of modern political science. It assumes. (1) Organized



interests are homogeneous and easy to define, sometimes monolithic. Any "duly elected" spokesman for any interest is taken as speaking in close approximation for each and every member. (2) Organized interests pretty much fill up and adequately represent most of the sectors of our lives, so that one organized group can be found effectively answering and checking some other organized group as it seeks to prosecute its own claims against society. And (3) the role of government is one of ensuring access, particularly to the most effectively organized, and of ratifying the agreements and adjustments worked out among competing leaders and their claims.<sup>23</sup>

Lowi sees a growing trend towards this type of corporatism in America. "The United States is far from 100 per cent a corporate state; but each administration, beginning with the New Deal Revolution, has helped reduce the gap."<sup>24</sup> The pace has accelerated with the election of Kennedy in 1961, when he announced that industrial policy would be made by direct bargaining between the President and every leader of an industrial sector. It was a move towards the recognition of organized industry in the decision-making processes of government; "partnership was the measure of success" and the new policies were "basically corporativistic." Similarly, Johnson initiated a new program of "Creative Federalism", which was not really federalism at all, but a new way of organizing Federal programs so as to increase the power of private organizations and businesses, and individuals.

Interest-group liberalism has many serious implications for the American political system. It is antithetical to the rule of law. Law is too rigid and distorting. Process is paramount over substance and procedure.

The atrophy of institutions of public control will be another effect of interest-group liberalism. Political responsibility is destroyed by the parcelling out of policy-making authority to interest groups. Conflict of interest becomes a policy of government when "interested" groups are given responsibility for certain areas of public policy. The public is shut-out, both in the initial phase of policy-making when alliances are being formed and problems are being defined, and in the

accountability phase. In programs where group self-administration is legitimized, the administrators are accountable primarily to their groups and only indirectly to the President of Congress. Thus,

...there is functional rather than substantive accountability. This means questions of equity, balance, and equilibrium to the exclusion of questions of overall social policy and questions of whether or not the program should be maintained or discontinued. It also means accountability to experts first and amateurs last...This is the final victory of functional over substantive accountability.<sup>25</sup>

Interest-group liberalization also contributes to the maintenance of old and the creation of new privilege. Because of the symbolism of the state with which it is associated, such privilege is "particularly hard to bear and to combat." Oligarchy is seen as a negative name for organization. Pluralists assume that if a member of a group does not approve of the goals of the group he/she can either leave or turn his attention to one of his "overlapping memberships" in another group. Yet, under interest-group liberalism, voluntary groups are no longer "voluntary" once they become a legitimate functionary for the state. "The more clear and legitimized the representation of a group or its leader in policy formation, the less voluntary is membership in that group and the more necessary is loyalty to the leadership for people who share the interests in question."<sup>26</sup>

Finally, interest-group liberalism generates conservative tendencies. Both the atrophy of institutions of popular control and the maintenance and creation of privilege are aspects of conservatism. Further, established group-government relations are highly resistant to change. Such relationships were inflexible under pluralism, surely that inflexibility will be increased when that relationship is now made official and legitimate. Old and established groups will look fearfully at the emergence of new groups which may challenge them for their right to

political power. As groups begin to establish their own self-governing relations with clientele groups, professional norms generally develop to govern the proper procedure for conducting activities. Access and power are thereby heavily weighted in favor of old, established interests through the establishment of "rules-of-the-game" by interest group.

From the above three conceptions of corporatism, a general model of corporatism can be developed for assessing the direction of development proposed by the National Party. Essentially, I will be trying to determine if similar corporatist tendencies can be found in New Zealand, and whether or not they will be exacerbated by the return of the National Party Government in the November election. But it is important to emphasize that this theoretical model can only be useful in isolating trends and identifying potential problems. This model is not predictive of what New Zealand will be like in 10 years, nor is it intended to be used as a system for classifying New Zealand along a corporatist continuum. The purpose is similar to that pursued by Winkler in his development of a corporatist economic system:

The point is not classificatory exactitude but to draw attention to certain ways in which Britain's economy appears to be changing, to the increasing attempts by recent governments to control and direct private activity in the name of unity, order, nationalism and success.<sup>27</sup>

Before proceeding, some mention needs to be made of the strong criticisms that Panitch has raised at both Schmitter's and Winkler's work.<sup>28</sup> Panitch finds that the current confusion over the concept of corporatism is the result of seeing corporate structures as new political and/or economic systems rather than new partial elements within the existing economic and political system. As a result, whole systems are defined on the basis of particular structures and there is an implicit

assumption that corporatism has within its nature the capacity to even become a full system. Panitch also criticizes Schmitter and Winkler, and Lowi too, for ignoring the interaction of the various interest groups with each other as well as with the state. Finally, Panitch suggest that Schmitter's reliance on a "group-theoretical" rather than a "class-theoretical" approach to the formation of interest associations prevents stability from being achieved in his ideal corporatist state due to class conflicts within the structures themselves, unless state coercion is used to enforce the "underlying harmony" needed for corporatism to succeed.

The consequences of such criticisms are, from the standpoint of this study, unclear. While Schmitter and Winkler both admit that their definitions are of an ideal-type, they also refer, implicitly and explicitly, to the evolutionary nature of corporatism. Hence, whether or not such ideal states are ever actually reached is not important in terms of the definitions' heuristic value and ability to help in isolating trends and possible outcomes. In this sense, the definitions serve as useful starting points for further analysis. Schmitter does point out, and Lowi helps to confirm, that at least some states approximate his ideal corporatist state characteristics.

In looking at the interaction of interest groups, it is hard to see why this is important. All three authors have identified consistent sets of criteria for establishing the existence of corporatist elements within societies. Why this particular element is essential, given the evident ambiguity surrounding the concept of corporatism anyway, is unclear. This is especially true since Panitch argues that the purpose of corporatism is to, in essence, co-opt labour into the economic status quo. He then goes on to note that labor can never be given representation in corporatist structures that is truly equal to that of capital, a factor which creates inherent instability in all corporatist systems. In any event, whether

or not a corporatist system is more stable with labor interacting with capital is not the point. The system appears to be both inherently unstable and undesirable in either case.

Similarly, Panitch's criticism concerning Schmitter's "group-theoretic" approach seems misplaced. Corporatism is not necessarily a class-based system of interest representation, and Schmitter is using a group-theoretic approach explicitly to avoid the ideological biases which have characterized most corporatist literature. The nature of corporatism's feudal antecedents and the reasoning of nineteenth century corporatist theorists should make this clear. Yet Schmitter does talk of the imperatives of capitalism and the class relations it creates as being important in the emergence of corporatism; while Lowi offers a rationale in pluralist ideology for a group-theoretic approach to studying corporatist trends in the United States. Those specific interest groups which dominate corporatist institutions may be class-based, but this is a characteristic of the particular corporatist institutions found within a given system of government, not of corporatism per se.

Ironically, all of Panitch's criticisms stem directly from Panitch's own narrow conceptualization of corporatism. For Panitch, corporatism involves a tri-partite representational structure, with interest groups representing the class interests of capital and labor directly interacting with the state and each other. Indeed, this appears to be the dominant form corporatism has taken in many of the countries Schmitter would describe as exhibiting characteristics of societal corporatism, such as West Germany and Norway. But such a narrow conceptualization excludes the possibility of the explicit exclusion of certain group interests from corporatist decision-making, as well as the possibility of the truly classless corporatist state envisaged before the rise of fascism in Italy. In essence, Panitch seems to be discharging out of hand the darker, if you will, neo- or nascent fascist tendencies

which corporatism could exhibit under certain circumstances. For Panitch, corporatist structures are intended to integrate labor into a decision-making structure which is heavily weighted in favor of the interests of capital. The alternative to such integration within corporatist structures is state coercion, which Panitch implicitly implies is not a true characteristic of corporatist states.

In analyzing the work of Schmitter, Winkler and Lowi, I have attempted to demonstrate that tendencies toward state coercion and the suppression of the rights of significant segments of society are still very real within a corporatist framework.

What all of this indicates, however, is not that any particular author is wrong or right in his conceptualization of corporatism. Rather, it shows that these particular theorists are talking about two different forms of corporatism. For Panitch, corporatist structures evolve to establish a legitimating facade of genuine participation by labor in the national decision-making process. The corporatist model which I am attempting to construct, based on the work of Schmitter, Winkler and Lowi, explicitly excludes certain interests in particular the interests of organized labor, from consideration in the national decision-making process. The applicability of these two alternative models depends on the unique circumstances found within individual nations, not on a pre-defined definition of corporatism.

John Kenneth Galbraith, in his study of the interaction between what he terms the "technostructure" and the state in modern capitalist societies,<sup>29</sup> offers some important insights for the model of corporatism which I am attempting

to develop. Essentially, the technostructure is a "complex of scientists, engineers and technicians; of sales advertising and marketing men; of public relations experts, lobbyists, lawyers and men with a specialized knowledge of the (government) bureaucracy and its manipulation; and of coordinators, managers and executives..."<sup>30</sup> and it is this technostructure that ultimately controls the means of production in modern capitalist societies. Specifically referring to the United States, Galbraith explains how the private sector is in reality comprised of two massively unbalanced economic systems--the relatively weak "market system" comprised of the small and medium-sized businesses which still respond to the traditional market signals of supply and demand; and the dominant "planning system", representing the largest firms and the technostructure, which is capable of exercising control over its markets and the level of economic activity in the economy as a whole. This technostructure is able to maintain its control over economic activity and its markets through direct interaction with the state bureaucracy. While the market system must rely on its influence over the legislative branch of government to affect national policy-making, the technostructure is able to work directly with and ultimately co-opt the very bureaucratic institutions which themselves are causing the steady erosion of the power and influence of the legislative branch within government. The ability of the technostructure to wield power within modern capitalist societies thus gradually increases as the significance of the market sector slowly diminishes.

The technostructure is able to influence the government bureaucratic structure in several important ways. According to Galbraith, the technostructure

exercises an important influence through its control over the selection of important bureaucratic personnel. This ensures a commonality of interests between top level bureaucrats and the technostructure, often to the extent that principal bureaucrats are recruited directly from the technostructure. But most important, the technostructure actually defines the public interest for the government:

The technostructure consists of corporation executives, lawyers, scientists, engineers, economists, controllers, advertising and marketing men...Collectively these are the most prestigious members of the national community. They are generally the most affluent in a society that measures worth by affluence. Their view on public policy is the view that commands the solemn respect. And, with full allowance for the eccentric and often well-rewarded heresies...it is the view which reflects the needs of the planning system. It cannot be supposed to involve conflict with the public interest. What serves the technostructure--the protection of its authority of decision, the promotion of economic growth, the stabilization of aggregate demand, the acceptance of its claim to superior income, the provision of qualified manpower, the government services and investment that it requires, the other requisites of its success--is the public interest.<sup>31</sup>

The implications of this ability of the technostructure to define the public interest are important. Government policies are designed to meet the interests of the large firms; the interests of smaller firms and organized labor become secondary. Even government agencies established to oversee particular industries become "captive". The technostructure tolerates their existence and continued funding only so long as these agencies remain their puppets, abstaining from aggressive regulatory action. Challenging the interests of the large corporations is equated with challenging the public interest and is avoided for it is the regulatory agencies involved that would ultimately lose.

Growth is the primary affirmative purpose of the technostructure, for



only growth provides its members with new opportunities and rewards, and in this way growth therefore become the primary affirmative purpose of government. The idea of a free market with only minimal governmental intervention becomes a facade for preserving the power of the technostructure. Consumer sovereignty in the market makes government intervention redundant, and the technostructure is thus allowed to pursue its own interests largely unhampered. Yet the distortions caused by the technostructure render the entire market sector vulnerable and weak. While market forces ensure that business cycles in the market sector are self-correcting, Galbraith explains that business cycles in the planning sector must be corrected through the application of appropriate fiscal and monetary policies. The size and resources of the firms controlled by the technostructure offers insulation, both from the effects of inflation and recession directly and from the effects of corrective government policies. Dependent on external sources for investment capital and extremely susceptible to swings in consumer demand, it is the market sector which bears the greatest proportion of the costs and dislocations associated with business cycles and corrective governmental policies.

Based on the above discussion, the general model of corporatism which I will attempt to apply to the critical assessment of the development path New Zealand will be following under the recently re-elected National Party Government consists of three elements. First, the above theory suggests a relatively declining role for Parliament, as corporatist structures compete for interest representation within the governmental decision-making process. In a sense, Parliament both becomes redundant and obsolete in a modern corporatist state. Second, and related to the demise of the representational

role of Parliament, is the growth of a government bureaucracy and planning apparatus. A corporatist direction in the development of the New Zealand system of government must entail an increasing emphasis on government through the bureaucracy and in conjunction with interest groups. The growth in the bureaucracy, especially the planning apparatus, is necessary, both for the government to be able to deal directly with a greater number of interest groups and so that the government can provide some scope for effective direction and control. Finally, the third element relates specifically to the relationship between the government and specific interest groups. The distinction between the public and private sectors becomes blurred as there is a devolution of power onto private interest groups, which have an increasing role in government decision-making. The literature further suggests the interest of big business will predominate, with a corresponding de-emphasis on the welfare role of the state and the need to safeguard individual rights. Pragmatism and expediency would become the primary principles of government.

An important element in any analysis will be the particular political and economic philosophies represented in the National Party's development strategy. This is important because it gives an indication of the actual intent behind governmental actions, as well as the likely long-term implications of government policies. The literature suggests that a strong emphasis would be placed on neoclassical economics, characterized by a free play of the market, success through individual initiative, and minimal government intervention in the workings of the economy. This would be expected to carry over to the social welfare sphere, where emphasis would shift away from collective interests and responsibilities to individual self-reliance

and initiative. There would be a commitment to minimal state intervention in the lives of its citizens, with important consequences for the provision of social welfare and the protection of individual rights. Economic, political and social well-being would be portrayed as being dependent on the proper functioning of free, competitive market; the government's primary responsibility being to ensure an appropriate national environment that encourages investment and growth.

Working from this general model, I will first look at New Zealand's parliamentary system and attempt to gauge the current state of public accountability. Next, I will look at New Zealand's recently formed planning bureaucracy--the Planning Council and its associated groups and individuals--to try and place its emergence into a corporatist framework. The Planning Council is both representative of the New Zealand bureaucracy in general and also has an important role to play in the development of corporatism in New Zealand. Finally, with this background, I will then look at the specific development strategy being offered by the National Party. In particular, I will examine it in terms of the political and economic philosophies which it embodies and the corporatist relations that it might or might not entail, emphasizing the various interest groups which stand to win or lose the most. As a result of this process, I hope to be able to draw some clear conclusions as to the direction New Zealand may be heading in the 1980s, as well as offer some constructive recommendations for change.

## Footnotes

<sup>1</sup>Frank Holmes, Australian Relations With New Zealand (Wellington: New Zealand Planning, 1978), 10.

<sup>2</sup>Leo Panitch, "The Development of Corporatism in Liberal Democracies", in Philippe C. Schmitter and Gerhard Lehmbruch, eds., Trends Toward Corporatist Intermediation, Contemporary Political Sociology Vol. 1 (Beverly Hills: Sage Publications, 1979), 119.

<sup>3</sup>See Philippe C. Schmitter, "Still the Century of Corporatism", The Review of Politics, (1974), 128-131 for a comprehensive bibliography of corporatist thought between 1800 and 1950.

<sup>4</sup>See Schmitter, (fn. 3), 85-131; J.T. Winkler, "Corporatism", European Journal of Sociology, 17 (1976), 100-136; and Theodore J. Lowi, The End of Liberalism: Ideology, Policy and the Crisis of Public Authority (New York: W. W. Norton and Co., 1969).

<sup>5</sup>Schmitter (fn. 3), 93-4.

<sup>6</sup>Schmitter (fn. 3), 111.

<sup>7</sup>Schmitter (fn. 3), 96.

<sup>8</sup>Schmitter (fn. 3), 97.

<sup>9</sup>Schmitter (fn. 3), 107.

<sup>10</sup>Schmitter (fn. 3), 111.

<sup>11</sup>Schmitter (fn. 3), 107-8.

<sup>12</sup>Winkler (fn. 4), 103.

<sup>13</sup>Winkler (fn. 4), 106.

<sup>14</sup>Winkler (fn. 4), 107.

<sup>15</sup>Winkler (fn. 4), 108.

<sup>16</sup>Winkler (fn. 4), 118.

<sup>17</sup>Winkler (fn. 4), 119.

<sup>18</sup>Lowi (fn. 4), 70.

<sup>19</sup>Schmitter (fn. 3), 86.

<sup>20</sup>In fact, both draw heavily on James Madison's Federalist Paper #10 in developing their conception of pluralism.

<sup>21</sup>Lowi (fn. 4), 48.

<sup>22</sup>Lowi (fn. 4), 84.

<sup>23</sup>Lowi (fn. 4), 71.

<sup>24</sup>Lowi (fn. 4), 84.

<sup>25</sup>Lowi (fn. 4), 86-7.

<sup>26</sup>Lowi (fn. 4), 88.

<sup>27</sup>Winkler (fn. 4), 114.

<sup>28</sup>Leo Panitch, "Recent Theorizations of Corporatism: Reflections on a Growth Industry", British Journal of Sociology, 31 (June 1980), 96.

<sup>29</sup>John Kenneth Galbraith, Economics and the Public Purpose (Harmondsworth, England: Penguin Books Ltd., 1974).

<sup>30</sup>Galbraith (fn. 29), 98.

<sup>31</sup>Galbraith (fn. 29), 178.

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## Chapter 2

### The Role of Parliament in the New Zealand System of Government: A Representational Vacuum

Since the early 1960s, the primary focus of parliamentary reformers has been the restoration of an alleged "balance" between the Executive and legislative branches of government. As the size and complexity of the problems facing modern government grew, only the Executive seems to have been able to adequately adapt itself to this changing situation through a gradual usurption of power at the expense of the legislature. The ability of Parliament to directly influence government policy has thus declined, with MPs increasingly being unable, and in many cases unwilling to exercise their traditional constitutional prerogatives. This growing governmental asymmetry has not been lost on the public, who have their greatest doubts about Parliament's ability to represent their interests in shaping government policy, a problem exacerbated by the tendency of the media to overstate the role and freedom of action of Parliament in its coverage despite the all too apparent fact that the majority will always win until the next election.<sup>1</sup>

Specifically in New Zealand, Professor Keith Jackson sees Parliamentary debate as a

..demeaning scramble for power in which each (party) still tends to state its previously decided position and thereon remains immovable, leaving the great "debate" to descend to personalities and innumerable points of order.<sup>2</sup>

National MP Marilyn Waring discusses the "myths" of parliamentary democracy in New Zealand, detailing the stringent control the leadership of both parties exercises over the initiative and independence of individual MPs.<sup>3</sup> An even more extreme view was presented by National MP Michael Minoque when he sadly concluded that

...the idea that we have a representative democracy in which Parliament is supreme is becoming an increasingly dangerous popular illusion--dangerous because it is quite untrue.<sup>4</sup>

This decline in the legislative branch of government relative to the Executive must be viewed as an important element in the rise of a corporatist state. To recall Schmitter, corporatism is essentially a system of interest representation. Thus, implicit in the evolution of corporatism is the increasing redundancy, even obsolescence, of traditional institutions of representational democracy. The shift in the locus of decision-making power away from Parliament in parliamentary systems of government, I would suggest, creates a representational vacuum which is at least partially filled by the evolution of corporatist institutions. More specifically, parliamentary institutions as they developed in the nineteenth century are now anachronistic in terms of their ability to cope with the exigencies of modern government and their ability to control the excesses of the party system. An examination of the efforts of parliamentary reform to redress this "imbalance" and the reasons for its notable lack of success in general, and in New Zealand in particular, will go a long way in helping to clarify the tendencies, perhaps even the need, for a corporatist evolution within the New Zealand state.

While many specific reforms have been suggested to restore Parliament's role as a check upon the Executive, most reform advocates seem to agree that the key to successfully redressing the imbalance between the Executive and Parliament lies in the



establishment of an effective system of select committees within Parliament.<sup>5</sup> Worldwide, most legislatures have thus tended to move toward a pattern of "hard-core" specialist committees designed to give Parliament the capability to scrutinize both legislation as well as the entire gambit of governmental administration and policy.<sup>6</sup> Advocates of parliamentary reform in New Zealand have similarly emphasized the importance of the select committee system,<sup>7</sup> and amendments to the Standing Orders in 1972 and 1979 were specific attempts to increase their effectiveness in legislative scrutiny.

In this context, a comprehensive assessment of the success of select committees and reforms of the 1970s in giving Parliament a larger voice in the formulation of policy and legislation will serve as an excellent indication of the level of effective representative democracy in New Zealand, and serve as an ideal foundation from which to explore corporatist trends in New Zealand for the 1980s and beyond. From the outset of such an assessment, it will become apparent that the select committee system has not significantly increased Parliament's ability to control the Executive and thereby redress any imbalance between the two in New Zealand's system of government. This failure, however, is deeply rooted in the institution of Parliament itself and its conventions concerning the role of political parties within it. As will be shown, it is only through changes in parliament itself and the role which political parties in Parliament play that select committees can offer Parliament an effective check on Executive authority. This is important not only for

providing an appropriate gauge for assessing select committee effectiveness, but such a definition will also highlight the institutional limitations to effective legislative control over the Executive in a modern parliamentary system of government.

Any potential reform, if it is to be effective, must take these institutional constraints into account. In this context, I will attempt to offer some more promising, yet less radical, suggestions for change in the select committee system. But before turning to these matters, it is important to first discuss the general role of select committees in a parliamentary system.

Obviously, any assessment of the effectiveness of select committees must be based on a generally acceptable definition of their expected function. Yet, the variety of roles that have been suggested for select committees only seems to demonstrate a tendency to define away their ineffectiveness.<sup>5</sup> Indeed, much of the problem in assessing select committee effectiveness stems from the fact that the majority of MPs seem to believe that select committees should only serve as an extension of the general debate on the floor of the parliament when issues are too complex and parliament is too large as a whole for the effective review of the details of legislation, with all matters concerning policy being left to the Executive to initiate and the parliament as a whole to debate and decide; while vocal minority of MPs and some academics envision a system of select committees similar to that of the U.S. Congress, with broad powers to both legislate and actually formulate policy. This distinction goes beyond the purely political interest of Government parties to

monopolize legislative initiative and policy formulation (although for many MPs the political implications are no doubt the only consideration). It involves the fundamental conception of Parliament vis-a-vis the Cabinet in a parliamentary system and the contribution that select committees should rightly make towards the fulfillment of that conception.

A proper definition of the role for select committees must begin, therefore, with a conception of the role of the parliament itself in a parliamentary system of government. A cornerstone of the parliamentary system is as Mendelson somewhat cynically notes, "the very strong position of the executive in the British Constitution, the discovery of [which was] first made by Montesquieu in the eighteenth century and has since been made over and over again."<sup>6</sup> The current concern over the inability of Parliament to restrain the Executive is not important so much as it suggests an imbalance between Executive and Parliamentary authority, but because it reflects the inability of Parliament to adapt to the increasing complexity and scope of Government activities. Thus, in testimony to the British Select Committee on Procedure in 1965, the Study of Parliament Group saw select committees as enabling Parliament to better meet the exigencies of modern government by providing it with a mechanism "to obtain background facts and understanding essential to any detailed criticism of administration or any informed discussion of policy."<sup>7</sup>

Similarly, other advocates of the establishment of a more powerful select committee system in Britain who testified before the Committee on Procedure in 1965 emphasized the need to preserve the traditional

relationship of the House to Cabinet and stressed the point that their various proposals for select committee reform would indeed strengthen that traditional relationship by allowing the House to more effectively perform its traditional role as critic and counsel to the Executive. Bernard Crick pointed out the true meaning of the proposed reforms:

Thus the phrase 'parliamentary control' and talk about the 'decline of parliamentary control' should not mislead anyone into asking for a situation in which governments can have their legislation changed or defeated, or their life terminated...Control means influence, not direct power; advice, not command; criticism, not obstruction; scrutiny, not initiation; and publicity, not secrecy.

This concept of select committees as mechanisms to enhance parliamentary scrutiny of the Executive is not new, and was developed long before the current concern over the decline of parliamentary influence on the Executive. As Harold Laski explained in 1938:

[The select committees] would act not as the makers of policy, which is primarily..a ministerial function, but in part as a consultive organ, and in part as a means of bringing to the legislature a definitely competent opinion upon the working of the administrative process..Their business, like that of the King of England, would be to advise, to encourage, and to warn, with the addition that, in the process, they would also learn.

Moreover, the select committees were to remain the creatures of the Parliament which created them, totally responsible to the Parliament and never capable of usurping the Parliament's overriding function as the forum for the open debate on issues of public policy. Select committees were to enhance the role of floor debate, not supplant it, as Herman and Mendel warn:

..the division of labour--the principle underlying specialization--should not be used by a committee as a pretext for taking upon itself powers which properly belong to the House: A committee is given existence as an extension of, and assistance to Parliament, not as a substitute for it.

From the discussion, several criteria can be developed for assessing the effectiveness of select committees within a parliamentary system of government. First, such committees should not be the initiators of policy or legislation. Second, their primary function is to examine the details of legislation and investigate government activities when the size or functioning of the parliament as a whole, or the complexity of the issues involved, prevent the necessary consideration from being undertaken on the floor of the House. The committees should then supply the parliament with adequate information as well as possible recommendations for the parliament as a whole to act on. Finally, the ability of select committees to actually consider policy should be determined on the basis of the inability of the parliament as a whole to perform the task. The primary forum for policy debate is the parliament as a whole. Committees can assist the parliament in this function, however, by exploring the intricacies of policy options and thereby supply the House with the necessary capability to conduct a reasoned policy debate.

By following the above broad criteria, the assessment of select committee effectiveness is placed within the constraints of both the role of Parliament within a parliamentary system of government and the role of select committees as tools for the enhancement of Parliament's own constitutional functions. Only by examining select committees within this dual context can their true capabilities, as well as their potential for reform, be properly understood.

It should be evident that, in order for select committees to properly carry out even this limited role, select committees must act in a

bipartisan fashion with their members given the maximum freedom to question, probe and make recommendations. Yet, it is precisely this freedom of independent action which committee members most frequently lack, and generally in those instances when it is needed most. Thus, the effectiveness of select committees has been severely limited by party cohesion, for it is the extreme levels of party discipline maintained on most select committees that allows the Government party to block any meaningful "scrutiny" by select committees. The true meaning of party domination of select committees was captured best by Blondel who bluntly labeled as "hypocrisy" the proclivity of governments of the day to accept only those committee recommendations which either preserve its own prestige by seeming to be its own or appear as the "gracious acts of a sovereign agent."<sup>11</sup>

In his examination of British standing committees, J.A.G. Griffith found that is the responsibility of the Minister in charge of a bill, assisted by the committee whip, to ensure his bill is reported to the House with all of its principles and as much of its detail as is possible, depending on the length, complexity and political contentiousness of the bill, intact.<sup>12</sup> Ministerial amendments are rejected only rarely, while Opposition and backbench amendments rarely succeed when opposed by the Government, and such "defeats" that do occur usually concern controversial social issues, such as race relations and immigration policy, on which party discipline is at its lowest. Substantive changes in Government bills are often minor. Frequently, when the Government is forced, either by division or pressure, to concede changes to a bill in committee, those

changes are either dropped or modified later on the floor of the House.

Concludes Griffith:

Looked at thus, the considerable expenditure of effort by non-Ministerial members of the committee in seeking modification [of bills] seems not to be justified by the results.<sup>13</sup>

Culpability for committee ineffectiveness is not the exclusive domain of the Government party. While Government intransigence in accepting any changes in its bills no doubt discourages Opposition efforts at constructive scrutiny, the intense adversarial nature of House debate carrying over into committee proceedings causes the Opposition to be "naturally more interested in propaganda arguments that will help to win the next election than in an abstract parliamentary concern that the government should prove its case in a particular area of public policy."<sup>14</sup> Opposition amendments thus, according to Griffith, are often introduced not so much as to make bills more acceptable, but to embarrass the Government and thereby make it seem generally less acceptable in the eyes of the public.<sup>15</sup>

In looking at New Zealand specifically, which has developed the most highly disciplined party system of any democratic country,<sup>16</sup> the problem of excessive party cohesion stifling select committee activities is correspondingly much more acute. While Dr. Martyn Finlay, in his speech on the occasion of his retirement from Parliament in 1978, suggested that the futility of opposing the Government majority on select committees would cause committee proceedings to be both bipartisan and constructive,<sup>17</sup> it seems that the real effect has been to deprive such proceedings, with some notable exceptions, of any substance.

Many factors can help to account for the unusually cohesive nature of New Zealand political parties. Certainly triennial elections is an important factor, as the constant electioneering which this has brought about causes virtually everything to be subordinated to the parties' struggle for power and provides little opportunity to "save face". "The public good comes second to party advantage" with Parliament seeming "to epitomize confrontation politics--confrontation for the sake of confrontation."<sup>18</sup>

Both a symptom and a cause of excessive party cohesion, the unique development of a "caucus system" in New Zealand is central to the understanding of the limits to select committee activity.<sup>19</sup> The caucus system has, in essence, superseded the role of Parliament in the New Zealand system of government. With almost complete secrecy surrounding their operation, party caucuses have become the arena for the most important of public debates. Decisions taken in caucus become the party line, allowing the majority party to control virtually all decision-making in the House, even though a substantial minority of the Government party may have actually opposed the caucus's decision and would constitute a majority if they were allowed to cross-over and vote with the Opposition. Members have, in fact, become so reliant on the caucus that they may actually have lost their ability to cope effectively with "free votes", although there is evidence to suggest that even during "free votes" the caucus may still exercise significant pressure on uncooperative MPs. So dominant have the caucuses become that National MP Michael Minogue goes as far as to suggest that "Parliamentary supremacy has become a myth", with control over the Executive, to the extent that such control even exists,



residing exclusively in secret caucus deliberations.<sup>20</sup>

The ramifications of such intense party cohesion for select committee effectiveness are significant. Even committees whose function should be properly categorized as non-political, such as the House, Privileges and Library Committees, "are subject to the exigencies of government chairmanship and majorities as if they did have some particular significance in the tactical battles of the parties."<sup>21</sup> Criticism of ministers, and thus the departments for which they are responsible, by backbenchers is simply not allowed in front of Opposition Members.<sup>22</sup> Thus, the relatively effective Public Expenditures Committee investigations of governmental overexpenditure during the last Labour Government were able to identify major weaknesses in one department's expenditure control procedures because the Committee acquired a National Party chairman and majority when National took office in 1976.<sup>23</sup>

The potential for effective select committee legislative review faces another formidable barrier in the form of an extensive pre-legislative process, amounting to the executive "negotiating with itself", which takes place well before the committees, or even the Opposition, see actual copies of proposed legislation.<sup>24</sup> By the time the proposed bill comes before a committee, the Government has already taken a stance and the Minister, as well as the Government party, is committed to supporting it. The process reaches the height of absurdity as the Government often then takes "an interest in demonstrating that what it thought first was perfectly sound" by rejecting any proposed amendments to its legislation.<sup>25</sup>

The effectiveness or ineffectiveness of select committees may, in any event, be problematic, as it becomes increasingly apparent that caucus committees are actually usurping the role originally vested in the select committees. When select committees are continually adjourned so that binding decisions can be taken by the relevant caucus committees before Members can actually vote in the committee, one must not only question the decision-making capacity of individual MPs, but the very relevance of even having parliamentary select committees if the decisions of those committees are actually being determined in advance by a shadow system of Government caucus committees. While Mr. C.J. Littlejohn, Clerk of the New Zealand House of Representatives, suggests that, in theory there is no overlap between caucus and select committees because the former are concerned only with policy while the latter are concerned exclusively with the details of legislation, he must then concede that there is, of course, no ready and narrow definition of what actually constitutes policy. Thus, as an example of what Littlejohn describes as "pragmatism carried to the extreme", the Government has at times actually suggested that particular bills do not need to go to select committees since submissions on them already had been taken in caucus committee.<sup>26</sup>

Many other factors contribute to the ineffectiveness of select committees in New Zealand. Staffing for select committees is very limited, with two professional staff persons responsible for drafting all committee reports. In all, there are only six professional staff serving Parliament, all under the direction of the Clerk of the House. Committees are not empowered to appoint their own professional staff or engage their

own independent advisers and outside experts. Consequently, select committees are often at the mercy of a departmental monopoly of information and expertise.<sup>27</sup>

The select committee reporting procedure is another constraining factor in assessing select committee effectiveness. No verbatim records of select committee hearings are kept.<sup>28</sup> Minority views are not presented. Committee reports on legislation consist of little more than a cover sheet with the committee's recommendations attached. The House as a whole is thus denied the detailed findings resulting from the committees' deliberations. Select committee investigative reports are less common, largely because select committees, with the exception of the Public Expenditure Committee and the Statutes Revision Committee with respect to regulations, are empowered to consider only those matters referred to them specifically by Parliament.<sup>29</sup> The potential impact of committee reports is diminished further by the ease with which the Government can postpone debate on committee reports indefinitely, and the Standing Orders limiting debate to 10 minutes per person on each report, thereby severely circumscribing impromptu debate on committee reports.<sup>30</sup>

A final constraining factor on select committee effectiveness is simply that of time. New Zealand MPs have especially busy schedules with many commitments other than attending select committees.<sup>31</sup> The increasing importance of caucus and caucus committees places further demands on the individual MPs time, thereby cutting into the time available for his other commitments, especially select committees. The situation is made worse by the rushed nature of committee work and long, marathon-like

sessions which prevent MPs from being able to adequately inform themselves on issues and make considered judgements.<sup>32</sup> Ironically, this situation was only made worse as a result of the 1979 changes in the Standing Orders which now refer all bills, except those of a financial or budgetary nature or those accorded urgency, automatically to select committees. The changes were passed on the assumption that many bills would receive minimal attention by committee, but this has not proven to be the case and a backlog is being experienced as a result.<sup>33</sup>

In 1972 and 1979 the Standing Orders of the House were amended, creating several important changes in the select committee system. Unfortunately, their effect has been more apparent than real, and these reforms, especially those in 1979, are probably more significant in what they did not do rather than in what was actually accomplished.

The 1972 changes in the Standing Orders were twofold. First, select committees would be appointed for the duration of the term of Parliament. Yet, as the Standing Orders Committee pointed out in their report, this was done as a reflection of other changes by which Party Whips would control committee membership and only notify the Clerk when members were added or dropped.<sup>34</sup> This change ensured that the Government majorities on select committees could be constantly maintained and manipulated to prevent accidental Government defeats in committee. It further diminished the ability of select committees to develop expertise in particular fields, an important ingredient for effective select committee scrutiny, since committee members could now move from committee to committee more readily and a stable membership would not develop.<sup>35</sup>

The second change instituted in 1972 was the decision to refer bills to select committees after the first reading, rather than follow the traditional British practice of referring bills to committee after the second reading. The potential significance of this change was great, since under traditional parliamentary procedure it is in the bill's second reading stage that Parliament first debates the actual policies reflected in the bill. Accordingly, if Parliament chooses to refer a bill to committee after its second reading, Parliament has approved the policies the bill contains, and the committee is then barred from the consideration of policy issues and must limit the scope of its examination to the details of the legislation. By sending the bill to select committee before the second reading, Parliament has not yet considered the policy contained in the bill and the committee, in theory, would then consider both the policy and more detailed aspects of the bill and report back to Parliament on them. In practice, however, the two hour Introduction Debate on the bill, originally intended to provide the Opposition with the opportunity to ask questions about the bill in order to facilitate the bill's committee stage, has tended to focus predominantly on policy issues. As Littlejohn pointed out, the distinction between the Second Reading Debate and the Introduction Debate is now quite blurred. The freedom of select committees to consider policy was thus not changed by this procedural reform, and at least a major part of the intent of the amendment to the Standing Orders was circumvented.

The 1979 amendments to the Standing Orders, in addition to establishing the automatic referral of legislation to select committees,

also provides that bills will be read for the second time as amended by the select committee. New amendments would have to be moved on the floor of the House to either delete a committee amendment or re-insert a portion of the original bill deleted by a committee. While the apparent effect of these two changes would be to increase the influence of select committees, the real effect will probably tend to be minimal, given the above constraints to effective committee activity, and possibly even counterproductive. As noted earlier, the automatic referral of bills to select committees may have exacerbated the already excessive workload of many committees. Whether or not the new importance attached to committee amendments will cause the Government to become even more immovable in accepting such amendments remains to be seen.

Perhaps as important as the actual amendments to the Standing Orders themselves, the Standing Orders Committee Report and the actual floor debate on the proposed amendments are most revealing. In both House debates on the Standing Orders Committee Report, the proposed changes to the select committee system were largely ignored.<sup>36</sup> In fact, the general tone of both the Committee Report and the floor debate (when the select committee changes did come up) was one of avoiding change. To quote Mr. W. Birch, a Committee member:

The Standing Orders have evolved over a very long time, and behind each entrenched rule for Parliament to follow there is experience and wisdom based on 50 years or more. When we examine the Standing Orders one by one, it is very difficult to move away from the provisions<sup>37</sup> that have been based on the experience of our predecessors.

It was on the basis of such long experience that the Standing Orders Committee concluded "that there is not sufficient justification to change

a system which continues to serve New Zealand well."<sup>38</sup> The Committee thus either rejected or failed to consider changes in the select committee system to provide more staffing, allow select committees to initiate their own investigations and appoint subcommittees; the structure of the current system of select committees was not altered to allow for the oversight of nationalized industries and the various governmental and quasi-governmental agencies; and the Committee rejected recommendations that the power of select committees to examine regulations be extended beyond the Statutes Revision Committee's narrow terms of reference to allow regulations to be judged on the basis of whether they were actually needed or could be improved. Concluded Mr. G. Palmer:

These Standing Orders make one thing clear above all else, and that is that Parliament is to remain a creature of the Executive. It is to remain under the domination of Cabinet, under a system of Cabinet government that has become so rampant that this institution threatens to become superfluous to the requirements of the Cabinet...indeed, (the Standing Orders Committee report)...is<sup>39</sup> so timid as to endanger the future of our democracy.

Efforts at select committee reform, in both U.K. and New Zealand, rather than actually redressing any perceived imbalance between the roles of the Executive and Parliament within the overall system of government, have tended to highlight the institutional and political limits to such reform. Perhaps, as Johnson argues, this is the real contribution of such reform efforts.<sup>40</sup> Indeed, if select committees are to take on a more effective role in scrutinizing both legislation and government activities, there will have to be a fundamental change in the structure and behavior of the political parties within the New Zealand Parliament. The 1972 Standing Order amendments prove that unless both of New Zealand's two

major political parties are willing to accept reform, that reform will prove to be illusory. Both the 1979 amendments to the Standing Orders and their debate show the level of resistance to substantive change on the part of MPs and the degree to which a very limited role for select committee scrutiny has become institutionalized in the New Zealand system of government. Johnson, while referring to the British experience with attempted committee reform, could just as well have been describing the current New Zealand situation:

There has been no significant shift away from the traditional view of the House as the place where great issues are fought out, nor has the structure of the parties yet been substantially modified. But for reform to be effective in the sense of altering relations between Government and Parliament, it seemed to be necessary to challenge accepted views both of how the House should operate and of party alignments within it. Only in this way could the House as an institution hope to exert a major influence on the conduct of governments.<sup>41</sup>

A representational vacuum clearly exists within the New Zealand system of government. Parliament itself no longer serves to funnel a conception of the public interest into governmental decision-making. This tendency for the gradual erosion of Parliament's role in governmental decision-making is inherent in parliamentary systems of government in general, and these tendencies are particularly acute within New Zealand. For Schmitter, Winkler and Lowi, this erosion of the legislature within the system of government gives rise to, and is the result of, the emergence of corporatist institutions. The rest of this study will be concerned with attempting to determine if the same tendency is evident in New Zealand. The first step is a close examination of the planning bureaucracy, for, as Galbraith elaborated, this would be expected to form



a crucial first link between the state and those interest groups which would be expected to dominate evolving corporatist institutions.

## Footnotes

<sup>1</sup>John P. MacKintosh, "Possible Reforms of Parliament: Introduction", in John P. MacKintosh, ed., People and Parliament (Westmead, England: Saxon House, Teckfield Ltd., 1979), 171-2. Although MacKintosh is referring to a survey of British voters, one doubts that the declining influence of Parliament over Government policy-making has been totally lost to the New Zealand voter.

<sup>2</sup>Keith Jackson, "New Zealand Parliamentary Committees", The Parliamentarian, LIX (April 1978), 100.

<sup>3</sup>Marilyn Waring, "Power and the New Zealand MP: Selected Myths About Parliamentary Democracy", in Stephen Levine, ed., Politics in New Zealand: A Reader, 2nd ed. (Sydney: George Allen & Unwin, 1978), pg. 86-95.

<sup>4</sup>Michael J. Minogue, "Information and Power: Parliamentary Reform and the Right to Know", in Stephen Levine, ed., Politics in New Zealand: A Reader, 2nd ed. (Sydney: George Allen & Unwin, 1978), 78.

<sup>5</sup>For example, see Alfred Morris Jr., ed., The Growth of Parliamentary Scrutiny by Committee (Oxford: Pergamon Press, 1970).

<sup>6</sup>J. Blondel, Comparative Legislatures (Englewood Cliffs: Prentice Hall 1973).

<sup>7</sup>For example, see Jackson (fn. 2), 94-101; and Geoffrey Palmer, Unbridled Power? An Interpretation of New Zealand's Constitution and Government (Wellington: Oxford University Press, 1979).

<sup>8</sup>Jackson (fn. 2), 97.

<sup>9</sup>John Mendelson, "The Chamber as the Centre of Parliamentary Scrutiny", in Morris (fn. 5), 109.

<sup>10</sup>Study of Parliament Group testimony before the British Procedures Committee Quoted in Alfred Morris Jr., "Introduction", in Morris (fn.5).1.

<sup>11</sup>Quoted in Study of Parliament Group, Specialist Committees in the British Parliament, Vol. XLII (London: PEP, 1976), 2.

<sup>12</sup>Harold Laski, A Grammar of Politics, 4th ed. (London: George Allen & Unwin, 1938), 350.

<sup>13</sup>Valentine Herman and Francois Mendel, Parliaments of the World, ed by the Inter-Parliamentary Union (London: MacMillan Press, 18976), 468.

<sup>14</sup>Blondel (fn. 6), 116.

<sup>15</sup>J.A.G. Griffith, "Standing Committees in the House of Commons", in S.A. Walkland and M. Ryle, The Commons in the Seventies (London: Martin Robertson and Co., Ltd. 1977), 18.

<sup>16</sup>J.A.G. Griffith, Parliamentary Scrutiny of Government Bills (London: George Allen & Unwin, 1974), 203.

<sup>17</sup>Arthur Palmer, "The Select Committee on Science and Technology", in Morris, (fn. 5), 16.

<sup>18</sup>Griffith, "Standing Committees" (fn. 15), 98-99.

<sup>19</sup>Keith Jackson, "Caucus--The Anti-Parliament System?" The Parliamentarian, LIX (July 1978), 163.

<sup>20</sup>Quoted in Palmer (fn. 7), 71.

<sup>21</sup>Marian Logeman, "Committee Structure and Paliamentary Function", in Stephen Levine, ed., New Zealand Politics: A Reader, 1st ed., (Melbourne: Chelshire, 1975), 215.

<sup>22</sup>For a thorough analysis of the New Zealand "caucus system", upon which the following discussion is based, see Jackson, "Caucus" (fn. 19), 159-164.

<sup>23</sup>Minogue (fn. 4), 80.

<sup>24</sup>Jackson, "New Zealand Parliamentary Committees" (fn. 2), 98.

<sup>25</sup>Jackson, "New Zealand Parliamentary Committees" (fn. 2), 97.

<sup>26</sup>Alan D. McRobie, "Parliamentary 'Control' of Public Expenditure", in Stephen Levine, ed., Politics in New Zealand: A Reader, 2nd ed. (Sydney: George Allen & Unwin, 1978), 123.

<sup>27</sup>Palmer (fn. 7), 68.

<sup>28</sup>Palmer (fn. 7), 69.

<sup>29</sup>These views were expressed by Mr. Littlejohn at an informal MA Honours class seminar.

<sup>30</sup>Mr. Geoffry Palmer, New Zealand Parliamentary Debates, 428 (December 13, 1979), 4821.

<sup>31</sup>A. Tunzelmann, "Control of Expenditure and the New Zealand Public Expenditure Committee", The Parliamentarian, LIX (October 1978), 225.

<sup>32</sup>Standing Orders Committee Final Report 1979, AJHR I-14, p. 12.

<sup>33</sup>Keith Jackson, New Zealand: Politics of Change (Wellington: A.H. & A.W. Reed, Ltd., 1973), 370.

<sup>34</sup>Palmer (fn. 7), 44-5.

<sup>35</sup>Minogue (fn. 4), 79-80.

<sup>36</sup>Littlejohn (fn. 29).

<sup>37</sup>Standing Orders Committee Report 1972, AJHR I-14, p. 11.

<sup>38</sup>Of course, the importance of having a low turnover rate in committee membership is easily overstated. As Littlejohn (fn. 29) pointed out, it may be the small nucleus of committee members who do not change that make the difference, while even if membership were stable that says nothing about the actual effort each Member puts into his committee work. Similarly, committee members may be rotated to reflect different Members' particular expertise as topics under committee consideration change.

<sup>39</sup>New Zealand Parliamentary Debates, 427 (November 7, 1979), 4139-4149 and New Zealand Parliamentary Debates 428 (December 13, 1979), 4810-4832. In fact, on the second day of debate, the bulk of the time was spent accusing Mr. Beetham of "greed" for his desire to be recognized as an official Opposition leader.

<sup>40</sup>New Zealand Parliamentary Debates, 427 (November 7, 1979), 4142.

<sup>41</sup>Standing Orders Committee Final Report 1979, (fn. 32), 12.

<sup>42</sup>New Zealand Parliamentary Debates, 428 (December 13, 1979), 4820.

<sup>43</sup>Nevil Johnson, "Select Committees as Tools of Parliamentary Reform: Some Further Reflections:", in S.A. Walkland and M. Ryle, eds., The Commons in the Seventies (London: Martin Robertson and Co., Ltd., 1977), 7.

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## Chapter 3

### The Planning Bureaucracy and Interest Group Representation: The New Zealand Planning Council

#### Introduction

Within states exhibiting corporatist characteristics, as the significance of traditional legislative bodies in national decision-making dwindles, bureaucratic structures evolve to fill the vacuum left in the wake of the legislative branches gradual demise. The government bureaucracy then serves to funnel the interests of particular groups within a given society, typically the interests associated with capital in most developed western states, into the governmental decision-making process.

When the current National Party Government was first elected into office in 1975, it almost immediately set about the task of establishing a new bureaucratic apparatus to guide long-term government decision-making. In this chapter, I will analyse the growing body of planning documents which were the result of this exercise.<sup>1</sup> As will be shown, a broad theoretical foundation can be discerned from the various publications of the New Zealand Planning Council and its associated groups and individuals. In developing this theoretical foundation from the planning literature, certain patterns of interest group representation will become evident. By stating the general planning philosophies and objectives of the Planning Council, and then looking at some of the significant implications of the direction for New Zealand's future development which the Planning Council favors, I hope to demonstrate that the interests of the broader New Zealand society are being ignored and even sacrificed in the almost single-minded pursuit of the interests

associated with big business, and, in particular, international capital. The nature of the Planning Council's work, as well as its general background and history, make the study of the various documents published under its auspices very relevant to the study of corporatist trends within New Zealand.

Established in 1977 in accordance with the recommendations of the Task Force on Economic and Social Planning (to be referred to as the Task Force), the Planning Council was to prepare plans based on the "broadest possible consensus" to be "accepted by policy-makers in all sectors and at all levels as a reasonable basis on which to approach decisions."<sup>2</sup> The Task Force noted a critical lack of planning within the New Zealand government. With both limited resources and time actually being allocated to planning, the limited planning that was carried out tended to have a short term outlook only, with departments generally surviving from "crisis to crisis". Further, the Task Force called attention to the almost complete lack of coordination between spheres of planning activity, both in terms of inter-departmental planning and broad areas of policy, especially economic, social and environmental planning. The Task Force emphasized that the Planning Council's planning activities should not take place in a vacuum; pointing out the need for the widest amount of input from interested parties as well as the need for the resultant plans to have some affect on governmental decision-making. The Task Force thus clearly envisioned a planning apparatus which would act as a focal point for building a consensus between government decision-makers and prominent interest groups within New Zealand society. The Planning Council was to



act as an institutional mechanism for defining a common "public interest" and then translating that "public interest" into long-term decision-making. In this sense, then, the Planning Council was to remedy the shortcomings of New Zealand planning in general and provide a firm foundation for laying out the country's future directions, while explicitly exhibiting at least some of the characteristics of a corporatist institution.

Such grandiose goals for a new institution are more easily written about than actually achieved. Yet, there is strong evidence to suggest that the Planning Council's planning documents do represent an important consensus, albeit necessarily a narrow one, on the general direction which New Zealand's development should take. For if the Planning Council, and the groups and individuals closely associated with it, do not represent all segments of New Zealand society, they do represent those powerful economic, political and bureaucratic interests which would be expected to dominate any corporatist institutions within New Zealand. For example, the Planning Council's Investment Task Force was convened by the general manager of Broadbank, who is also a member of the Planning Council, as well as a former 1981 National Party candidate for Parliament, and included an official from the Ministry of Works and Development. The Planning Council Chairman, who also sits on many of the Council's task forces, was economic manager for Tasman Pulp and Paper between 1969 and 1970, and twice served as a consultant to the Bank of New Zealand. The Minister of National Development and a high-ranking Treasury official are

permanent members of the Planning Council. The Planning Secretariat, which aids the Council in the detailed preparation and research of reports, includes members from both the public and private sectors. The first Secretariat, which was instrumental in the publication of the Council's first major document, Planning Perspectives 1978-1983, consisted almost exclusively of people who had either permanently left or had been seconded from various government departments, including: the Department of Trade and Industry, the Department of Scientific and Industrial Research, the Ministry of Maori Affairs, the Ministry of Agriculture and Fisheries, and the Housing Corporation. Further, Planning Council Chairman Sir Frank Holmes has stated the commitment of the Planning Council to replace at least some of the Secretariat's seconded civil servants with representatives from the business community.<sup>3</sup>

The interplay between private business interests, politicians and especially the civil service, given the important role which it must play in both developing and actually implementing policy, is great. Although the Planning Council might not directly influence decision-making, and despite the fact that many specific recommendations made by the Council seem to be overlooked by Government, the documents it and its associated groups and individuals produce would tend to represent the general attitudes and philosophies of prominent business interest, the National Party Government, and the senior elements of the bureaucracy. Thus, the Planning Council itself, as it was established by the National Party Government, represents a potentially significant corporatist institution within the New Zealand Government. Such a claim is only strengthened

further if the various documents published by the Council consistently share certain very evident predilections for policy. The importance of such documents in understanding the future paths for New Zealand development is underscored further when, as will be shown below, such policy predilections begin to surface in Government actions.

Thus, I will attempt to draw from the various Planning Council publications and related documents the general theoretical foundation being set for New Zealand's development.

The Theoretical Foundation for New Zealand's Development:  
A Market-Oriented Strategy for Development

When the Planning Council was established in 1977, there were two constraints which would have to influence the direction of its planning activities. First, was the "remarkable consistency" consecutive governments had shown in the aims of their economic management policies. While different governments had attached varying weights to each particular goal, it was evident that economic management in New Zealand had been directed toward seven broad goals: Full employment; low rates of inflation; keeping up and extending the social welfare system; retention and extension of access for New Zealand exports; developing manufacturing; maintaining a mixed economy; and a moderate rate of economic growth.<sup>4</sup> The second constraint, naturally, was the need to address the main threats to New Zealand's economic well-being. The Planning Council identified three primary, and related, problems which would have to be confronted in planning for New Zealand's future development: (1) Exports were not growing rapidly enough in volume to sustain a moderate growth in living standards and full employment;

(2) Inflation was still too high; and (3) Low productivity persisted in an over-regulated, cost-plus industrial structure.<sup>5</sup> The Planning Council's reactions to these problems conform to a remarkable degree with the general corporatist model developed in Chapter 1.

Central To New Zealand's future, according to the Planning Council and consistent with the corporatist model, would be economic growth. Without a growing economy, efforts to achieve full employment, a rising standard of living and social harmony would prove futile. Although the Council noted that a relatively low rate of economic growth had maintained full employment for over 25 years up to the early 1970s,<sup>6</sup> the Planning Council now concluded that:

...without a commitment to achieving growth of real GNP of at least 3 percent per annum, the room to manoeuvre by Government in taking action on the vital issues confronting us...would be small. Many New Zealanders would become frustrated and alienated. In such circumstances, leaders of different factions would find it harder to show tolerance. Hardship and the pain of adjustment would undermine efforts to improve relations in the workplace and increase cohesion in society. This threat is already apparent.

The Council noted that the difference between a 1 percent real growth rate and a 3 percent real growth rate would be quite significant for the average New Zealander. Citing New Zealand Institute of Economic Research projections, the council showed that public and private consumption would actually fall by 0.4 percent per year if the GNP grew at a rate of 1 percent per year, while it would increase by 2.6 percent if yearly growth in GNP could be maintained at 3 percent.<sup>8</sup> Paradoxically, as more people sought the benefits deriving from such "non-market" alternatives as small scale organization, social welfare, environmental preservation, and

alternative lifestyles, the more rapid would growth have to be in conventional market sectors.<sup>9</sup> Of course, the Planning Council goes on to point out that the underlying rationale for more growth is not a higher personal level of consumption, but greater societal flexibility in finding solutions to persistent problems. For example, increases in welfare services will be resisted by various groups if such increases threaten to actually decrease their standard of living, while at the same time, in a slow or no-growth economy, welfare services compete directly with productive activities for scarce resources and thus place limits on the economy's ability to expand at a more acceptable rate.

The principal constraint on economic growth is, within the Planning Council's theoretical framework, the increasing shortage of foreign exchange. The ability to import is critical in determining the level of sustainable growth in New Zealand given the heavy dependence of domestic production on imported raw materials and intermediate and capital goods. Despite growing export levels and heavy borrowing overseas, New Zealand is having increasing difficulty in financing the level of imports needed for even slow economic growth. Policy makers are placed in a dilemma: to achieve balance in the country's external accounts, the level of imports must be continually constrained; yet, economic growth is dependent upon a steady flow of imports to fuel economic activity.

In this context, the Planning Council sees the greatest threat to New Zealand's future prosperity and the achievement of full employment as being an insufficient level of exports to generate the amount of foreign exchange New Zealand needs to maintain a suitable level of economic

growth. In the Planning Council's projections, the standard of living in New Zealand varies directly with the level of exports. A reformulation of economic strategies is essential to ensure that resources go to those sectors of the economy which produce for export, at the expense of those sectors which do not. Even to maintain New Zealand's current standard of living, substantial increases in the level of exports are seen to be essential. The Planning Council quite unequivocally concludes:

It is undeniable that in the present situation priority must be given to the export drive. The bill for imports and the money we owe abroad make this essential.<sup>10</sup>

Concomitant with the need to increase total exports and control imports, for the Planning Council, is the need to reduce New Zealand's rate of inflation. Excessive rates of inflation are intolerable in any event, but the Planning Council explains that the current situation is especially serious as New Zealand's inflation rate has been running at a higher pace than that of its major trading partners. This has a twofold effect on New Zealand's balance of payments. First, rising domestic costs make New Zealand's exports less competitive on international markets. At the same time, imports may become more competitive as the price of domestically produced goods and services increases faster than the prices for imports. A lower inflation rate, at least no higher than the level of New Zealand's major trading partners, is thus seen to be an important pre-condition for expanded exports and greater import restraint.

Many general policy prescriptions are offered in the various planning documents. Fundamentally, innovation and a willingness to accept change are essential. Economic policies have changed slowly in New Zealand, and

while significant advances have been made in some areas, the Planning Council finds that a major constraint on economic growth has been the unwillingness of successive governments to disturb existing interest and economic relationships. The Task Force suggests that New Zealand's domestic strategies are in need of a reappraisal which "may involve the rejection of some long-held beliefs and priorities and some re-orientation of our thinking."<sup>11</sup> The Planning Council goes further and

...considers that New Zealand is now moving into a significantly different phase of its development; this means that prescriptions which were valid enough in the past cannot be assumed to work in the future..<sup>12</sup>

Significantly, the Council suggests that perhaps "New Zealand does not automatically belong to the western world." Implicitly assuming that the traditional economic remedies prescribed for modern industrial countries might be inappropriate for New Zealand's economic ills, the Planning Council notes that:

Our economic dependence on the western group has perhaps obscured this fact (that) if an independent observer looked at the structural problems of the New Zealand economy, the agricultural base, and the decline in real income, he or she might, however, classify New Zealand as belonging to the increasing number of middle-band countries, i.e., developing countries with a relatively high standard of living.<sup>13</sup>

A more specific requirement for New Zealand's development according to the Planning Council is that investment be increased. Averaging significantly below 20 percent for the past few years, a lack of investment is considered an important cause of poor productivity performance, a lack of employment opportunities, and less rigorous export growth, especially in the agricultural sector. The Planning Council cites

five factors which are seen as working to discourage a higher level of investment: (1) Low domestic demand; (2) Poor industrial relations; (3) Concern about future balance of payments and foreign exchange constraints; (4) Expectations of inflation undermining profitability; (5) The high and uncertain future for interest rates.<sup>14</sup> The complex inter-relatedness of the problems confronting the New Zealand economy should be clear now. Exports must be increased to generate needed foreign exchange and eliminate balance of payments constraints, and increased investment is essential for increasing exports; while inflation not only discourages investment, but erodes export competitiveness and contributes to a growing balance of payments deficit, all of which necessitate further restrictions in the growth of public and private consumption. Unless carefully managed policies are carried out, at some point the economy could end up in a "viscous circle", with individual economic problems compounding one another as the overall economic situation steadily deteriorates.

However, the Planning Council goes on to explain that the problems of the New Zealand economy are more fundamental than balance of payments constraints, high inflation rates and low levels of productivity. They are portrayed as stemming from a general inefficiency in resource utilization throughout all sectors of the New Zealand economy, a point continually emphasized in the various planning documents. For example, although investment is currently quite low, the average level of investment as a proportion of GDP had been between 22 and 23 percent from 1952 to 1979, yet the returns to that investment in the form of higher



levels of economic growth were much less than similar investment levels had yielded in other countries.<sup>15</sup> The Investment Task Force of the Planning Council suggests that perhaps the pattern of investment itself is as much to blame for poor economic performance as the absolute levels of investment.

The level of inefficiency in the economy is seen as being both excessive and pervasive. A constant theme of the Task Force's report, New Zealand at the Turning Point, is the priority which must be given to increasing economic efficiency. The Planning Council stresses that old attitudes and expectations must be altered, emphasizing that New Zealanders will "have to look much more critically than before at inefficiency and wasteful uses of our limited resources."<sup>16</sup> Inefficiency can no longer be tolerated and the small size of the New Zealand economy and its interdependence among the various sectors demands that each sector of the economy do its share to increase efficiency in the economy.

A basic cause of this inefficiency is seen to be excessive governmental intervention in the economy and many examples are found in the various planning documents. Bureaucratic controls make the investment process lengthy because of delays in getting approvals and construction, and therefore unnecessarily expensive, thus seriously affecting investment incentives. Licensing requirements and numerous other regulations ranging from restrictions on shopping hours to limitations on the transport of goods by road are seen to severely curtail competition and increase costs. Redundancy payments required of industry impede the efficient allocation of resources from stagnating, less prosperous

activities to those activities which offer more promise. The scope of bureaucratic meddling in the economy is such that little major industrial development can take place in the face of government opposition with the implied threat of regulator strangulation. The haphazard, ad hoc nature of government interference in the economy amounts to institutionalized inefficiency, as McLean explained:

The mixed economy as it exists in New Zealand may be described as a market economy where markets are seldom permitted to operate efficiently, together with a centrally-planned economy without a central plan. The allocation of resources is to a large extent determined neither by market mechanisms nor government decision, but by historical patterns fossilized in institutional procedures. Unremarkably, the New Zealand economic sickness is diagnosed as inefficient use of resources.<sup>17</sup>

Logically, the appropriate cure for such an economic illness would consist of either a lessening of bureaucratic controls over the economy with a greater reliance on market forces to allocate resources according to the vagaries of supply and demand, or rationalize governmental intervention through the application of comprehensive, well-defined policy objectives and rigorous economic planning. Consistent with the neoclassical economic philosophy predicted by the corporatist model, the Task Force seems to opt for the former alternative:

The right path for future development strategy is to put less emphasis on ad hoc, discriminatory intervention and more on allowing market forces to determine the most appropriate allocation of resources.<sup>18</sup>

The Planning Council similarly recommends that existing regulations should be reviewed with the purpose of increasing the efficiency of resource use in the economy as a whole and explicitly encouraging competition by placing the onus of proof in licensing matters on the holders of existing

licenses as opposed to new applicants. The Government should, however, "exert pressure on trade and professional associations or societies to desist from practices which limit competition and, if necessary, take action to outlaw them, clear indication of the Council's predisposition towards the needs of capital over the needs of other groups in society."<sup>19</sup>

The role of government is, as the Planning Council points out, "essentially to stimulate and support private activity."<sup>20</sup> The government must provide an environment more favorable for investment, so that investors, both foreign and domestic, can be more confident of realizing adequate returns to their investment. In addition to a more market-oriented approach to the economy, the government must show greater consistency and restraint in its monetary and fiscal policies. This is especially important in controlling inflation, which is another critical aspect of the overall investment environment. This general role for the government of maintaining investment confidence was clarified best when the Planning Council Chairman, Sir Frank Holmes, summarized the Council's philosophy:

The Council agrees that the emphasis should be on improving the climate for investment, and reducing the negative influence of regulation, licensing and control--not on fixing targets, trying to force investment into particular channels, or providing still more specific incentives to invest.<sup>21</sup>

The Planning Council and its associated groups and individuals consistently conclude that an important element in reducing inefficiency in the economy and boosting export competitiveness must be the general lessening of protection in the economy through the elimination of import licensing and a greater reliance on tariffs. Tariffs, because they can be

less discriminating and rely on the market mechanism of a higher price to regulate the level of imports, are seen to be more flexible and efficient while introducing fewer distortions into the economy. Licensing might have served a useful purpose in ensuring a stable market for industry, encouraging the increased utilization of domestic resources, helping to maintain full employment and encouraging investment during an earlier stage in New Zealand's industrial development, but now licensing is seen to protect inefficient domestic industries from foreign competition, thereby fostering the inefficient use of resources and a cost-plus mentality in pricing which results in a higher price level and increased inflationary pressure. Old, established firms are shown to be favored in the allocation of import licensing, even if newer firms might be more efficient and competitive. The time-lags associated with the annual licensing system may add further distortions to the system. Licensing is said to remove incentives to innovate, improve quality and keep costs and prices down in the domestic market. In a situation where even a small firm can be given a monopoly, the Planning Council finds that there is little incentive to use resources in the best interest of producers and consumers, such as by seeking better sources of supply.

The insulation provided by excessive protection, according to the Planning Council's Investment Task Force, isolated New Zealand from trends in the international economy. Thus, the enlarged and diversified productive base established by the industrial growth strategies of the 1940s and 1950s did not adapt to the changes in the external environment, most notably the increased problems of access for primary products to

traditional markets. It is this failure to adapt that is viewed as the primary cause of the current balance of payments problems. Similarly, the Investment Task Force finds that the inefficiency and high costs of protection have led to the development of a "shallow" industrial structure. The protection of industries upstream may prevent the establishment of competitive export industries which are forced to rely on the protected industry for its inputs. Only those industries which can purchase their inputs externally are considered to have a chance of being competitive internationally.

Finally, the Planning Council feels protection only limits New Zealand's ability to attain access to overseas markets. While there is much trade potential for New Zealand and ASEAN and Pacific Basin countries due to a wide complementarity in manufactured goods and primary products, access to such markets will be limited according to the level of access that these countries are accorded to the New Zealand market.

International pressure, through GATT and the IMF in particular, will eventually necessitate a more open New Zealand economy if New Zealand wishes to expand its own export trade significantly.

The Planning Council suggests that several policy changes should accompany an lessening of protection. As a preliminary change, assistance should be directed increasingly at helping firms to improve their productivity and competitiveness rather than compensating them for protection-induced higher costs. This would be both more acceptable internationally and more efficient in the long run for it would enable

firms to become increasingly less dependent on government aid. A greater need is for the establishment of a flexible exchange rate. This would help to guarantee export profitability while discouraging imports as the value of the New Zealand dollar gradually decreased as a reflection of New Zealand's high rate of inflation and balance of payments deficit. With greater assurance of profitability, investment funds and capital would flow more readily to the export sector. In this way, a flexible exchange rate is seen as a cornerstone to policies designed to stimulate greater growth in exports. The Task Force on Investment concludes:

There is equally little doubt that a policy of using the exchange rate to maintain profitability of both farm and manufactured exports would have achieved better results than the complex packages<sup>22</sup> of incentives, grants and subsidies of recent years.

The Planning Council notes that the realization of the aims of the New Zealand-Australia Free Trade Agreement would be an important first step in opening up New Zealand's economy to greater international competition. Unrestricted competition with Australian firms would generate greater efficiency in the New Zealand economy and induce more New Zealand producers to interest themselves in export opportunities. Increased trade between the two countries and the consequent specialization that would result would provide a stronger foundation for developing greater international competitiveness in the New Zealand economy overall. The Planning Council, therefore

...recommends that serious consideration be given to the possibility of eliminating most barriers to trade between the two countries over a period of 10 to 15 years. A list of exemptions may be necessary to cope with cases<sup>23</sup> of special difficulty on each side, but this should be small.

In line with the corporatist model, the Planning Council is advocating neoclassical economic policies to further the development of the New Zealand economy. Minimal government intervention and a maximum of unhampered trade are presented as the key to New Zealand's future prosperity. Protectionism and excessive government intervention in the economy, although at one time they might have been in the national interest, must now be eliminated in order to restore an environment conducive to increased investment and international capital.

The National Party Government has already demonstrated its belief in these general goals of increasing economic efficiency and a greater reliance on market forces. The Prime Minister, R. D. Muldoon, clearly stated the direction his administration was taking in his 1981 Budget Statement:

Whether New Zealand achieves the sustained growth that is possible depends on its productivity performance...Its solution will depend, in turn, on the allocation of resources to the best advantage in both the private and public sectors. Worthwhile improvements in efficiency can be obtained in respect of existing activities by cost control and by better work methods. To provide the incentive to achieve these improvements market forces must be allowed to operate more freely.<sup>24</sup>

In 1979, the Government implemented several important changes in its economic management policies designed to increase resource efficiency and the role of the market in the New Zealand economy.<sup>25</sup> The Stabilization of Prices Regulations were replaced, in accordance with Planning Council recommendations, with a general system of price surveillance. The export incentive schemes were rationalized, with an Export Performance Taxation scheme's benefits being based on net foreign exchange earnings, replacing a series of incentive programs based on increases in exports and increased

exports to new markets. Benefits would be paid in cash if they exceeded the firms tax liability. The import licensing scheme was also liberalized to provide licenses to manufacturing exporters where they could establish that domestically produced inputs or raw materials were either excessively priced or of deficient quality or technology to the extent that export competitiveness would be unduly harmed. Finally, the exchange rate was pegged to a trade-weighted basket of the exchange rates of New Zealand's main trading partners. The exchange rate would continually change to reflect the New Zealand inflation rate relative to the inflation rates of its main trading partners, thereby helping to protect export profitability and regulate imports in line with changes in the balance of payments.

The Government further emphasized its commitment to the gradual replacement of licenses with tariffs and an accelerated opening up of the New Zealand economy to international trade. The recent signing of the GATT Agreement in order to retain a higher level of access to the US beef market,<sup>26</sup> is only the most recent example of Muldoon fulfilling his pledge that:

When taking decisions on industry plans arising from the industry studies programme, and on protection issues generally, the Government is prepared to replace import licensing gradually with tariff-based protection while maintaining by world standards a reasonable level of protection...The distortions which exist in the present protective structure will be eliminated by moving<sup>27</sup> progressively to a more uniform level of protection.

Either implicitly or explicitly, an important aspect of the policies being advocated by the Planning Council and its associated groups and individuals is the need for substantial structural change in the economy. This is a major theme of the Task Force's report, and essentially involves



the need to increase the economy's real export/GDP ratio. Sustained improvements in New Zealand's terms of trade and overseas borrowing cannot be relied upon to solve the current balance of payments, employment and inflation problems. The Planning Council concurred with the Task Force's earlier conclusions:

...New Zealand will find it difficult to avoid serious unemployment without inflation, unless we continue to reshape our economy, so that we are capable of earning more overseas exchange and of achieving our domestic goals with less proportionate dependence on imports.<sup>28</sup>

The importance of this perceived need for economic structural change cannot be overstated, for it will have serious consequences for New Zealand's way of life. Thus, a close examination of what the envisioned structural change will entail is necessary to assess the full implications of the policies being put forward in the various planning documents. The following discussion of the type of structural change being prescribed for New Zealand in the context of a market-oriented development strategy is based on the recent study by P. J. Lloyd for the Planning Council, entitled New Zealand's Long Term Foreign Trade and Structural Adjustment Policies<sup>29</sup>

Lloyd defines structural change as "changes in the long-term allocation of productive resources among production activities of the economy."<sup>30</sup> Resource mobility, in terms of capacity for the inter-occupational, inter-employer and inter-locational movement of all resources, including labour, is essential for the process of structural change to proceed. Measures to facilitate structural change must encompass all sectors of the economy, for the maximization of resource

allocation efficiency can be achieved only by considering all alternative activities.

The fundamental structural imbalance in New Zealand's economy, for Lloyd, is its overspecialization in agriculture. While all OECD countries suffered a decline in their terms of trade and national income per capita as a result of the tremendous increase in the price of oil, New Zealand's heavy reliance on the export of agricultural commodities caused an even greater decline in its terms of trade and standard of living.

The traditional solution to declining terms of trade in New Zealand has been to increase the volume of its exports. Lloyd is skeptical about the efficacy of this solution for the future. Referring to FAO, OECD and USDA projections for export prices and volumes of New Zealand's principal agricultural exports, Lloyd is "pessimistic concerning the growth of exports of traditional rural products."<sup>31</sup> As world income steadily rises, Lloyd sees the low income elasticity of demand for agricultural products resulting in further increases in international trade in manufactured goods and minerals at the expense of agricultural trade, contributing to a further long term decline in New Zealand's agricultural terms of trade. Lloyd also predicts that synthetic substitutes for certain commodities that New Zealand exports, such as butter and wool, will take a greater share of the world market.

A major concern for Lloyd is the growing levels of agricultural protectionism. While GATT has contributed to a downward trend in restrictions on trade in manufactures for over 20 years, "it cannot be reasonably claimed that the instruments of national policy which restrict

agricultural trade have ever seriously been put up for negotiation in GATT."<sup>32</sup> The trend to the use of non-tariff trade barriers, including subsidies, quotas, import levies and complex arrangements designed to ensure domestic commodity price stability, has thus caused New Zealand's overall access to world markets to decrease relative to that of other countries less specialized in the export of agricultural commodities, especially the industrial countries, which should benefit significantly from the tariff reductions negotiated under GATT.

Lloyd goes on to argue that high levels of agricultural protection have several deleterious affects on New Zealand's ability to earn foreign exchange. With price stability being maintained by domestic agricultural policies in large segments of the world market for many of the primary products which New Zealand exports, particularly in the EEC, price fluctuations needed to absorb seasonal and random fluctuations in world demand and supply are concentrated in the smaller, uninsulated portions of the world market. Thus, for example, the EEC may fluctuate from being a net importer of certain commodities to a net exporter on a yearly basis. Product price instability is accentuated and some studies suggest this affect may be substantial. In dealing directly with protected markets such as the EEC, New Zealand becomes, in Lloyd's terms, a "quasi-small supplier" and is placed in the worst of possible situations. Although the average price received by New Zealand exporters decreases as the total export volume grows, there is not a corresponding decrease in the price paid by consumers, preventing a compensating increase in demand.

As a result of this overspecialization in agriculture, Lloyd suggests

that New Zealand was ill-suited to take advantage of the opportunities for export growth during the period of continued expansion in international trade characterizing the 1960s and 1970s. From 1961 to 1977, the yearly increase in the volume of New Zealand's exports averaged only 4.1 percent compared to a world average of 7.2 percent. An important factor in this relatively poor performance was the sickly 1.4 percent average annual rate of growth in pastoral and dairy products exports.

Lloyd cites several factors which combined to reinforce this tendency for a relatively slow growth rate for New Zealand's exports. First, the potential for pastoral farmers to substitute their end products to meet changes in consumer demand was very limited compared to producers in other commodity groups, and farmers were thus dependent on increases in world demand for a relatively limited range of products in order to increase their exports. Second, changes in the real income of farmers is dependent upon changes in the world demand for their particular products. Since 1960, world demand for grassland products has grown at a slower rate than world demand for other products. This affects both the ability and the incentive of farmers to invest in agriculture to increase exports. Finally, a relatively slow rate of growth for New Zealand's exports resulted in a relatively slow increase in New Zealand's ability to import. From 1961 to 1977, New Zealand imports grew at an annual average rate of 4.1 percent, compared to an average world rate of 7.2 percent. Given the heavy dependence of New Zealand's export sector on imports of raw materials and intermediate and

capital goods, Lloyd feels that this factor is important in explaining New Zealand's relatively slow rate of growth in exports.

The problems of overspecialization in agricultural exports aside, Lloyd still concludes that the need for structural change within the New Zealand economy is inescapable. In order for New Zealand to take maximum advantage of opportunities for expanding its exports, Lloyd explains that New Zealand must supply those goods and services which will give it the most favorable terms of exchange. The terms of exchange for individual commodities are continually changing, thus there will also have to be continual changes in the structure of the economy to both maximize export earnings and avoid stagnation. Any major export boom, either from favorable terms of trade or substantial increases in the volume of exports, would also necessitate structural change in the economy, according to Lloyd. The experience of Australia, Indonesia and Norway confirms the likelihood that such an export boom would induce an appreciation of the New Zealand dollar, and thus increase international competition for both export and import-competing activities. Thus, the development of an energy-intensive export sector and/or the reduction of New Zealand's dependence on imported petroleum through the exploitation of domestic energy resources could not obviate the need for major structural change within the economy, but would in fact accentuate the need for structural change as a result of an appreciation of the New Zealand dollar.

Lloyd is explicit in advocating a "trade-oriented" strategy for

for structural change. Such a strategy has two fundamental aspects. First, the allocation of resources within the domestic economy must be based on competitiveness with goods on the international market. This will maximize the gains from national specialization and international trade, while at the same time making New Zealand economic activity more competitive and responsive to structural change. Second, this strategy may mean an increase in both the proportion of national output exported and the proportion of national expenditure going towards imports. In addition to becoming more export-oriented, the New Zealand economy must become more import-oriented as well. Reducing incentives to export-competing producers, which would include import-competing producers, is thus seen as a positive direction for economic policy.

Lloyd goes on to argue that such a strategy for increasing trade must rest on the expansion of exports of non-traditional manufactures and energy based commodities. While there may be some prospects for an increase in the volume of traditional agricultural exports, Lloyd points out that unless market access is greatly improved it will not be rapid and may be achieved only at the cost of receiving lower average prices. Lloyd recommends that New Zealand, instead, should diversify into the export of commodities with higher-than-average growth rates for demand in order to best realize the potential for sustained growth based on a trade-oriented strategy of structural change. Farmers, too, should attempt to diversify their product mix so as to take advantage of higher growth rates in demand for certain products and reduce the risks of fluctuating income levels resulting from the declines in prices and demand for single commodity.

A major flaw in New Zealand economic policies has been the predominance of what Lloyd considers anti-structural change policies. In particular, Lloyd complains that New Zealand appears to be unique among developed countries in its continued reliance on import licensing as the primary instrument for protecting import-competing manufacturing, resembling in this respect a number of developing countries similarly beset by problems of chronic balance of payments deficits and inefficiency and slow growth in the economy. Lloyd finds that licensing seriously decreases competition in the domestic market by eliminating foreign competition directly and, because of the proclivity for import licenses to be awarded on the basis of historic market shares, indirectly by erecting substantial entry barriers for new firms which face difficulties in obtaining needed import licensing. This lack of domestic competition then leads to higher unit costs, abnormal profits and encourages domestic producers to dump excess production on foreign markets, which may help them to increase their own profits but results in a decrease in aggregate national welfare since such dumping amounts to a subsidy being paid by the New Zealand consumers. Licensing restrictions are seen to decrease the incentive and ability of domestic producers to adopt new technology. Finally, Lloyd suggests that the skills and expertise of high level management are diverted into lobbying activities to retain excessive levels of protection and away from real problems of productivity and cost reduction; while the insulation of protection also limits New Zealand's awareness of market trends in other countries, further impeding its export competitiveness.

Fundamentally, according to Lloyd, licensing and quantitative import restrictions represent a departure from "the efficient world trade orientation" based on economic decision-makers responding to the market signals induced by relative changes in supply and demand. Tariffs, on the other hand, are superior because they still allow economic decision-makers to independently determine the quantities and types of goods they will buy or sell on the basis of price signals in the market.

Lloyd finds that current programs designed to facilitate structural change are ad hoc and uncoordinated, with no common eligibility criteria or common administration. In general, they are portrayed as being complex, both in terms of eligibility requirements and the number of potential benefits and concessions available. Incentives are seen to favor capital over labor inputs, and thereby discourage the substitution of labor for capital. Rather than improve domestic job search, placement and retraining, Lloyd finds that the Government seems to have preferred to subsidize foreign immigration to meet excess demand for specific skills, underscoring a tendency for programs to facilitate structural change to be oriented more towards producers than employees.

Lloyd concludes that, on balance,

It is almost certain that the very high rates of protection to the import-competing manufacturers continues to bias the overall pattern of industry assistance away from production of traditional exports and has discouraged the development of non-traditional manufactured exports despite the range of output-related subsidies to rural producers and export subsidies to manufacturers. This means that they have reduced the level of international trade and the size of the internationally-trading sector of the economy.



Lloyd presents several directions the government should take in addressing the need to facilitate structural change in the economy. Generally, government policy must be designed to "help the firms and workers to help themselves" rather than command specific resource movements. Lloyd emphasizes that the only specific recommendation he makes is that licensing should be abolished, since no liberalization of the licensing schemes could effectively eliminate the costs inherently associated with quantitative import controls. Less specifically, Lloyd suggests that a devaluation of the New Zealand dollar is necessary to assist structural change by controlling the excess demand for foreign exchange likely to result from the abolition of import licensing. Rather than increasing export subsidies to make the economy more trade-oriented, Lloyd argues for the reduction of assistance to import-competing producers. With the exception of assistance for "infant industries", Lloyd recommends that export subsidies and import subsidies should not have a differentiated structure, but should apply indiscriminately to all export and import activities. From a national point of view, Lloyd explains that the exact makeup of exports and imports is not relevant and should be left to market forces to determine. Assistance to infant industries must be based on the ability to demonstrate that the benefits of intervention would outweigh the costs. Such assistance must also recognize that arguments for infant industry protection must relate to product-specific, plant-specific or input-specific assistance and cannot justify assistance to all outputs and associated inputs in an industry.

Lloyd concludes that an accelerated rate of structural change in the

economy is a necessary, but not sufficient, condition for increasing growth in average real incomes. The low rate of structural change in New Zealand is seen to be an important factor in explaining New Zealand's relatively slow rate of growth. Structural adjustment policies thus become an essential ingredient for maximizing the benefits of structural change.

Given the importance of the agricultural sector to the New Zealand economy, it is important to look specifically at some of the policies the Planning Council and its associated groups and individuals are advocating for this sector. While there is a definite emphasis on the need to shift to greater reliance on non-traditional exports as a source of foreign exchange earnings, agriculture remains, and will continue to do so for the foreseeable future, an important foundation to New Zealand's export sector.

At the onset, it is important to deal with certain apparent inconsistencies in this body of planning literature. While Lloyd concludes that the outlook for the growth in traditional agricultural exports is limited, McLean, in his report for the Planning Council, considers that production levels, not market limitations, are the binding constraint to increasing agricultural exports.<sup>34</sup> Similarly, the Investment Task Force concludes that the "main problem will be one of supplying enough" meat and dairy products (with the exception of butter) to meet the likely international demand.<sup>35</sup> Fundamentally, however, this inconsistency is more apparent than real. First, as will be shown shortly, there is a very definite consensus in all the planning documents

that each sector of the economy would benefit most just from the types of market-oriented policies outlined above and the minimization of distorting governmental intervention in the economy. It is this overriding central theme of the planning documents that I am most concerned with. Second, Lloyd is arguing for a diversification of New Zealand's exports with a relatively less important role for agriculture. This does not rule out large absolute increases in the volume of agricultural exports, even if Lloyd might feel that this would be unlikely. In the short to medium term especially, agricultural exports will play an important role in financing any expansion of the non-traditional export sector through their contribution to foreign exchange earnings. McLean, on the other hand, is arguing that agriculture has a significant potential for increasing its export earnings and must be considered an important element in New Zealand's export drive, not that New Zealand must continue to rely on agricultural exports for over 70 percent of its foreign exchange earnings. Crucially, Lloyd relies on market forces, encouraged by nondiscriminating governmental policies, as the most appropriate way to encourage the expansion of exports. If Lloyd were to accept McLean's and the Investment Task Force's more optimistic market outlook, it is difficult to imagine how Lloyd's policy recommendations would be any different. Agriculture will have to compete, under a market-oriented strategy, with other sectors of the economy for investment, and agriculture's ability to attract such investment will depend directly on its ability to guarantee competitive rates of return on investments.

While there is a real danger that potentially profitable

agricultural investment will be crowded out by excessive investment in manufacturing and other non-traditional exporting sectors of the economy, this is not implied in Lloyd's policy recommendations. Such a crowding out effect would be the result of discriminatory government policies designed to give unfair competitive advantages to specific sectors of the economy. This would only be a new form of what Lloyd criticizes in the current economic policies being practiced; i.e., the distortions caused by excessive and discriminatory governmental intervention in the economy which discourages the growth of non-traditional exports.

In now looking specifically at the agricultural sector, McLean finds that the principal shortcomings of existing agricultural policies is their tendency to be defensive and ad hoc. The government is portrayed as having been reluctant to make major changes in its approach to agriculture, with the result that its policies have helped in preventing a more general decline in agriculture but have not been successful in restoring sustained growth to the sector. While there have been some notable exceptions, such as the Livestock Incentive Scheme which helps encourage increases in productivity indirectly by encouraging increases in livestock numbers, McLean concludes that agricultural policies generally tend to be distorting and keep farmers incomes up without actually fostering improvements in their productivity. For example, McLean points out that fertilizer subsidies encourage an excessive use of fertilizer, at the expense of other inputs which might result in greater increases in output. Because of the lack of any guarantee that fertilizer subsidies will be provided from year to year, farmers tend to increase

their application of fertilizer even more in order to maximize their benefits under the scheme. Improvements in the efficiency of fertilizer use are directly discouraged, since any improvement would result in a lower level of subsidy.

Fundamentally, the problem with all such subsidies on inputs, according to McLean, is that they reflect the amount of money spent, not the level of output produced. Current incentives do little to discourage farmers from diverting their resources to non-agricultural investments and only help those farmers who are willing and able to increase their production. Variability in all of the incentive schemes prevents long term confidence in agriculture, again discouraging investment, in McLean's analysis.

Both the Planning Council and McLean agree that the key to increasing farm productivity is to guarantee that farming will remain profitable.

Thus, the Council concludes:

A continued increase in farm income is a pre-requisite for sustained expansion of the volume of traditional exports by at least 2 percent per year. This is a crucial element in the Council's strategy.<sup>36</sup>

McLean goes on to suggest that greater reliance on market influences in the economy generally, combined with an adequate welfare system to avoid individual hardships from the necessary adjustments within the agricultural sector, would be the most appropriate strategy for assuring adequate levels of farm income. McLean suggests that greater reliance on market forces to allocate resources within the economy in general should maintain farm incomes at a sufficiently high level to obviate the need for subsidies, incentives and assistance to agriculture. Restrictions on

competition should be removed, with a de-emphasis on detailed administrative intervention in the economy. Any incentive schemes that are allowed to persist should be nondiscriminating in nature and encourage all export and import-competing activities equally. Flexible exchange rates should be accompanied by a gradual reduction in protection.

As should be clear, the types of policy reforms McLean sees as necessary for agriculture are, as McLean himself emphasizes, the same as those felt to be essential for the health of the economy in general. The Planning Council therefore recommends that:

...it is important that farmers be given some assurance, not only by the present Government but also by those who could become the Government in the future, that it is a major objective of policy to sustain the profitability of farming for export generally at a level which is adequate to achieve the volume of production and sales required to fulfill planned goals. This should be part of a more general assurance, extending to those in manufacturing and service industries, that policy will be directed to maintaining the relative profitability of exchange-earning and exchange-saving activities.

Before attempting to assess the implications of the above policies for New Zealand, one more aspect of these policies needs to be examined, namely, the planned role for foreign investment in the New Zealand economy. It is in this policy area that the corporatist tendencies in the Planning Council's proposals becomes most evident.

An important element in the market-orient strategy of development being advocated in the various planning documents is the need to attract greater amounts of foreign investment to New Zealand. Such investment is seen to provide both balance of payments relief and new technology and skills necessary for New Zealand's sustained growth. The Planning Council finds that:

...it would be in the national interest to foster a greater inflow of direct investment from overseas in the next phase of our development...We recommend liberalization [of overseas investment policy] over a wide front and an active<sub>38</sub> publicity effort to encourage overseas interest.

The Minister of National Development, also a member of the Planning Council

Mr. W. Birch, concurred in his 1980 report, Growth Opportunities:

I would stress that overseas investment in New Zealand is welcome. In most areas there are very few restrictions... The Government is actively encouraging worthwhile investment from overseas to stimulate economic growth and is considering further ways to achieve this aim.<sup>39</sup>

The Task Force on Investment emphasizes that foreign borrowing is no substitute for foreign investment. Foreign investment brings with it technical and managerial know-how, as well as access to markets. The rate of profit on the initial foreign investment is rarely greater than the interest paid on overseas loans, plus there is a presumption that foreign investment will lead to an overall increase in investment in the economy and that the total output generated by the investment will be greater than the level of profit repatriated overseas, thereby increasing the nation's standard of living. Fears such as the deterioration of the balance of payments through profit remittance, restrictions on the exports of multinational corporation subsidiaries in New Zealand by the parent company, and the loss of economic sovereignty are all dismissed as either exaggerations or as being capable of control through appropriate government policies.

The important factor is that the benefits of foreign investment be emphasized so that the fears arising from the "very considerable ignorance of the true effects of foreign investment" can be dispelled.<sup>40</sup>

Appropriate macro-economic policies are seen to be all that is necessary for ensuring a positive contribution to the national economy from private foreign investment, as the Investment Task Force explains:



...no foreign investment, indeed no investment of any ownership, will make a profit significantly above the rate of interest [on foreign loans] unless it contributes some new and useful dimension (be it technology, market, or management skill), or unless it is able to exploit some monopolistic condition in the market. The long term solution therefore is not to screen new foreign investment, to spend weeks appraising their "real contribution", but to adopt policies designed to ensure that companies are forced to operate in an open, competitive environment, where high profits tend to be a very temporary phenomenon unless new developments are constantly made.<sup>41</sup>

### The Implications of a Market-Oriented Development Strategy

In attempting to assess the impact of a market-oriented approach to economic development in New Zealand, some criteria for that assessment must first be established. Perrings offers a starting point by suggesting two such criteria.<sup>42</sup> Based on the distinction between economic "growth" as an increase in GDP per capita and "development" as an actual increase in the living standards of the majority of New Zealanders, Perrings' criteria are:

- 1) Growth in GDP per capita should yield an increase in the real income of working people, which restores living standards to the base year of 1974 by 1985, and which ensures in the long-run that they are no worse off, either absolutely or relative to working people in countries with which New Zealand has economic relations.
- 2) Growth in GDP per capita should yield a net increase in the level of employment sufficient to attain full employment by 1985.

It seems that these criteria, while useful, need some modification. As will be discussed below, it appears that New Zealanders are not so much concerned with their standard of living relative to other countries, nor

are they very concerned that their standards of living continually increase. Thus, I would prefer a criteria that is more general and refers to the capacity of a development strategy to provide for a satisfactory standard of living over the long run and within a reasonable period of time, say Perrings' five years. The achievement of full employment within five years is, however, an important element in assessing any development strategy for New Zealand.

In New Zealand, the achievement of full employment is an important goal. In order to determine whether or not specific strategies of development can achieve this goal, the size of the actual employment problem must be established. Between March and October of this year, the level of registered unemployment was between 46,000 and 48,000. These figures do not include the over 14,000 people in fully subsidized temporary government jobs and the 11,000 in subsidized permanent jobs in the private sector.<sup>43</sup> Permanent jobs will thus have to be found for over 60,000 people to achieve full employment of the current labour force according to official statistics. However, these figures only reflect those people who have actually registered as unemployed, and it is widely acknowledged that many of those who are actually seeking and unable to find work do not register as unemployed. A report by the National Research and Advisory Council and census data indicate that unemployment in the economy may be over three times the level indicated by those actually registered as unemployed.<sup>44</sup> The number of jobs currently needed

to achieve full employment may, therefore, be in excess of 200,000. To this figure must be added 27,000 jobs per year, or 135,000 over a five year period, to accommodate new entrants into the labor force.<sup>45</sup> In total the employment requirements over the next five years would be in excess of 335,000 jobs, which is exclusive of any new employment requirements made necessary to compensate for jobs lost through the restructuring of the economy. With this in mind, an assessment of the market-oriented strategy for economic development expounded by the Planning Council and its associated groups and individuals is in order.

Generally, it will not be easy to increase employment opportunities by increasing the levels of exports, as New Zealand's own recent experience will attest. In 1980, overall export receipts increased by over \$1 billion, yet the total number of full-time jobs in the private sector declined by over 12,000.<sup>46</sup>

In particular, any expanded New Zealand export drive will have to face the stiff competition offered by the "newly industrialized countries", which underwrite their competitive success by social conditions which would seem unacceptable in New Zealand by any standard. Evans discusses four basic social conditions commonly found in these countries, ranging from South Korea and Brazil with their relatively large economies to the small city-states of Singapore and Hong Kong, essential to the understanding of their recent successes in exports.<sup>47</sup> First is the relative absence of state regulation of working conditions and the absence or suspension of trade union rights and activities. This labor market anarchy generates extremely low labor costs and contrasts sharply with

state intervention to enhance the strength of capital. Second, the relative absence of democratic rights and pluralism in these countries gives the state a monopoly on political power. Such governments rely on the emergence of professional and entrepreneurial groups whose interests lie in "maintaining openness to the world market." Third, a crucial element in the success of these countries is the existence of a highly developed state apparatus behind the facade of a free market capable of the centralized formulation and implementation of strategic policies and a capacity for reaping the benefits of economies of scale through selective intervention in the economy. Finally, the central government has the ability to divert resources from other sectors of the economy into fueling the export drive. The consistency of this social condition with key elements of the corporatist model should be obvious, and, indeed, the countries Evans is referring to could be appropriately classified as exhibiting corporatist characteristics.

Given this type of competition in the international market for many of the potential non-traditional products which New Zealand will be considering as export alternatives, one must automatically be suspect of the efficacy of development strategies which require for their success that New Zealand compete directly, both internationally and domestically, in those areas of trade in which these countries will benefit most from social conditions which all New Zealanders must find abhorrent. One similarly must be on guard against policies including the establishment of corporatist structures with the New Zealand system of government, which will either seek to imitate such social conditions in New Zealand or try

in other ways to negate the comparative advantage enjoyed by the newly industrialized countries.

Perhaps the National Development Act of 1979 should be viewed, in this context, as an effort to imitate certain social institutions found in the newly industrialized countries. Certainly, the Act will facilitate the "centralized formulation and implementation of strategic policy." According to Bertram, the Act increases the power of the central government by downgrading the role of the Planning Tribunal from a decision-making to an advisory body and by giving the Minister for National Development virtually absolute discretion for pushing through any projects he wishes; limits the focus of public hearings on development projects before the Tribunal to the narrow environmental issues of the environmental impact report; places the public at a severe disadvantage relative to the Government and applicant due to their control over relevant information and facts; while the Act itself represents an essentially undemocratic view of public participation in the decision-making process.<sup>48</sup> Proposed amendments to the Act further limit public scrutiny of development projects by allowing the Planning Tribunal to order any party to a national development hearing to pay any other party such costs and expenses as it sees fit, and by giving the Minister of Works and Development complete discretion in deciding what evidence he will provide the Planning Tribunal. Under the proposed amendments, only the Court of Appeals will be able to hear cases concerning the Act and the retrospective validation of errors or omissions of anything at any time required under the Act is also provided for.<sup>49</sup>

The desirability of high levels of foreign investment in New Zealand is certainly not as obvious as the Planning Council and, in particular, the Investment Task Force would like to suggest. Even the Task Force on Economic and Social Planning was forced to concede that New Zealand's "manufacturing development, like that of developing countries, is regarded as a nuisance by major international industrialists."<sup>50</sup> If New Zealand policy-makers refuse to learn from the experiences of other countries in dealing with multinational corporations,<sup>51</sup> New Zealand's own limited experience is perhaps even more telling.

Official Reserve Bank data for the past five years indicate that the actual net private capital inflow adjusted for the private capital outflow has been increasingly small and, in 1979 and 1980, even negative.<sup>52</sup> A Federation of Labour study of just one firm, Comalco, suggests that in 1977 transfer pricing between New Zealand and Australian affiliates of this multinational corporation resulted in the transfer of \$8.2 million in profit out of New Zealand and \$4 million in lost corporate taxes for the New Zealand government.<sup>53</sup>

Marty Gimpl, senior lecturer in business administration at the University of Canterbury, has found that New Zealand subsidiaries of multinational corporations are forced to buy, at inflated prices, equipment from their U.S. and U.K. parent companies that is obsolete and would get a scrap metal price on the world market. The multinationals are able to further increase their profits by having their New Zealand subsidiaries depreciate the inflated value of the equipment. Gimpl also observed that, at least in the case of British multinational subsidiaries in New Zealand,

almost all important decisions are taken overseas and all top management jobs are filled from Britain. Research and development is monopolized by the parent companies and held back from subsidiaries in New Zealand. Gimpl concludes that half ownership of foreign subsidiaries by the Government is in reality less desirable than allowing complete 100 percent foreign ownership, since the Government must also share in half the risk and could later be called upon to provide increased funding to bail out the corporation should difficulties arise, a politically embarrassing situation to say the least.<sup>54</sup>

Of even greater concern is the already apparent ability of multinational corporations to actually influence government policy.<sup>55</sup> Evidence suggests that Comalco was able to bring heavy pressure to bear on the Government over the price of electricity its aluminum smelter would have to pay. In 1979, prior to the introduction of the National Development Act legislation, British Petroleum presented a very similar blueprint for a streamlined planning system to the Under-Secretary for Energy. Certainly, as the importance of foreign investment to the economy and the relative size of the foreign owned sector in the New Zealand economy increases, so too will the ability of foreign-owned corporations to influence government policy, as will the potential costs of transfer pricing, profit remittances, investment in obsolete equipment and technology, and of decisions affecting large and important sectors of the domestic economy being taken by corporate decision-makers far removed from New Zealand and whose interests no one could guarantee will always coincide with those of New Zealand.

In this context, the precedence being accorded the interest of international capital become clear. The interests associated with big business and international capital appear to dominate the policy proposals which the Planning Council has put forward, completely ignoring the already apparent negative consequences of private foreign investment within the New Zealand economy.

The potential affects of a market-oriented development strategy on the quality and material standard of living in New Zealand are very serious, especially given New Zealand's collectivist traditions. Ostensibly, economic planning must be integrally intertwined with social and environmental considerations, as the Task Force warns:

...while we agree that "economic" objectives must be given very high priority in the foreseeable future, it is not enough...to concentrate planning on economic issues. Planning for social justice, for a positive reduction of social problems, for a greater sense of community, for a pleasant environment, and for cultural and recreational activities which both refresh us and develop our national identity, is not only important in its own right, but also an essential element in any scheme to overcome our economic difficulties, while keeping New Zealand a place where both young and old wish to live.<sup>56</sup>

The market-oriented strategy of development as outlined above, however, threatens to elevate economic objectives above all else, putting at grave risk virtually all other possible goals for New Zealand's development and, ultimately, even those primary economic objectives themselves.

Both the Task Force and the Planning Council stress an increasing emphasis on individualism and the different values, lifestyles and roles people choose to adhere to.<sup>57</sup> The Task Force gives special attention to the Social Development Council's objectives to enhance the dignity,



freedom and independence of individuals, yet apparently gives relatively less weight to the Social Development Council's other four objectives to strengthen the spirit of the community, to preserve life and promote health, to share resources fairly, and to enhance the environment. In accordance with capitalist dogma, there is a shift in emphasis, often subtle, away from collectivist and group activity towards individual initiative and an acceptance of greater inequality with a de-emphasis on the redistributive role of government. In particular, the Planning Council sees the need for "a fundamental change in political and social philosophy." Admitting the need not to "underrate the difficulty which many groups will face in adjusting to such a radical shift in emphasis," the Planning Council explains that:

The real need, if the welfare state is to find new directions in the 1980s, is for the state to do less and at the same time assist people to do more for themselves. This will involve a shift in emphasis from the "top down" approach and the reliance on institutions, towards greater involvement and responsibility on the part of all citizens.<sup>58</sup>

The Task Force found that, while most New Zealanders regard growth as a desirable policy objective, "there is a broadly-based consensus in New Zealand in favour of a reasonable rate of economic growth provided growth is intelligently directed to minimize the social and environmental costs."<sup>59</sup> The Commission for the Future identified the public's preferred objectives for a development strategy and ranked them in their order of preference:

1. Indefinitely sustainable use of natural resources.

2. Redevelopment of unemployed economic production workers in social production activities.
3. Mixed scale of industry.
4. A wide variety of work and creative use of greater leisure time within the scope of a wide variety of life styles.
5. A more cooperative and less competitive society.<sup>60</sup>

Significantly, no preference is given for either economic growth or improved standards of living. This is consistent with the Commission's own conclusions from a series of workshops on the goals New Zealanders would like to see achieved through New Zealand's development:

In general, the workshops indicated a de-emphasis of economic growth with an emphasis on the acceptance on quality of life, acceptance of a certain minimum standard of living, and an even distribution of wealth.<sup>61</sup>

A study on the economic implications of social change done for the Commission for the Future similarly concludes that New Zealanders attach particular importance to three social goals: (1) Protection against world recession; (2) Maintenance of full employment; (3) Maintenance of social harmony.<sup>62</sup>

It is thus apparent that there is a potentially significant divergence between the expressed goals and objectives of the market-oriented development strategy and the goals which most New Zealanders consider important for any development program. The interests of the broader New Zealand society, composed of a variety of interest groups, are being sacrificed in the interests of one particular minority group, namely, that group most closely associated with big business and international capital. On these grounds alone, reconsideration of such policies by New Zealand policy-makers is

is definitely in order. Yet, one is struck by the aloofness which the Planning Council and its associated groups and individuals demonstrates in refusing to explicitly, or even implicitly, recognize such clear public objectives in their development planning. The Commission for the Future's study group on the economic implications of social change is particularly blatant in its disregard for its own findings on public opinion. Thus, it suggests that perhaps the majority of New Zealanders simply have not yet realized that New Zealand has experienced a major decline in its standard of living over the last two decades, or maybe the majority of people think that nothing can be done to correct this decline. The study group goes on to suggest that the average New Zealander may have become too accustomed to someone else assuring him a minimum standard of living, such as employers, trade unions or the government, so that he no longer feels a need to worry about material values. One almost senses a certain contempt for such attitudes when the study group writes:

In a world desperately short of energy and food, it would be morally hard to defend a New Zealand policy aiming merely at low and relatively unsophisticated domestic utilization [of resources].<sup>63</sup>

The implications of the above discussion become even more significant when examining the negative ramifications of a market-oriented development strategy on resource allocation and monetary and fiscal policies. Such ramifications were only hinted at by the Task Force when it discussed the need for a "period of relative deprivation", the length of which would be determined by the success of development policies in achieving their stated objectives:

More resources must be devoted to earning overseas exchange rather than catering for sharing between

domestic consumption and investment, between public and private activities, and between wages, profits and social benefits.<sup>64</sup>

Specifically, firmer control will have to be exercised on the growth of the money supply, government spending and incomes; both to free resources for the export sector and to prevent other policy changes, such as devaluation and decreased protection, from pushing up costs and the balance of payments deficit. Efforts to stimulate employment must be severely curtailed, again to control inflation and the balance of payments. These constraints on the growth in the money supply and domestic demand will allow for investment only in priority areas. The Investment Task Force indicated that "until the balance of payments situation improves, only modest expansion in some areas of private investment from present recession levels can be envisaged up to 1985."<sup>65</sup> Growth in employment will largely be determined by growth in foreign exchange earnings, with little possibility of increased employment through import-substitution due to the necessary constraints on consumption.

The elimination of the Government deficit becomes of paramount importance. This is necessary both to curb inflation and to prevent huge government deficits from drying up potential sources of investment capital. Yet, eliminating the budget deficit will prove to be a formidable task. In July, the Government projected the 1981-82 deficit at just over \$2 billion, or 7.4 percent of projected GDP. By October, however, estimated government expenditures had increased another \$276 million, with the biggest increase of \$85.3 million going for increased

superannuation payments.<sup>66</sup>

The Planning Council considers it essential that increases in government expenditure be held to no more than 2 percent per year, assuming a real GDP growth rate of 3 percent per year. Should that growth rate not be realized, government expenditures would have to grow at a correspondingly slower rate.<sup>67</sup> The need to emphasize the requirements for sustained economic expansion and the fact that social services expenditures are the most rapidly rising component of government expenditures indicates that the brunt of budget control will fall in this area. The Planning Council offers a number of suggestions for limiting the growth in social services expenditures, including: a maximum 2 percent per annum increase in all social service expenditures; the elimination of the discrepancy between accident compensation and sickness benefits, with benefits after a 3 month period consisting of a standard rate and the elimination of the compensation award in accident cases without reinstating the right to sue in accident situations; changes in superannuation to raise the eligibility to 62, and possibly even 65, and along with other income maintenance programs, that benefit levels be taxable and based on the before-tax rather than after-tax average wage level; and the removal of hidden subsidies in the prices and fees charged for public facilities and services through regular price adjustment to reflect their true long-run costs.<sup>68</sup>

Whether or not these recommendation will prove sufficient will, of course, depend upon the success of the development strategy being pursued in reducing the balance of payments deficit and generating the needed

foreign exchange necessary for economic growth. It should be emphasized that such recommendations only deal with limiting real increases in government expenditures and do not deal directly with the current deficit of over \$2 billion, a deficit that will be carried through each year unless significant other budget cuts are made and/or real tax revenues increase much faster than the real rate of growth in expenditure.

The potential seriousness of the recessionary fiscal and monetary constraint on domestic consumption and government expenditures under a market-oriented development strategy is quite severe. For planning purposes, the Planning Council accepts as a "reasonable" assumption that every 1 percent increase in income results in a 1 percent increase in the volume of imported goods and a 1.2 percent increase in the volume of imported services. It then projects that with 1 percent annual growth in GDP the current deficit on invisibles would be at the same level it was in 1978, but with a 3 percent annual growth rate the invisibles deficit would double by 1985.<sup>69</sup> A further constraint to the permissible level of growth in consumption is the dependence of New Zealand industry on imports, both to service existing factories and to expand production. More than 80 percent of all imports consist of raw materials and equipment.<sup>70</sup> Consumption cannot be allowed to increase to the extent that it could crowd out this vital 80 percent of imports. This constraint is underscored by the relatively high rate of export growth necessary to sustain even small increases in the standard of living.<sup>71</sup>

The level of draconian measures that could be necessary for constraining the growth in domestic consumption is clear when one looks

back at New Zealand's experience with deflationary fiscal and monetary policies designed to improve the balance of payments between 1973 and 1976, when real per capital income fell 14.4 percent adjusting for the declining terms of trade and population increases.<sup>72</sup> It should be noted that during this period, 1973-76, the New Zealand economy was much more insulated, and therefore easier to regulate, than it would be under a market-oriented development strategy.

Certainly, the government might not choose to follow such severe prescriptions in attempting to implement market-oriented strategies. If it does not, however, such strategies are doomed to failure as the balance of payments deficit becomes even more chronic, as unemployment skyrockets, and as inflation runs rampant. Such policies can work only if resources are carefully allocated to ensure a maximum increase in exchange earnings. The market-oriented approach has an inherent flaw in this regard: because development must be based on export-led growth and increased international trade, consumption must be foregone until the export sector can grow sufficiently to sustain both a more open economy and increases in employment and the standard of living. The Investment Task Force ominously concludes:

New Zealand will make limited economic progress until its balance of payments deficit is reduced. Only then can demand be allowed to expand and provide more jobs, higher real income, and a wider range of public and private goods and services.<sup>73</sup>

In the environment created by a market-oriented development strategy, policies dealing directly with the labor force and employment

will be crucial for organized labor must not be allowed to interfere with the attainment of more important Planning Council objectives. An important requirement for structural change in the economy is labor mobility. Thus, the Planning Council recommends the creation of an "active employment" policy to facilitate labor mobility.<sup>74</sup> Such a policy would have 8 objectives: 1) Provide information about the changing labor market and labor force necessary to implement development policies; 2) Ensure everyone is adequately equipped to participate in the labor force; 3) Ensure an adequate supply of the right skills; 4) Provide security of income for people in transition between jobs; 5) Facilitate the smooth and rapid entry or re-entry of workers into employment; 6) Support, where necessary, the demand for labor through job creation programs; 7) Minimize unemployment; and 8) Consider both quantitative and qualitative aspects of employment. As discussed above, efforts to expand employment, at least in the short term, will be severely curtailed. The ability to provide government revenue to fully implement such a broad policy, laudable as it appears to be, within a reasonable time frame is clearly in doubt.

While new employment opportunities will certainly be limited in the immediate future under a market-oriented development strategy, there is potentially a very serious reduction in existing employment opportunities also. The assumption behind increasing the level of competition in the economy is that there is currently a high level of inefficiency. It is inconceivable that the elimination of this inefficiency will not also



result in the loss of a considerable number of jobs, even if the increases in efficiency and the new export industries eventually generate more employment opportunities. Yet, even this assumption may not be warranted. Currently, high labor costs in both the secondary and service sectors of the economy are encouraging the substitution of capital for labor.<sup>75</sup> Why this would change under a market-oriented strategy, unless growing unemployment forced wages down, is hard to understand. Whether maximizing efficiency and competitiveness is even compatible with full employment remains to be seen.

Greater income inequality is not only inevitable under a market-oriented strategy, it is considered essential. Thus,

The [Planning] Council sees increased margins for skill, effort and responsibility as indispensable to the next phase of New Zealand's development.<sup>76</sup>

This redistribution of income must be sustained, even though this will result in higher labor costs and even greater incentive for replacing labor with capital. Those least well-off, the unskilled and semi-skilled, will, of course, be the major losers.

Perhaps, as the Planning Council suggest, full employment will no longer be an appropriate goal. "Even in the most favorable economic circumstances", the Council explains, "there are likely to be more people in 'transition' between jobs", and thus there will be greater observed unemployment.<sup>77</sup> The Council therefore recommends a new definition of full employment, which includes as employed those people who want paid employment and can obtain it, or are in training leading to it, within a reasonable period of time.

Naturally, under such conditions, improved industrial relations "warrants high Government priority."<sup>78</sup> Quite positively, both the Task Force and the Planning Council recognize the need for greater employee involvement in the decision-making process as it directly affects their employment opportunities and income levels. The Task Force emphasized the need "to generate a sense of common purpose, to diminish adversary relationships and encourage competition, to involve people in working out and supporting necessary changes in ways that share the burdens and rewards equitably."<sup>79</sup> The Planning Council goes even further in its recommendations:

The creation of circumstances in the labour market which will induce workers, unions and management to pay more attention than in the past to improving productivity and controlling costs is of fundamental importance. To this end...programmes [should be developed] to increase constructive employee involvement in decisions affecting productivity and costs. Programmes also need to be devised<sup>80</sup> to ensure fair sharing of the fruits of improvement.

Yet, the actual amount of attention such efforts will be given is harder to predict, especially if results are not readily apparent. Certainly, pressures will mount to suppress labor demands which are considered unreasonable or block desired change in the economy. The recent spurt of industrial disputes throughout the country, and the proposed Summary Offenses Bill, which the Federation of Labour claims threatens the right to strike by prohibiting peaceful picketing,<sup>81</sup> may hold ominous portents of the future. The National Party Government's response to the Federation of Labour's rejection of its wage-tax trade-off proposal is thus significant, and might be considered a consequence of the need to

compete for export markets with the newly industrialized states:

It is clear that, with the wage increases that have taken place in the last few years, there can be no justification for wage settlements in the double figures in the 1981-82 wage round. Such increases would trigger off a self-defeating spiral of price rises and further wage claims, accompanied by a higher level of unemployment. The Government is not prepared to see this happen. If the parties to wage negotiations wish to preserve their right to free collective bargaining, they must exercise that right responsibly. The Government will act resolutely if necessary in the public interest. If this requires the imposition of controls on wages, we will face up to that unpleasant eventuality.

### Conclusion

A market-oriented development strategy represents a big gamble. Consumption and employment are sacrificed in the short term for a hoped-for pay-off in higher standards of living in the future.

The two criteria for assessing a development strategy presented above, maintenance of a satisfactory standard of living and the achievement of full employment within five years, are not met by a market-oriented approach. While a satisfactory standard of living may be achievable in the long run through such a strategy, this is not by any means guaranteed, and in the short term, at least, the standard of living for the average New Zealander will most likely fall drastically. Full employment is, quite unequivocally, not feasible under a market-oriented development strategy.

A market-oriented development strategy represents a serious departure from many of the values and objectives held by the majority of New Zealanders. Full employment, the welfare state and relative income equality are all traditional New Zealand values which must be radically

altered under a market-oriented strategy. The emphasis of government policy becomes growth and the long term aim is for increasing standards of living. Yet, paradoxically, this is not what the people seem to desire. At the same time, such objectives can only be achieved through the opening up of the New Zealand economy to international capital, and the almost inevitable deleterious consequences that will ensue.

The Planning Council's market-oriented development strategy provides clear evidence of the disproportional influence given the interests most closely associated with big business and, in particular, international capital in the governmental decision-making and planning process. The large firms, as Galbraith explained, are the most immune from the corrective fiscal and monetary policies necessarily associated with such a market-oriented development strategy, while it is those firms which also benefit most from government efforts to foster an "appropriate" economic environment. Only the small business sector and labor in general will bear the costs of an economic environment in which the interests of capital can thrive. The Planning Council represents the peculiar type of corporatism outlined in the model developed in Chapter 1. The Planning Council's policy recommendations would seem to lead New Zealand only further along the path to becoming a truly corporatist state.

The deflationary policies and the concomitant social disruptions that a market-oriented strategy would entail are necessary, for without them the strategy would be consumed by the inflationary pressures which it unleashes, yet in themselves do not guarantee sustained development in the long run. If such a strategy fails, New Zealand would appear to be doomed

to a vicious cycle of worsening balance of payments crisis accompanied by more deflationary monetary and fiscal policies designed to further encourage an ever more desperately needed export boom. The certainty of extreme economic and social dislocation in the short term, combined with the long term certainty of having to abandon many of New Zealand's most valued social objectives, all for the uncertain promise of a future which the majority of New Zealanders do not appear to want, makes such a market-oriented approach to development appear misguided and inappropriate. The corporatist model is illuminating, both in explaining why such policy outcomes could result from an allegedly democratic and representatively-based planned exercise, and why such policy outcomes will be so potentially devastating for the average New Zealander.

## Footnotes

<sup>1</sup>The following discussion is based on the following Planning Council documents: Donald Brash, Frank Holmes, Bill Smith and Graeme Thompson, Investment Issues (Wellington: New Zealand Planning Council, 1980); Holmes (fn. 1); P.J. Lloyd and others, New Zealand's Long Term Foreign Trade Problems and Structural Adjustment Policies (Wellington: New Zealand Planning Council, 1980); Ian McLean, The Future For New Zealand Agriculture: Economic Strategies for the 1980s (Wellington: Fourth Estate Books for the New Zealand Planning Council, 1978); New Zealand Planning Council, Economic Strategy 1979 (Wellington: New Zealand Planning Council 1979); New Zealand Planning Council, Employment: Towards an Active Employment Policy (Wellington: New Zealand Planning Council, 1980); New Zealand Planning Council, Planning Perspectives 1978-1983 (Wellington: New Zealand Planning Council, 1978); and New Zealand Planning Council, The Welfare State? Social Policy in the 1980s (Wellington: New Zealand Planning Council, 1979). Since the Planning Council grew out of the Task Force on Economic and Social Planning's findings, their report was also used. Task Force on Economic and Social Planning, New Zealand at the Turning Point (Wellington: Task Force on Economic and Social Planning, 1976). One Commission for the Future publication, co-authored by G.J. Thompson of the Planning Council was also used. J.F. Duncan, E.M. Ojala and G.J. Thompson, Some Economic Implications of Social Change in New Zealand (Wellington: Commission for the Future, 1980).

<sup>2</sup>See Task Force on Economic and Social Planning (fn. 1), 345-389, for the Task Force's specific recommendation.

<sup>3</sup>See New Zealand Planning Council's Report of the New Zealand Planning Council for the Year Ended 31 March 1978 (Wellington: Government Printer, 1978).

<sup>4</sup>McLean (fn. 2), 7.

<sup>5</sup>N.Z. Planning Council, Economic Strategy (fn. 1), 7.

<sup>6</sup>N.Z. Planning Council, Employment (fn. 1), 9.

<sup>7</sup>N.Z. Planning Council, Planning (fn. 1), 85. Emphasis in original.

<sup>8</sup>N.Z. Planning Council, Planning (fn. 1), 32-33.

<sup>9</sup>Duncan, et al (fn. 1), 22-23.

<sup>10</sup>N.Z. Planning Council, Planning (fn. 1), 5.

<sup>11</sup>Task Force on Economic and Social Planning (fn. 1), 199.

<sup>12</sup>N.Z. Planning Council, Planning (fn. 1), 3.

<sup>13</sup>N.Z. Planning Council, Planning (fn. 1), 19.

- <sup>14</sup>Brash, et al (fn. 1), 11.
- <sup>15</sup>Brash, et al (fn. 1) 7-11; G.F. Preddy, Fast-Track Self-Sufficiency: An Alternative Energy Plan, Discussion Paper (Wellington: Commission for the Future, 1980), 13-14.
- <sup>16</sup>N.Z. Planning Council, Planning (fn. 1), 5.
- <sup>17</sup>McLean (fn. 1), 14-15.
- <sup>18</sup>Task Force on Economic and Social Planning (fn. 1), 276.
- <sup>19</sup>N.Z. Planning Council, Economic Strategy (fn. 1), 21.
- <sup>20</sup>N.Z. Planning Council, Planning (fn. 1), 86.
- <sup>21</sup>Frank Holmes, "Introduction", in Brash, et al (fn. 1), 6.
- <sup>22</sup>Brash, et al (fn. 1), 34.
- <sup>23</sup>N.Z. Planning Council, Planning (fn. 1), 89.
- <sup>24</sup>R.D. Muldoon, Budget 1981 (Wellington: Government Printer, 1981),  
3.
- <sup>25</sup>See R.D. Muldoon, Budget 1979 (Wellington: Government Printer, 1979).
- <sup>26</sup>The Press.
- <sup>27</sup>Muldoon, Budget 1981 (fn. 24), 3.
- <sup>28</sup>N.Z. Planning Council, Planning (fn. 1), 15.
- <sup>29</sup>Lloyd (fn. 1).
- <sup>30</sup>Lloyd (fn. 1), 29. Emphasis in original.
- <sup>31</sup>Lloyd (fn. 1), 53.
- <sup>32</sup>Lloyd (fn. 1), 18.
- <sup>33</sup>Lloyd (fn. 1), 4.
- <sup>34</sup>McLean (fn. 1), 26.
- <sup>35</sup>Brash, et al (fn. 1), 28.
- <sup>36</sup>N.Z. Planning Council, Economic Strategy (fn. 1), 12.
- <sup>37</sup>N.Z. Planning Council, Planning (fn. 1), 86. Emphasis in original.

- <sup>38</sup>N.Z. Planning Council, Economic Strategy (fn. 1), 12.
- <sup>39</sup>Ministry of National Development, Growth Opportunities (Wellington: Government Printer, 1980), 1.
- <sup>40</sup>Brash, et al (fn. 1), 81.
- <sup>41</sup>Brash, et al (fn. 1), 81.
- <sup>42</sup>Charles Perrings, Formulating an Alternative Development Strategy for New Zealand (Auckland: Prepared for the Counter-Strategy Group, 1980, xerox), 1-3.
- <sup>43</sup>"'Encouraging' fall in unemployed", The Christchurch Press (13 October 1981), 1.
- <sup>44</sup>See "Government's Job Strategy Slated", The Christchurch Press (30 June 1981), 3; McLean (fn. 1), 9-10; and N.Z. Planning Council, Employment (fn. 2), 18.
- <sup>45</sup>N.Z. Planning Council, Welfare (fn. 1), 8-11.
- <sup>46</sup>Bill Rowling, Signposts to Growth (Wellington: Labour Party, July 1981), 3.
- <sup>47</sup>David Evans, "External Options for the New Zealand Economy", in W.E. Wilmott, ed., New Zealand and the World: Essays in Honour of Wolfgang Rosenberg (Christchurch: University of Canterbury, 1980), 61-62.
- <sup>48</sup>See I.G. Bertram, The National Development Bill: An Analysis (Wellington: Coalition for Open Government, 1979).
- <sup>49</sup>Philip Worthington, "Bill intended to 'Tidy' National Development Act", The Christchurch Press (2 September 1981), 1.
- <sup>50</sup>Task Force on Economic and Social Planning (fn. 1), 270.
- <sup>51</sup>For example, see Richard J. Barnet and Ronald E. Muller, Global Reach (New York: Simon and Schuster, 1974).
- <sup>52</sup>Alf Kirk, Draft, FOL Economic Strategy Paper, 1980, xerox, p. 47.
- <sup>53</sup>Kirk (fn. 52), 47.
- <sup>54</sup>Gimpl quoted in, Gary Arthur, "Who Owns New Zealand?" The Christchurch Press (3 July 1980).
- <sup>55</sup>Arthur (fn. 54).
- <sup>56</sup>Task Force on Economic and Social Planning (fn. 1), 45.



<sup>57</sup>See N.Z. Planning Council, Welfare (fn. 1), 25 and Task Force on Economic and Social Planning (fn. 1), 32.

<sup>58</sup>N.Z. Planning Council, Welfare (fn. 1), 28.

<sup>59</sup>Task Force on Economic and Social Planning (fn. 1), xi. Emphasis in original.

<sup>60</sup>Preddy (fn. 15), 36.

<sup>61</sup>Duncan, et al (fn. 1), 5.

<sup>62</sup>Duncan, et al (fn. 1), 3.

<sup>63</sup>Duncan, et al (fn. 1), 8-11.

<sup>64</sup>Task Force on Economic and Social Planning (fn. 1), 5.

<sup>65</sup>Brash, et al (fn. 1), 13.

<sup>66</sup>"Estimates jump to \$13.4b", The Christchurch Press (14 September 1981), 1.

<sup>67</sup>N.Z. Planning Council, Welfare (fn. 1), 15.

<sup>68</sup>N.Z. Planning Council, Welfare (fn. 1), 93.

<sup>69</sup>N.Z. Planning Council, Planning (fn. 1), 31-32.

<sup>70</sup>Brash, et al (fn. 1), 32.

<sup>71</sup>Task Force on Economic and Social Planning (fn. 1), 268.

<sup>72</sup>Task Force on Economic and Social Planning (fn. 1), 13.

<sup>73</sup>Brash, et al (fn. 1), 22.

<sup>74</sup>N.Z. Planning Council, Employment (fn. 1), 22.

<sup>75</sup>Brash, et al (fn. 1), 22.

<sup>76</sup>N.Z. Planning Council, Planning (fn. 1), 90.

<sup>77</sup>N.Z. Planning Council, Employment (fn. 1), 7.

<sup>78</sup>Brash, et al (fn. 1), 83.

<sup>79</sup>Task Force on Economic and Social Planning (fn. 1), 44.

<sup>80</sup>N.Z. Planning Council, Planning (fn. 1), 20.

<sup>81</sup>"Bill strikes at right to picket, say F.O.L.", The Christchurch Press (6 August 1981).

<sup>82</sup>Muldoon, Budget 1981 (fn. 24), 9.

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## Chapter 4

### Corporatist Trends and National Party Policy: A Partnership Between International Capital and the State

The National Party's development strategy is simply one of export led growth, which it views as "the key to New Zealand's prosperity."<sup>1</sup> At the core of this development strategy is a series of large-scale, capital-intensive industrial projects (hence the common euphemism "Think Big") based on the exploitation of New Zealand's natural resources, and in particular its alleged abundance of energy.<sup>2</sup> This chapter will be divided into two sections. The first section will draw out from the various National Party (to be referred to as National) policy brochures the general philosophy of the National Party and attempt to place some specific interest groups within the National Party's proposed policy-making scheme.<sup>3</sup> The partnership National is attempting to forge with the interests of international capital will quickly become evident. National appears to be committed to establishing the corporatist structures necessary for a symbiotic relationship between international capital and the New Zealand state, to the virtual exclusion of the interests of the small business sector and organized labour from the decision-making process. In the second section, I will then offer further evidence of this evolving partnership between the state and international capital, as well as point out some of the negative economic consequences of such a partnership, by examining the implications of National's development strategy in general and the proposed Aramoana aluminum smelter in particular.

#### Section 1: National's Political Philosophy and Interest Group Representation

Ostensibly, the National Party appears to be committed to a limited

role for the central government in directing economic activity and chooses to rely instead on private initiative and effort to ensure prosperity. As the National brochure Growth Is Taking Place in Every Region in New Zealand elaborates,

Successful resource development is dependent on the initiatives taken within each region, particularly by the private sector. National believes the role of Central Government is to co-ordinate regional and national planning, encourage and support local enterprise, foster the full use of resources in each region and, determine parameters which will encourage and reward initiative. National will encourage the initiative and independence that is the vital element of our free enterprise system.

Explicitly, National claims to rely "on the initiative of individual New Zealanders to achieve economic growth rather than control and direction by the state."<sup>4</sup> Thus, National is committed to defending the rights and freedom of individuals, as the title of National's brochure Your Freedoms Are Always Worth Protecting indicates, while laws to protect the consumers' collective interests will not be allowed to "interfere with legitimate competitive free enterprise."<sup>5</sup>

The obvious corollary of such a philosophy is National's conception of the nature of New Zealand's welfare state. National finds that "one major criticism of our welfare system has been that we have encouraged people to look to the state for assistance before they look to themselves."<sup>6</sup> Rather, individuals, voluntary and community based organizations, and governmental agencies must be seen as complementary. Somewhat paradoxically, National claims to be committed to maintaining high standards in New Zealand's health, social welfare and educational services and equal access to such services for all New Zealanders (hence

it will consider the portability of superannuation payments to New Zealand citizens living abroad when "economic circumstances permit"), while at the same time recognizing "the importance of ensuring that expenditure on social services does not expand in a way which is disproportional to the rest of the economy" by working to contain the expansion of the social welfare vote and fund improvements in such services through a reallocation of resources already committed to the social services.<sup>7</sup> Implicit in this conception of the welfare state, there seems to be a clear devolution of responsibility from the central government to the individual and private sector. In essence, the government would be abandoning many of the social responsibilities it is now generally assumed to hold, and those responsibilities would, by necessity, fall on the individual and the private sector. The capacity and willingness of individuals and the private sector to absorb such a devolution of responsibility is, however, only assumed.

Economic growth becomes the paramount objective for National, not as an end in itself but as a means for achieving virtually every other objective National has committed itself to. Minister of Labour Jim Bolger explains that National does "not seek growth for its own sake but for what it means to people"--a job for everyone who seeks one.<sup>8</sup> But merely to equate growth with jobs is too simplistic, as the brochure New Zealand Is Growing elaborates:

To deny New Zealand and New Zealanders the opportunity to grow is to stifle our ability, responsibility and freedom. The freedom to choose a job rather than be dependent on a government employment scheme. The ability to start new enterprises because our country has a need for them. The responsibility to care for

each other in the best way possible. You are not free if you must depend on handouts. And that's the best policy the other parties can promise you. It's not National's way.

Already, two central tendencies in National's general philosophy are clear and deserve highlighting. First, there is a marked tendency to shift from emphasis on collective interests and responsibilities to recognizing the importance of the interests and initiative of individuals. This is, of course, a fundamental conception of neo-classical economics and an essential ingredient in any market-oriented growth strategy. Second, there is an obvious tendency to place economic considerations above social needs with minimal state intervention in the economy, under the assumption that growth is a necessary and sufficient condition for the alleviation of social ills. Not coincidentally, this is also a necessary condition for maximum capitalist expansion. Almost echoing Adam Smith's original conceptualization of laissez faire economics, these tendencies and National's commitment to neo-classical economics was underscored in National's brochure Innovation Is Vital For Our Growing Nation"

We want to ensure that the establishment of new innovative industries is not frustrated by bureaucratic procedures, licensing requirements or other controls. We will free up the economy to encourage growth through the initiative of individual New Zealanders.

With such neo-classical economic principles guiding National Party policies, the evolution of corporatist structures under future National governments is inevitable. Such corporatist structures will, ultimately, provide for a virtual partnership between international capital and the state. This becomes evident by examining the role of three specific



interest groups within National's decision-making scheme: Large internationally-oriented business concerns; the small business sector; and organized labour.

In all of National's campaign brochures, only industrial concerns are singled out in terms of a direct role in the governmental decision-making process. This role is by no means insignificant. For example:

National will continue to liaise closely with the manufacturing industry to ensure that its advice is taken into consideration in setting the economic direction for New Zealand. National will strengthen the Manufacturing Development Council to ensure that its views are taken into account in economic planning. Manufacturing export incentives..will continue until 1985 and then only changed following consultation with the industry...National will ensure, in liaison with the Trade Association concerned, that New Zealand industry obtains a substantial share of the orders for government purchasing, as well as off-set and counter purchase arrangements in respect of government buying and tendering overseas.

Clearly, the entire gambit of governmental activity is covered, from broad economic policy to government purchasing. Significantly, no other interest group is singled out for even minimal consultation. The adoption of corporatist structures, favoring one particular interest group, is clearly being advocated by the National Party in such policy statements.

The domination of such corporatist structures by large, internationally oriented industry is unavoidable. Already, it is apparent that the present National Government is not only directly negotiating with the largest New Zealand and transnational corporations in conjunction with its "Think Big" projects, but the Government is actually a shareholding partner in many of the projects. The distinction between the working partnership National is entering into with private enterprise and

the role the government in a nationalized industry must be emphasized: The Government is entering into contractual agreements with private firms and both will share in the profits as well as the risks. Another important factor, paralleling what Winkler found in the United Kingdom, is the extreme concentration found in New Zealand industry. While 48 percent of New Zealand manufacturing establishments employed less than 10 people and 94 percent employed fewer than 100, 72 manufacturing establishments, less than 1 percent of the total, employed 500 or more persons and accounted for 25 percent of total manufacturing employment, 25 percent of value added, and 21 percent of manufacturing investment.<sup>10</sup>

International capital, in particular, will have a disproportionate influence in governmental decision-making. Transnational corporations represent the gauge by which the success of New Zealand industry will be measured. National finds that the best way to achieve sustainable growth "is actively to promote efficient industries which are able to face world competition and provide goods at a reasonable price and quality to consumers."<sup>11</sup> More importantly, National looks at multi-national corporations as being able to provide a "neatly packaged answer" to the three main problems confronting New Zealand's economy--insufficient investment, low productivity, and the need to find new alternative markets.<sup>12</sup>

National feebly attempts to assuage the fears of small and medium-sized businesses who suspect they will be overlooked by National's development strategy. Claiming that the majority of the 410,000 jobs that National expects to be generated by economic growth by 1990 will be in

the small business sector, National explains that "growth is not about promoting either the big or the small industries. The two are interdependent--they go together. Each will play a part in creating job opportunities through the decade of the 1980s."<sup>13</sup> The National literature goes on to stress that,

In our traditional sectors, it is our family enterprises and small businesses that provide the thrust. The new energy based industries will require a strong supporting infrastructure which can only be provided by small business. Our small enterprises have demonstrated in the past, and will show again, that they have both the initiative and the ability to respond to new opportunities for growth.<sup>14</sup>

Still, National feels that it is necessary to provide direct government assistance to the small business sector through the Development Finance Corporation, the Department of Trade and Industry, the Rural Bank, the Export-Import Corporation, the Regional Development Councils, the Applied Technology Programme and the Venture Capital Facility.

In any event, it seems unlikely that the small business sector will be able effectively to compete with the interests of big business and international capital for influence in governmental decision-making. The National Party's commitment to international competitiveness and the "neat package" of solutions that multinational corporations are perceived as providing assures the predominance of international capital within evolving corporatist institutions in New Zealand. Moreover, the pressures of excessive concentration which Winkler sees as a determining factor in the evolution of corporatism in Britain, to the extent that the small business sector can actually be ignored by government policy-makers, are even more acute in New Zealand's small and relatively less diversified

economy.

Despite National's efforts to strengthen the small business sector through governmental assistance, its development strategy must inevitably cause the erosion of the significance of small and medium-sized businesses in the New Zealand economy. I will deal with the threat to the small business sector posed by the economic distortions associated with heavy investment in National's specific development projects in the next section of this chapter. Here I wish to call attention to the potentially disastrous affects the current Government's policies already threaten to wreck on the small business sector, regardless of any progress on the "Think Big" program. Specifically, the Government's monetary policies could make it impossible for small businesses to secure adequate investment funds in the private sector--and thereby place the small business sector completely at the mercy of the Government's benevolence. Recent changes in the Government's various public bond programs, aimed "at raising money from the public to mop up liquidity and to help close the large gap between Government income and spending,"<sup>15</sup> will surely place the small business sector at the greatest disadvantage. Aside from being less dependent upon domestic sources of funds, because of their greater capacity to generate investment capital through retained earnings and loans from international parent companies and/or foreign banks, internationally oriented industrial concerns will be better credit risks and will thus be more able to easily attract the limited amounts of investment capital available domestically.

In fact, the high level of governmental financial involvement in the

large-scale development projects would tend to make such a policy, in effect, redistributive, for it transfers funds from the private sector which might have been available for small business expansion and then funnels them into the large, internationally oriented sectors of the economy. Further, the Government's efforts to lower interest rates, including its most recent regulation requiring banks and finance houses to notify the Reserve Bank 14 days before they can adjust their interest rates,<sup>16</sup> may be a precursor to future controls which will directly limit available private sector credit--again placing small and medium-sized businesses at a potentially severe handicap.

The interests of organized labour will fair even worse under a future National government. Echoing Winkler's third guiding principle of nationalism for a corporatist state, the National Party believes that:

Good industrial relations are a key to social and economic progress. National will take every opportunity to promote among workers and management an increasing sense of their responsibility to their country.

Yet, National makes little effort to conceal the fact that it sees the national interest as being more closely equated with the interests of employers rather than workers. For example, although National feels that "sensible worker participation can be a key to improved productivity and reduced friction in the employer/employee relationship", and that "employers must be willing to share more information with their employees by a fuller disclosure of company objectives", National refuses to intervene in this area on the behalf of labour.<sup>18</sup> At the same time, National Prime Minister Robert Muldoon has admonished employers for

recognizing what he views as excessive union demands, stating that there is no future for a 4-day or 35-hour week, or "for any industry in this country if it gives way on soft wage settlements." To Muldoon, the trade union movement is anachronistic, "having held on to the old idea of the class war long after it has, in fact, receded into history, and the only reason for this is that in the absence of some such mythical struggle the need for the existence of the trade union is less obvious."<sup>19</sup>

In the area of industrial relations specifically, the National Party believes that:

The prime responsibility for finding solutions to industrial disputes must always remain with employers and unions but assisted where necessary by Government. In particular, National maintains that the elected government must, if the need arises, present and represent the views of the general public who are also affected by disputes and strikes.<sup>20</sup>

The recent Industrial Relations Amendment Act reflects this attitude, allowing the Government to take direct action when industrial disputes threaten "essential industries", including hospitals, certain transportation services and the meat and dairy industries. National is committed to enforcing existing legislation restricting union activity and will not compromise:

The rule of law and the ordinary principles of the legal process must apply to the whole community. National does not accept that an industrial action such as picketing justifies unions breaking the law.<sup>21</sup>

Despite National's professed belief that employers and trade unions have the responsibility for settling industrial disputes, a future National government would contemplate direct intervention in the collective bargaining process in at least two areas: Redundancy payments

and wage settlements.

Concerning redundancy payments specifically, National is clear and straightforward: Unions currently are making excessive redundancy claims and the next National Government will therefore consider establishing both minimum and maximum levels for redundancy awards, as well as a definition of under which circumstances redundancy claims can be made. For National, the key to handling redundancy is effective redeployment or retraining of affected workers, and National emphasizes the wide range of existing educational and training programs for the unemployed.

The National Party's bias towards the interests of capital is quite apparent in its policies toward trade union wage settlements. Significantly, National eschews the concept of a broader incomes policy addressing employers' profits and prices as well as employee wage settlements. Rather, National offers a "wage policy" aimed at ensuring that negotiated wage settlements are consistent with the need to control inflation and improve employment opportunities. As the Government's veto of the recent Borthwick-C.W.S. Longburn freezing works settlement because it contained provisions for a 4-day week proves,<sup>22</sup> National is prepared to take incisive action to guarantee the success of its wages policy. Even on the one issue in which National appears ready to negotiate directly with organized labour, National's proposed wage-tax trade-off, Mr. Muldoon has made it clear that the Government will legislate such a trade-off if agreement can not be reached with the trade unions.<sup>23</sup> Indeed, National is prepared to tolerate collective bargaining only so long as it conforms

with government policy, as We All Want Industrial Harmony So That We Can Get On With The Job unequivocally states:

...the policy of free wage bargaining, followed since 1977, can only continue if both employers and trade unions, negotiate wage rates consistent with New Zealand's economic performance. Should the parties involved not reach a satisfactory agreement, the Government must consider the introduction of wage controls to ensure that balance is maintained.

Both employers and trade unions seem to be given the blame for excessive wage settlements, yet it is only the workers who will bear the responsibility through lower wage levels and employer profits will go untouched.

The National Party has committed itself to the principles of neo-classical economics and the values of individual rights and initiative manifesting themselves through the operation of free competitive markets. Such a philosophy lends itself exceedingly well in modern societies to a particular type of corporatist state, one in which the interest of international capital are able to form a symbiotic and exclusive relationship with the state. In tracing out the positioning of certain interest groups within the schema of governmental decision-making under a National government, it becomes clear that this proclivity will be both real and apparent; the interests of international capital will predominate while the interests of the small business sector and organized labour in New Zealand will be made subservient to those interests. An overview of some of the implications of "Think Big" policies in general, and of the proposed aluminum smelter in particular, reinforce this conclusion that a National government will work in partnership with international capital, sacrificing the broader



interests of New Zealand society. It is to this overview that I now turn.

Section II: Some Implications of the "Think Big" Strategy

An examination of some of the more significant implications of National's development strategy quickly reveals the degree to which the interests of international capital predominate in National's plans for the country's future. Both in general terms and in the specific example of the proposed aluminum smelter, the interest of the wider New Zealand society are being deliberately subordinated in the short to medium term on the assumption that these interests will be best served in the longer term by an economy dominated by those interests most closely associated with international capital.

The number of new jobs created directly by National's capital intensive projects is both minimal and achieved at a high cost. One favorable estimate suggests that in any given year a maximum of 7,000 people would be employed in the construction and installation of the main plants. Such jobs would be of comparatively short duration, at a cost of approximately \$1 million for every two or three workers employed.<sup>24</sup> Less favorable estimates place the cost at up to \$3 million per job created.<sup>25</sup> This, at best, seems excessive not only in absolute terms, but relatively as well when even the lowest estimates are compared with an average cost per job created of \$36,252 for 19 major British companies,<sup>26</sup> or the cost of \$25,000 per job created in the New Zealand tourist industry.<sup>27</sup> It should also be pointed out that labour

shortages in certain skills categories, which I will examine in more detail shortly, may necessitate filling some of these limited job openings with workers recruited abroad.

The National Party openly acknowledges the limited direct employment potential of its large-scale development projects. These policies are seen as a catalyst for economic growth throughout the country which will generate a total of 410,000 jobs by 1990. Prime Minister Muldoon explained National's rationale in his 1981 Budget Statement:

In employment terms, the new projects will by themselves provide only a modest number of jobs. The Government is nevertheless convinced, from experience with the large projects that already exist, that they will spark off other investment initiatives, including small business development, which will result in generally enhanced employment opportunities. Furthermore, the contributions that these projects make to the balance of payments will support a higher overall level of economic activity and, therefore, of employment.<sup>28</sup> Clearly, then, it is the economic growth and indirect employment

opportunities generated by National's industrial projects which are the most important aspect of its development strategy. Yet it is precisely these aspects of the "Think Big" strategy which are also the most uncertain. At best, the base figure of 410,000 new jobs by 1990 is misleading, for it contains a large and unspecified proportion of part-time and unpaid position.<sup>29</sup> At worst, the Government's "Think Big" strategy will set into motion a self-destructing process as balance of payments and inflationary constraints worsen, causing severe economic dislocation throughout the entire economy.

The negative impact of the "Think Big" projects on New Zealand's balance of payments deficit will be quite marked over the next 6 to 7

years. Under optimistic assumptions, these development projects would not make any positive contributions to New Zealand's balance of payments before 1987, and it would not be before 1990, and possibly as late as 1992, that total foreign exchange earnings from National's development projects will finally surpass these projects' total cost in foreign exchange.<sup>30</sup> In March of this year, the New Zealand Institute of Economic Research estimated that National's development would add over \$350 million to New Zealand's balance of payments deficit in 1981-82, and up to \$500 million in 1982-83.<sup>31</sup> Cost increases have already caused these figures to become dated, with the Prime Minister himself estimating that the total impact on the balance of payments deficit from his party's development strategy over the next year could be as high as \$450 million.<sup>32</sup> This compares with a total balance of payments deficit predicted at \$605 million for 1980-1.<sup>33</sup> The constraints to growth in other sectors of the economy posed by the balance of payments deficit will be, at a minimum, quite significant.

A further constraining factor for growth in other sectors of the New Zealand economy is the disruptive impact of National's large-scale industrial projects on the construction industry. Department of Labour surveys have consistently shown shortages of qualified persons in key skills categories, and such skills shortages may have already contributed to slower growth in the past--before any work was begun on the "Think Big" project.<sup>34</sup> Once such projects proceed, the intensified shortage of critical skills in the labor force will pose serious threats to expansion in other sectors, industrial harmony and, ultimately, New Zealand's

wage-fixing system itself. The acute shortage of skilled labour, combined with the need to complete the large projects, already on tight schedules, on time, will give the union tremendous bargaining clout. Such bargaining strength is already in evidence, even before work on many of the projects has begun. Thus, construction workers on the third potline at the Tiwai Point smelter were able to win an effective wage increase of 25 percent, giving them wage parity with workers on the Marsden Point oil refinery expansion. Workers on the Huntley power project were also able to win parity with workers at Marsden Point, plus a supplemental private agreement in order to avoid competition with Marsden Point for skilled workers and to ensure that the project's timetable was met, raising their total wage package by 40 percent or more. Yet this might only be the tip of the iceberg and some experts are predicting that wage packages may increase by 150 percent within 12 months of projects beginning. Further, it will be virtually impossible for the Government to prevent such increases in the wage levels paid workers on the "Think Big" projects from flowing through to other sectors of the economy. Alastair Morrison thus concludes that:

...if the worst fears materialize it seems unlikely that it will be possible for all the projects to continue at the same time as planned without blowing the top off the present wage structure and wage fixing mechanism.<sup>35</sup>

Although the Government has instituted a number of training programs in an effort to relieve shortages of critical skills in the labour force, such programs can have only a minimal effect in the short to medium term in relieving the demand for experienced workers. It is extremely

unlikely that employers would be willing to release experienced workers for the Government's projects, relying on inexperienced workers to take their place. This is especially true given the relatively high wages such inexperienced workers would be able to command in a tight labour market.<sup>36</sup> The recruitment of foreign labour would cause even more problems. Large-scale development programs just getting under way in other countries, including Australia, will make it necessary for New Zealand to offer much higher, internationally competitive wages to attract needed skilled workers and it is certain that New Zealand trade unions will demand an equal wage rate if foreign workers can even be attracted to New Zealand.<sup>37</sup> The use of foreign labor could seriously endanger the viability of such projects through the erosion of the industrial relations environment, as Frank Holmes warns:

In the present industrial relations environment, however, any major attempt to use foreign labour to overcome constraints within New Zealand could be self-defeating, arousing widespread resistance and delaying rather than accelerating completion of major projects.<sup>38</sup>

This situation will only be exacerbated by increased strife within and between trade unions as a result of the inevitable widening of the disparity between wages for skilled labor in short supply and the relatively abundant unskilled and semi-skilled labor.<sup>39</sup>

Such substantial increases in the general wage rate throughout the economy will have a substantial affect on the inflation rate as production costs increase, especially in housing. Concomitant with these inflationary pressure will be inflationary pressures stemming from an increase in consumer demand without an increase in the production of

consumer goods to meet this increase in consumer demand. Substantial amounts of investment capital will be funneled into industrial projects that will not produce foreign exchange returns before 1987 and will not in any way add to the quantity of goods and services demanded by the New Zealand consumer. The result will be a general rise in the consumer price level as consumer goods become relatively more scarce, and a probable increase in the balance of payments deficit as excess consumer demand is translated into imports. The Aramoana smelter alone has been projected to add up to 1 percent to the annual inflation rate over a 10 year period.<sup>40</sup>

All three of these factors--a worsening balance of payments deficit, a critical shortage of essential skills in the labor force, and a worsening inflation rate--seriously promise to constrain economic growth, and thus employment opportunities, in those sectors of the economy not benefiting from the Government's "Think Big" strategy directly. The large requirements for scarce foreign exchange inherent in National's development program will make it increasingly difficult for other sectors of the economy to obtain needed foreign exchange for the raw materials, technology and manufactured inputs which they must import for their own economic expansion. Even if the big projects are financed externally through specific overseas loans and foreign investment, as National tries to argue, there are bound to be limits to the capacity of the New Zealand economy to absorb such an influx of foreign capital and the added balance of payments burden. Conservative estimates, made before the recent cost escalations, place the needed investment in such projects at 2 to 3

percent of GDP per year.<sup>41</sup> A rising inflation rate will further diminish the competitiveness of New Zealand's exports, and make imports more competitive in the New Zealand market, thereby exacerbating balance of payments difficulties further. The Government inevitably will be forced to apply even more deflationary monetary and fiscal policies, making investment funds for projects outside the Government's development program that are much more difficult to obtain.

The entire economy, apart from those sectors directly a part of the Government's "Think Big" strategy, will be caught in a recessionary vice: Squeezed on one side by a few large-scale, capital intensive projects which will absorb increasing amounts of limited foreign exchange and investment funds while bidding wage rates up in an intense competition for needed skilled labor; and squeezed on the other side by the deflationary monetary and fiscal policies designed to reverse a soaring price level and balance of payments deficit.

The costs to the New Zealand society, for the benefit of a select group representing international capital in direct partnership with the state, would appear to be prohibitive. Even confidential government reports allegedly conclude that the net loss to the New Zealand economy from just three of the projects--the second aluminum smelter, the expansion of N.Z. Steel, and the Mobil synthetic petrol plant--will be between \$400 and \$800 million over the life of the projects.<sup>42</sup> Such aggregate figures, however, conceal the true cost to the New Zealand society because of the redistributive effects such a development strategy involves. The social costs in terms of lost jobs and widening income

disparity cannot be reflected in projections of future levels of GDP. Such costs inherent in the corporatist nature of National's development strategy are already apparent, according to the Ecumenical Secretariat on Development, in the "increasing disparity between rich and poor in New Zealand, to the extent that the country is beginning to take on a Third World profile: a few extremely rich people and institutions controlling the destinies of the poor majority."<sup>43</sup>

Ironically, and despite the high social costs associated with National's "Think Big" strategy, there is no deliberate fundamental restructuring of the New Zealand economy. A costly international sector is, in effect, being grafted on to the New Zealand economy in the form of a few large-scale, capital intensive projects intended to spurt growth throughout the rest of the economy. National's promised 410,000 jobs by 1990 is not based on the "Think Big" projects directly but on economic growth and extrapolations based on recent trends in the New Zealand economy. National asserts that its development projects are the necessary catalyst for such growth while at the same time pointing out that the experience during National's term in office support their employment goals in manufacturing, agriculture, tourism and forestry. Why these same trends that operated without National's specific projects in the immediate past are now dependent on a limited number of large-scale projects is never explained, only assumed. Most telling is National's own acknowledgement that, "even under the most optimistic growth predictions for other sectors, agriculture will still be producing well over half of New Zealand's export income in the 1990's."<sup>44</sup>



This is the fundamental flaw in National's development strategy: The ultimate success of "Think Big" depends on the growth potential of the traditional economy. Yet, the evidence strongly suggests that, far from stimulating the realization of this growth potential, National's development strategy will stifle growth in the traditional sectors of the economy and is incapable of offering a viable alternative source of employment and income for the majority of the New Zealand population.

The corporatist framework of analyzing National's development strategy goes a long way in explaining why and how the broader interests of New Zealand society can be so disregarded by a major political party in New Zealand. I will now briefly examine just one of the specific "Think Big" projects, the proposed Aramoana aluminium smelter, to further elaborate on the nature of the corporatist alliance National is attempting to forge between the New Zealand state and international capital.

#### The Aramoana Aluminium Smelter

The proposed Aramoana aluminium smelter is perhaps the most controversial of National's "Think Big" projects. Although the project's ultimate fate has been cast in doubt by the withdrawal of Alusuisse from its consortium with Fletcher-Challenge and C.S.R., the National Party remains fully committed to a second aluminium smelter in New Zealand.<sup>45</sup> Whether or not the smelter is actually built will thus depend on the willingness of international capital to supply the needed finance and technology, given the return of the National Government in the November election. The project, nevertheless offers a good example of the nature and consequences of National's corporatist alliance with international

capital. In order to adequately assess the viability of a second smelter in New Zealand, it is important to first look at the nature of the international aluminium market, a task to which I now turn.

The world market for aluminium is historically a very volatile one, subject to cyclical fluctuations which are in fact amplifications of the business cycles in the major industrialized countries.<sup>46</sup> The reason for this lies in the fact that aluminium is an industrial raw material with its primary uses being in the building of construction and electrical machinery and the transportation industry, all sectors particularly susceptible to swings in the business cycle. Governmental fiscal and monetary policies aimed at curbing inflation also hold back economic growth and industrial production, with significant negative affects on the demand for aluminium. As is the case with virtually all capital-intensive industries, excess capacity typically results in depressed prices rather than production cutbacks. With their fixed costs high, such industries attempt to reduce per unit costs by operating at or near full capacity regardless of the supply situation.

The pattern observed in the world aluminium industry from the late 1960s through the early 1970s is not typical. During 1968 and 1969, world aluminium consumption grew considerably faster than its historical rate of growth over the previous 20 years, causing increased optimism for a bouyant aluminium market throughout the 1970s. Significant additions to world aluminium smelting capacity were planned, particularly in countries such as Australia and Yugoslavia which had reached a considerable level of industrialization and many developing countries as they sought to increase

the domestic value-added of their resource exports. Much of this new production capacity came on line in 1972 and 1973, coinciding with a stagnation of world demand for aluminium. Aluminium prices began to fall in 1971 as the industry found itself with substantial excess capacity, followed by even more significant price reductions in 1972.

The future of the aluminium market promises to be equally volatile. As more and more countries begin producing significant amounts of aluminium, the tendency for overcapacity in the world market increases significantly, as a large number of individual producers begin making independent and uncoordinated investment decisions based on their own estimates of their future share of the world market. The OECD thus concluded in 1973 that "there is every reason to suppose that in the future the demand for aluminium, reflecting in amplified form the fluctuations in industrial production, will suffer cyclical changes on the same scale as in the past."<sup>47</sup> This has, in fact, proven to be the case, with world demand for aluminium rising and then collapsing in 1975 and 1979.<sup>48</sup> Significantly, it is the smaller producers, such as New Zealand companies, which typically are the first to resort to price discounts during a slump in world aluminium demand while the large companies rigidly hold to their producer prices.<sup>49</sup>

In this context, the current world aluminium market does not look promising. World smelting capacity is expected to grow significantly through the mid 1980s,<sup>50</sup> and the supply shortfalls forecast just three years ago for the 1980s now seem unlikely to materialize.<sup>51</sup> Structural changes in the world aluminium industry during the 1970s, as well as the

increasing substitution of synthetic materials for aluminium in the car, aircraft and construction industries, have caused leading industry analysts to forecast slower growth in world aluminium demand than in the past. In addition, the real price of aluminium, at best, is expected to remain constant at least until 1990. When contrasted with the exponentially increasing cost of aluminium's energy content, through every phase of its production beginning with the initial extraction of bauxite to the final delivery of the aluminium, large scale substitution by scrap metal, at a 95 percent energy savings, can be anticipated.<sup>52</sup> Already, scrap metal accounts for approximately one quarter of western aluminium supplies.<sup>53</sup> The recently published report by the World Aluminium Industry therefore "predicts bleak short-to-medium term prospects for the aluminium industry" and plans for a number of proposed Australian smelters have either been curtailed, indefinitely postponed or cancelled.<sup>54</sup>

New Zealand is in a particularly poor position to compete in a depressed aluminium market. A second New Zealand smelter would be a submarginal producer; i.e., it would be the first to suffer from a decline in world aluminium demand. Such a smelter would have none of the comparative advantages which should determine the siting of smelters-- proximity to industrial markets, available capital, proximity to bauxite sites and cheap power, while Australian smelters do. Moreover, the relative size of the Australian aluminium industry makes it likely that the long-run price of aluminium will coincide with the Australian full-cost levels.<sup>55</sup>

The price which a second aluminium smelter would be expected to pay

for the vast quantities of electricity it requires is a critical issue. Various sources estimate the true cost of supplying electricity at between 2.5¢ and 4.2¢ per kwh.<sup>56</sup> Even the New Zealand Electricity Department calculates a cost of 2.5¢ per kwh,<sup>57</sup> and the Ministry of Energy estimates that the cost of electricity from future hydro schemes, which would be expected to supply the electricity requirements for a second smelter, at upwards from 2.5¢ per kwh.<sup>58</sup> This compares quite unfavorably with electricity costs in many developing countries which produce aluminium, such as Indonesia and Brazil, and even with electricity costs in developed countries such as Canada and Australia, where electricity can be supplied at prices significantly below 2¢ per kwh.<sup>59</sup>

Given New Zealand's lack of other comparative advantages for aluminium smelting, it is difficult to see why any international concern would be attracted to New Zealand unless it was promised significant concessions. As van Moeseke forcefully demonstrates, using what he claims to be the best available data base, no New Zealand smelter could remain profitable if it were required to pay the true cost of electricity, which he estimates at 2.56¢ per kwh.<sup>60</sup>

While the 1980 Energy Plan specifically states that as a "fundamental guideline for pricing policy" the energy prices charged should "recover the true cost to the nation of energy supply...equal to the long-run marginal cost of supply", it goes on to add that, "in practice, prices may deviate from the levels suggested by the guidelines for a variety of reasons. Energy price subsidies may be offered to promote regional development and special prices may be instituted for social reasons."<sup>61</sup>

If the willingness of a National government to negotiate an appropriate price for electricity in its efforts to attract a second aluminium smelter to New Zealand are in doubt, its ability to do so is even more questionable. In Australia, according to the Metal Bulletin, where the real cost of providing electricity is only 1.4¢ per kwh, many states are selling electricity "below the real cost and entirely lack the ability to negotiate with the multinationals."<sup>62</sup> The New Zealand Government is likely to fair no better, for it has only limited experience with a poor record of success in negotiating with multinationals on energy matters.<sup>63</sup> The costs to the New Zealand citizen, through higher taxes and/or higher electricity rates, could eventually amount to hundreds of millions of dollars.<sup>64</sup>

Various independent studies have been undertaken to attempt to assess the economic viability of a second smelter in New Zealand. Most significant among these has been the work done by Otago University Professor Paul van Moeseke.<sup>65</sup> Using the Department of Trade and Industry's projected long-term aluminium price of US \$1,500 per tonne, van Moeseke concludes that the annual net foreign exchange earnings of a second smelter would be just \$83 million, far less than the official estimates of \$150 million net foreign exchange earnings. The difference in estimates, according to van Moeseke, is explained by the unrealistically high aluminium price of US \$1,750 per tonne apparently assumed in the Government's calculations. To place this \$83 million in perspective, van Moeseke points out that wool sales to the USSR alone

accounted for \$125 million in foreign exchange in 1980, of which nearly 90 percent is net, at a far less cost than the \$1.5 billion investment in plant and hydro schemes required by a second smelter. Again using the Department of Trade and Industry's long term equilibrium price of US \$1,500 per tonne, van Moeseke calculates the export efficiency of a second smelter at 0.5; i.e., under present conditions, two dollars worth of domestic inputs would be required for each dollar in foreign exchange earned. This translates into a net social cost of \$166 million per year. The Fletcher consortium claims that 25,000 jobs would be created in other sectors of the economy from the operation of the smelter, based on its inflated estimate of net foreign exchange from a smelter and "unorthodox" assumptions about the effect of the smelter's foreign exchange earnings on national income in New Zealand. Correcting for these obvious errors, again using Department of Trade and Industry figures where applicable, van Moeseke demonstrates that, at the most, a second smelter would only create 6,000 new jobs in New Zealand. But, given that the net cost in domestic resources of the smelter is twice its net foreign exchange earnings, the overall effect of the smelter on New Zealand's economy would appear to be a net loss of jobs.

As the Lloyd study, discussed in Chapter 3, suggests, the employment effects from a large new export sector become even more illusory when the economic restructuring that must accompany any export boom is taken into account. The rapidly improving balance of payments situation and the concomitant strengthening of the New Zealand dollar will have significant effects on New Zealand's traditional export and import-competing sectors.

The past experience of the Australian economy in adjusting to the emerging mineral exports boom of the first half of the 1970s is a classic example of the macro-economic effects associated with a surge in a new export sector. Thus Gregory, in describing what has since been labeled the "Gregory Effect", found that the rapid growth in mineral exports in Australia during the early to mid-1970s contributed to an appreciation of the Australian dollar, leading directly to a decline in both the quantity and value of traditional exports, while the import-competing sector actually shrunk in size as demand for imports grew in order to take advantage of what amounted to a virtual subsidy on import prices due to the increased purchasing power of the Australian dollar overseas.<sup>66</sup> This potential for a loss of employment opportunities through the "Gregory Effect" must be balanced against the potential creation of 6,000 new jobs as a result of a second smelter's export activities, making the economic viability of a second smelter seem even more doubtful.

Clearly, current and past trends suggest that a second smelter is not an economically viable option for the development of New Zealand's economy. Other studies tend to support van Moeseke's overall conclusions. Ellis for example, while not being nearly as pessimistic about the smelter's negative economic implications, still concludes that at best, only a third potline at Tiwai Point can be economically justified.<sup>67</sup> Of particular interest within the corporatist framework being developed here is the study done by Dr. R. W. Wright at the University of Otago, which examines risk sharing in the proposed smelter project.<sup>68</sup>

Wright begins by looking at those variables which will affect the



level of benefits flowing to New Zealand and the companies involved from the proposed smelter. Except for tax revenue, which the Government has some influence over through manipulation of the effective tax rate (although the Government has no control over the level of taxable corporate income), Wright finds somewhat incredulously that "the Government of New Zealand has very little control over these variables that affect the viability of its energy development program!"<sup>69</sup> Specifically, the level of benefits New Zealand derives from the smelter will depend on the price of aluminium (which determines the price for electricity paid by the smelter), the real cost of foreign borrowing, and construction costs; and the Government's ability to influence these variables is virtually nonexistent. Wright contrasts this with the position of the consortium partners, who have "been able to turn most costs into flexible costs and [have] thus been able to reduce risks accordingly."<sup>70</sup>

For the consortium, the most important variable affecting its revenue will be the price of aluminium. Not only will the price of aluminium directly affect revenues, it also will affect the consortium's costs. The price of alumina, which represents 80 percent of the material costs involved in aluminium smelting, naturally tends to move in tandem with the price of aluminium and the price which the consortium must pay for electricity has been contractually tied to the world price of aluminium. Even though the consortium may not be able directly to control the price it receives for its aluminium, the prices it must pay to produce that aluminium will vary directly with the price of aluminium so that the

consortium's potential losses are reduced substantially.

Wright then conducts four sensitivity tests, measuring the distribution of risk between the New Zealand Government and the consortium given moderate variations from a base case in the four key variables discussed above. Specifically, Wright tests the effects of a 25 percent overrun on construction costs, a 10 percent fall in the price of aluminium below the price used in the base case, likely shifts in New Zealand's exchange rate resulting in a 1 percent increase in the real cost of borrowing, and a decrease in the effective corporate tax rate to 35 percent from the legal maximum rate of 47.5 percent assumed in the base case. In each instance, Wright finds that by far the major proportion of the risk involved in these potential negative swings in the critical variables affecting the smelter's viability is borne by the New Zealand Government. Most surprisingly, Wright finds that in the case of a fall in the price of aluminium,

In spite of the fact that this is the essential determinant of the [consortium's] well being, the government still bears the majority (72%) of the downside risk. Furthermore...the cause of this risk is not a variable over which the government has any control.

Wright runs a fifth test in order to determine the net affect if the events tested in the first four tests occurred simultaneously, which is certainly a conceivable situation. While in each of the other four tests there was some, albeit relatively small, net national gain from a second aluminium smelter (which Wright points out is not a sufficient condition for going ahead with the smelter), Wright finds that the combined effect of a 25 percent construction cost overrun, a 10 percent fall in the price

of aluminium, a 1 percent increase in the real cost of borrowing abroad, and an effective tax rate on corporate income of 35 percent (compared to the effective rate in 1979 of only 32 percent) results in a net loss to New Zealand of \$131.8 million and a net loss to the consortium of \$30.1 million. Under this possible scenario, Wright finds that the project can no longer be considered to be in the public interest because it is unlikely that any positive macroeconomic effects and noneconomic externalities resulting from the smelter could be sufficient to counter a clear societal loss of this order of magnitude.

Such analysis makes it more apparent why international concerns would even consider New Zealand a likely prospect for such "Think Big" projects as the Aramoana smelter. In its efforts to attract international capital, the National Party appears willing to ensure the best of environments for multinational firms to the extent that it will actually insulate them from much of the risk inherent in these projects.<sup>72</sup> The New Zealand people stand to lose a great deal in the process, while the nebulous potential gains seem illusory at best.

Interestingly, Wright points out that all the risks he examines will be borne in the post construction period beyond 1988, when payments become due on the foreign loans the New Zealand Government must take out to finance the construction of the hydro projects needed to supply the smelter. In this sense, New Zealanders are able to "escape" the risks associated with the smelter in the present decade by avoiding the traditional method of financing such public projects through current savings. Wright does another sensitivity analysis, assuming that the

Government instead finances its construction costs by displacing consumption and other investment alternatives. The results of this analysis are quite startling and indicate that the smelter is economically viable only if the hydro scheme construction payments are deferred until after 1989. Wright's explanation for this apparent anomaly is that the real interest on foreign loans is invariably assumed to be less than the social discount rate; i.e., government planners have assumed that the cost of borrowing money, which future generations will pay in the form of interest once repayment of the loans begins, is less than the value of the smelter to those future generations.

Yet, as the analysis in this section clearly indicates, the probability that future generations will actually realize the purported benefits of the smelter is quite low for a variety of reasons. Wright crystallizes the real implications of National's decision to press ahead with the Aramoana smelter anecdotically, by way of a proposition being offered by today's policy-makers to those who will be living in the next decade:

We have made a commitment to a development proposal which will give you a benefit stream and also result in some irreversible environmental deterioration. Unfortunately, it is not a viable project if we pay for it ourselves, so we are also passing the costs on to you. We believe that the project will provide a positive net benefit but if it does not, you will be responsible for the deficit. In my view, the future generation would be justified in expressing considerable skepticism about this proposition...

Rather than directly challenging such independent criticism of the proposed smelter by disclosing publicly the figures and assumptions upon which it bases its own studies of the smelter's viability, the Government has instead chosen to refer to confidential reports which, if they could be released, would support the Government's claims,<sup>74</sup> and direct intimidation and personal slurs against the competence of the economists conducting the independent studies, reducing the discussion "to a purely abusive rather than constructive level."<sup>75</sup> The intense secrecy with which the Government has shrouded the smelter only makes one wonder what the Government has to hide. This is especially true when the Minister of Energy claims that, after correcting data "errors" and substituting in "correct" definitions of evaluative criteria, the Treasury Department has re-computed van Moeseke's original study and reached the almost exactly opposite conclusions, yet refuses to release the Treasury Department's findings or even indicate the errors van Moeseke allegedly had made. As Dr. N.J. Peet observes:

...it is stretching our credibility to claim that [van Moeseke's] errors are sufficient to change the results of an assessment from "...an economic disaster..." with "...domestic input of \$202.8 million against net foreign earnings of \$72.2 million" into

a project"... which stands on its own feet, in terms of its merit..." and "...was in the country's best interest..."<sup>76</sup>

The facade of democratic decision-making attached to the governmental deliberations on the smelter issue only approaches the absurd when the Prime Minister calls the Opposition Leader's announcement that a Labour government would postpone construction of a second smelter at least for several years the "height of irresponsibility", since only the Government had the necessary knowledge and personnel to make such a decision.<sup>77</sup>

The proposed Aramoana smelter is clearly a risky venture for a country in New Zealand's position to undertake. The potential societal costs, especially for future generations, are too great. Yet, the National Party not only appears committed to such a smelter, but it has apparently taken on a disproportionate share of both the already excessive costs and risks. The deliberations on the project have remained shrouded in intense secrecy, allowing international capital, in this case now represented by two firms with multinational interests, the New Zealand firm Fletcher-Challenge and the Australian firm C.S.R., to directly dominate the government's decision-making. The public is forced to accept the results of such a decision-making process at face value, taxing the legitimating function of both Parliament and the National Party to the extreme.

The implementation of National's development strategy will greatly speed up the evolution of a corporatist state in New Zealand. It is a particular form of corporatism that would flourish as the National Government strives to cement a virtual partnership between the New Zealand

state and the interests of international capital, at the expense of the broader interests of New Zealand society, particularly the small business sector and organized labor. The neo-classical economic theories underlying National's political philosophy serve as an ideal foundation for allowing the interests of international capital to dominate government decision-making while implicitly, and even explicitly, excluding other interest groups in New Zealand society. Those other interest groups, specifically those representing small and medium-sized businesses and organized labor, are allowed to have effective input into national decision-making only insofar as they do not express interests in direct conflict with the interests of international capital. When such conflicts arise, as they inevitably will, it appears that the National Party Government is prepared to ally itself with international capital and use the coercive power of the state to ensure the dominance of the interests of international capital in New Zealand society. Already, National has committed itself to a continual dialogue with big business interests in New Zealand, both domestic and foreign. Thus, the Prime Minister's Advisory Group has a permanent representative, on a rotating basis, from among New Zealand's 11 leading businesses.<sup>78</sup> As discussed above, the Planning Council is in essence a corporatist institution, dominated by the interests of international capital. One can expect other similar corporatist structures to evolve as the links between the New Zealand state and capital are solidified under the National Party's leadership.

The relationship between the state and capital discussed here is a symbiotic one, representing a means to a very clear end--growth for both

the New Zealand economy and the large business concerns in New Zealand. The National Government attempts to entice foreign investment to fuel the development of the New Zealand economy, for the National Party clearly believes that this is the only way it can achieve the sustained economic growth it desires. Transnational corporations, likewise, seek to persuade the government that they offer the best prospects for New Zealand's economic growth, in exchange for favored treatment and concessions for their New Zealand operations. The average New Zealand citizen, who does not benefit directly from the foreign investment attracted to New Zealand by extensive government incentives, seems to bear the costs to New Zealand society in the form of a drain on New Zealand's limited resources and a threat to its most cherished values and ideals.

The "Think Big" strategy in general, and the second aluminium smelter in particular, pose grave threats to New Zealand's economic and social well-being in the interests of a narrow, foreign dominated group within New Zealand society, offering even stronger evidence of the corporatist system of government the National Party is attempting to impose upon New Zealand. The emerging pattern of interest group representation embedded in the National Party's development policies is too consistent to be ignored, and the potential risks to the whole of New Zealand society would seem to be unacceptable.



## Footnotes

<sup>1</sup> See the National 1981 campaign brochure Overseas Trade Is Our Passport to Prosperity, or refer to The Path To Prosperity Is Through Economic Growth.

<sup>2</sup> For a complete list of National's development projects, see We've Got New Zealand Going...We've Really Got it Growing.

<sup>3</sup> The National Party has published the following brochures, upon which the present analysis is based: Communications Brings Our Nation Together, Conserving Our Environment For Future Generations, Education Is An Investment In Our Most Valuable Resource: Our Children, Forestry Is Reaching For The Sky, Growth Is Taking Place in Every Region In New Zealand, Growth Will Give Work To Everyone Who Wants It, Innovation Is Vital For Our Growing Nation, It's People That Really Matter, New Zealand Is Growing, New Zealand's Artists Are Among The Most Creative In The World, Our Fishing Industry's Increasing Catches At Sea Mean More Jobs On Land, Our Horticultural Efforts Are Bearing Fruit For Your Future, Our Manufacturing Exports Will Create 100,000 New Jobs At Home, Overseas Trade Is Our Passport To Prosperity, Self-Determination Is The Source Of Self-Esteem, The Path To Prosperity Is Through Economic Growth, Transport Keeps Our Economy On The Move, We All Benefit From A Society That Cares, We All Want Industrial Harmony So That We Can Get On With The Job, We're Already Reaping Extra Rewards From The Land, We're Blessed With One Of The World's Fastest Growing Industries, We're Harnessing The Energy To Keep New Zealand Moving, We've Got New Zealand Going...We've Really Got It Growing, and Your Freedoms Are Always Worth Protecting. A brochure dealing with the National Party's housing policy was unavailable.

<sup>4</sup> The Path To Prosperity Is Through Economic Growth.

<sup>5</sup> Your Freedoms Are Always Worth Protecting.

<sup>6</sup> Somewhat ironically, see It's People That Really Matter.

<sup>7</sup> See We All Benefit From A Society That Cares.

<sup>8</sup> Growth Will Give Work To Everyone Who Wants It.

<sup>9</sup> Our Manufacturing Exports Will Create 100,000 New Jobs At Home.

<sup>10</sup> Donald Brash, Frank Holmes, Bill Smith and Graeme Thompson, Investment Issues (Wellington: New Zealand Planning Council), 1980.

<sup>11</sup> Our Manufacturing Exports Will Create 100,000 New Jobs At Home.

<sup>12</sup> Charles Perrings, Formulating An Alternative Development Strategy for New Zealand (Auckland: Prepared for the Counter-Strategy Group, 1980), xerox, p.5.

<sup>13</sup> Growth Will Give Work To Everyone Who Wants It.

- 14 Growth Is Taking Place In Every Region In New Zealand.
- 15 See "Drastic Government move will affect the money market", Christchurch Press (31 October 1981).
- 16 "Government restrains interest rates", Christchurch Press (26 November 1981), 1.
- 17 We All Want Industrial Harmony So That We Can Get On With The Job.
- 18 We All Want Industrial Harmony So That We Can Get On With The Job.
- 19 See "'No future for soft deals'", Christchurch Press (29 October 1981), 2.
- 20 We All Want Industrial Harmony So That We Can Get On With The Job.
- 21 We All Want Industrial Harmony So That We Can Get On With The Job.
- 22 See "Mixed reaction to Govt halt on four-day working week talks", Christchurch Press (23 October 1981), 1.
- 23 "'No future for soft deals'", Christchurch Press (29 November 1981), 2.
- 24 Brash (fn. 10), 61.
- 25 See "'Danger to NZ' from big firms", Christchurch Star (5 April 1981).
- 26 Paul van Moeseke, Aluminium and Power: The Second Smelter Report, xerox (March 1981), 28-29.
- 27 "'Danger to NZ' from large firms", Christchurch Star (5 April 1981).
- 28 R.D. Muldoon, Budget 1981 (Wellington: Government Printer, 1981), 5.
- 29 For Example, the project increase of 35,000 people employed in horticulture is extrapolated from the current employment level of 20,500, which includes 3,800 "paid casuals" and 2,900 "unpaid family". See Our Horticultural Efforts Are Bearing Fruit For Your Future. Similarly, National projects the employment in the tourist industries will increase from 84,000 in 1981 to 109,000 by 1986, but over 35 percent of those currently employed in tourism work part-time. See We're Blessed With One Of The World's Fastest Growing Industries.
- 30 "Labour attacks 'think big'", Christchurch Press (17 July 1981), 4.
- 31 Christchurch Press (20 March 1981), 4.

<sup>32</sup>Muldoon (fn. 28), 8.

<sup>33</sup>Christchurch Press (20 March 1981), 4.

<sup>34</sup>New Zealand Planning Council, Employment: Towards An Active Employment Policy (Wellington: New Zealand Planning Council, 1980), 15.

<sup>35</sup>Alastair Morrison, "Wages Spiral to Explode", New Zealand Times (22 November 1981), and Alastair Morrison, "Labour supply Threatens Think Big", New Zealand Times (22 November 1981), 5.

<sup>36</sup>Morrison, "Labour Supply" (fn. 35), 5.

<sup>37</sup>Brash, et al (fn. 10), 50; Morrison, "Wages Spiral" (fn. 35), 1 and Morrison, "Labour Supply" (fn. 35), 5.

<sup>38</sup>Frank Holmes, et al, Implications of New Zealand Energy Developments: A Report for the Minister of National Development and the New Zealand Planning Council (Wellington: New Zealand Planning Council, 1979), 24.

<sup>39</sup>Morris, "Wages Spiral" (fn. 35), 1 and Morrison, "Labour Supply" (fn. 35), 5.

<sup>40</sup>Paul van Moeseke, Aluminium Smelting in New Zealand: An Economic Appraisal (with Addendum), Economics Discussion Paper No. 8008 (Dunedin: University of Otago, May 1980), 10.

<sup>41</sup>Brash, et al (fn. 10), 15.

<sup>42</sup>"'Think Big' would lose \$400 million", Christchurch Press (20 November 1981), 1.

<sup>43</sup>"'Think 'people' not 'big', say churches", Christchurch Press (2 July 1981), 11.

<sup>44</sup>We're Already Reaping Extra Reward From The Land.

<sup>45</sup>In fact, it is alleged that the Fletcher-Challenge, C.S.R. consortium will soon have a new partner to replace Alusuisse. See "Smelter may go ahead", Christchurch Press (9 October 1981), 3 and "Rowdy rally for P.M. as tickets-only entry fails", Christchurch Press 25 November 1981), 1.

<sup>46</sup>My discussion of the world aluminium market is drawn largely from Organization for Economic Cooperation and Development, Problems and Prospects of the Primary Aluminium Industry (Paris: OECD, 1973).

<sup>47</sup>OECD (fn. 46), 78.

<sup>48</sup>See van Moeseke, Aluminium and Power (fn. 26), 15 and Ferdinand E. Banks, Bauxite and Aluminium: An Introduction to the Economics of Nonfuel Minerals (Lexington, Mass.: D.C. Heath and Co., 1979).

<sup>49</sup>OECD (fn. 46), 101.

<sup>50</sup>"Changes likely in aluminium smelting", Christchurch Press (7 July 1980).

<sup>51</sup>van Moeseke, Aluminium and Power (fn. 26), 15.

<sup>52</sup>van Moeseke, Aluminium and Power (fn. 26), 13-16.

<sup>53</sup>van Moeseke, Aluminium Smelting (fn. 40), 6.

<sup>54</sup>See Kate Coughlan, "Economist Saw Aluminium Pullout", New Zealand Times (4 October 1981), 1 and "Power price race forces rethink of Australian smelter", Christchurch Press (21 August 1981), 3.

<sup>55</sup>van Moeseke, Aluminium Smelting (fn. 40), 4 and van Moeseke, Aluminium and Power (fn. 26), 13.

<sup>56</sup>van Moeseke, Aluminium Smelting (fn. 40), 23-26, and C.G. Cable et al The Proposed Aluminium Smelter: Some Issues and Implications, Occasional Paper No. 12 (Christchurch: Joint Center for Environmental Sciences, 1981), 39-40.

<sup>57</sup>C.G. Cable et al (fn. 56), 37.

<sup>58</sup>Ministry of Energy, 1980 Energy Plan (Wellington: Government Printer, 1980), 11.

<sup>59</sup>See "'Distorted smelter figures fed public'", Christchurch Press (2 August 1980) and Brian Easton, "Forestry future", Listener (9 August 1980).

<sup>60</sup>See van Moeseke, Aluminium Smelting (fn. 40), and van Moeseke, Aluminium and Power (fn. 26), 20-22.

<sup>61</sup>Ministry of Energy (fn. 58), 11-12.

<sup>62</sup>See "Public speculates while waiting for a factual Govt response to the smelter economic disaster report", National Business Review (30 June 1980), 21.

<sup>63</sup>See Holmes et al, (fn. 38), 27 and Simon Terry, et al, Energy Development in Taranaki: Are we on the right track? (Wellington: Environment Group Inc. 1981), 11-12.

<sup>64</sup>Keith Johnston and Geoffrey Bertram, Electricity in New Zealand Is There a Surplus to Sell? (Wellington: Development Information Group, June 1980).

<sup>65</sup>At this point, I will be referring to van Moeseke's most recent study, van Moeseke, "Aluminium and Power" (fn. 26).

<sup>66</sup>R.G. Gregory, "Some Implications of the Growth of the Mineral Sector", The Australian Journal of Agricultural Economics, 20 (August 1976), 71-91.

<sup>67</sup>Murray Ellis Jr., Aluminium Smelting--Solution or Problem? xerox, 1980.

<sup>68</sup>R.W. Wright, Subsidization and Risk Sharing in Energy Intensive Projects, Economic Discussion Paper 8101 (Dunedin: University of Otago, 1980).

<sup>69</sup>Wright (fn. 67), 13.

<sup>70</sup>Wright (fn. 67), 13-14.

<sup>71</sup>Wright (fn. 67), 17.

<sup>72</sup>Even the 1977 electricity supply agreement between Comalco and the New Zealand Government, in which Comalco agreed to an initial 450 percent price increase for the electricity used at its Tiwai Point smelter and gave up its option for 180 mw of power, is a case in point. Although the Government might appear to have extracted significant concessions from Comalco, the new electricity agreement in fact tied future electricity price increases to the price of aluminium, thereby absorbing a substantial proportion of the risk associated with the smelter's profitability. See "Comalco to pay five times more for its electricity", Christchurch Star (21 December 1977). While the actual details of the 1977 pricing agreement remain secret, obviously they could not have been unduly harsh given the fact that Comalco has since begun construction on a third potline at its Tiwai Point smelter which is now near completion, even though Comalco was insisting it was not considering such an expansion as late as February 1979. See "New round in power game", Christchurch Star (15 February 1979).

<sup>73</sup>Wright (fn. 67), 27.

<sup>74</sup>Bob Edlin, "Editorial", National Business Review (14 April 1980)1.

<sup>75</sup>"Distorted smelter figures fed public", Christchurch Press (2 August 1980).

<sup>76</sup>N.J. Peet, "How best to make use of surplus power?" Christchurch Press (7 May 1980). Peet is quoting figures from van Moeseke's first study. As is obvious from the figures I cited above, van Moeseke had changed his estimates of the cost and foreign exchange earnings from the smelter in his second study, although the conclusions that can be drawn from his work are largely the same.

<sup>77</sup>"Labour view of smelter irresponsible", Christchurch Press (19 November 1981).

<sup>78</sup>Jonathan George Boston, High Level Advisory Groups in Central Government: A Corporative Study of the Origins, Structures and Activities of the Australian Priorities Review Staff and the New Zealand Prime Minister's Advisory Group (Christchurch: Unpublished M.A. Thesis, University of Canterbury, 1980), 248.

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National Party 1981 Campaign Brochures Used:

Communications Brings Our Nation Together.

Conserving Our Environment For Future Generations.

Education Is An Investment In Our Most Valuable Resource: Our Children.

Forestry Is Reaching The Sky.

Growth Is Taking Place In Every Region of New Zealand.

Growth Will Give Work To Everyone Who Wants It.

Innovation Is Vital For Our Growing Nation.

It's People That Really Matter.

New Zealand Is Growing.

New Zealand's Artists Are Among The Most Creative In The World.

Our Fishing Industry's Increasing Catches At Sea Mean More Jobs On Land.

Our Horticultural Efforts Are Bearing Fruit For Your Future.

Our Manufacturing Exports Will Create 100,000 New Jobs At Home.

Overseas Trade Is Our Passport To Prosperity.

Self-Determination Is The Source of Self-Esteem.

The Path To Prosperity Is Through Economic Growth.

Transport Keeps Our Economy On The Move.

We All Benefit From A Society That Cares.

We All Want Industrial Harmony So That We Can Get On With The Job.

We're Already Reaping Extra Rewards From The Land.

We're Blessed With One Of The World's Fastest Growing Industries.

We're Harnessing The Energy To Keep New Zealand Moving.

We've Got New Zealand Going...We've Really Got It Growing.

Your Freedoms Are Always Worth Protecting.

Various editions of the Christchurch Press and New Zealand Times.



## Chapter 5

### The Corporatist State and New Zealand: A Realistic Alternative For Reform

In many respects, the steady evolution of the New Zealand system of government under the National Party closely parallels the evolution of the state in many other advanced, capitalist societies, particularly the United States and the United Kingdom. The emerging patterns of government identified by Schmitter, Winkler, Lowi and Galbraith, which I have attempted to identify as a particular and insidious form of state corporatism, also seem to characterize the postwar New Zealand experience and have reached a new plateau for the 1980s and beyond with the re-election of the National Party and the implementation of its development strategy. Thus, New Zealand's future threatens to reflect the increasing dominance of those interests associated with big business and international capital, at the expense of neglecting and, in many instances, actually subverting the broader interests of New Zealand society as a whole and other significant interest groups within it.

I have approached the analysis of corporatist trends within New Zealand from an evolutionary perspective. Starting with an examination of the representational role of Parliament, I have attempted to demonstrate that the effectiveness of New Zealand's Parliament has been virtually stymied by unprecedented levels of party cohesion and discipline, thereby creating a "representational vacuum" which had to be filled by other mechanisms. Next, I proceeded to suggest that the representational vacuum has been filled by the expanding bureaucracy, a process exemplified by the newly created Planning Council which appears to act as an important focal point for bringing together representatives of big business and

international capital, the government bureaucracy, and the National Party Government. The various planning documents published under its auspices thus tend to lay a broad theoretical foundation for providing the "appropriate" environment necessary for the interests of big business and international capital to flourish. Finally, I looked at the National Party's own specific development strategy, "Think Big", in terms of its implications for particular interest groups within New Zealand society, as well as the country as a whole. Consistent with the general theoretical foundation laid down by the Planning Council, the National Party appears to be offering New Zealand a form of government, and development, in which big business and international capital are allowed to pursue their own interests virtually unimpeded, with grave implications for the material well-being and rights of the majority of New Zealanders. The National Party's development strategy must, therefore, be understood as the culmination of a process by which the influence of broad segments of New Zealand society on governmental decision-making has been steadily eroded. In essence, the National Party is proposing a partnership between the New Zealand state and international capital for the exploitation of New Zealand.

While the similarities between corporatist trends in New Zealand, the United States and Great Britain are significant, there are also some important differences. In particular, the New Zealand and United States systems of government have radically different traditions: separation of power, in the American sense, has never existed in New Zealand; New Zealand has no written constitution; and the list could go on. Even

though both the United Kingdom and New Zealand generally share the same Westminster style of parliamentary government, there are again some very crucial differences. As explained in Chapter 2, New Zealand has perhaps the most unrestrained Executive and cohesive party system of all advanced western democracies. Undoubtedly, the small size of New Zealand is general, especially its Parliament, is an important factor, both in explaining the difference between the New Zealand system of government and the United Kingdom's, and in attempting to find effective solutions to emerging corporatist trends. These differences between the three countries help to explain why the corporatist tendencies of the National Party can be so potentially devastating; they also highlight the nature of the needed reforms.

Schmitter, Winkler, Lowi and Galbraith all allude to the gradual demise of the role of the legislative branch of government within corporatist states. This is inevitable, given the explicit role of corporatist institutions in interest group representation. Legislative bodies are gradually superseded and become almost irrelevant to the actual governmental decision-making process. Yet none of these authors seems to appreciate the catalytic role a weakened parliament, for whatever reasons, may play in the initial emergence of corporatist institutions. A corporatist evolution of government is perhaps necessary in order to fill the traditional role of parliament in helping to determine a national public opinion consensus. Government policy-makers can not establish policy in complete isolation from the electorate. When parliament is no longer capable of channeling public opinion into the governmental

decision-making process, alternative mechanisms must be found to act as at least a partial substitute. Corporatist structures thus begin to emerge to fill that gap, and these structures appear to be heavily dominated by particular interest groups in the three countries being compared here. In this sense, then, the New Zealand experience has a lot to contribute to a general understanding of corporatist trends elsewhere, for it highlights the negative influence of an ineffective legislative branch on the evolution of the state.

Along these same lines, it thus appears that an effective alternative to a corporatist state in New Zealand must rest on the revitalization of Parliament's role as a body for channeling the broader interests of society into the government decision-making process. Such a revitalization of Parliament would make corporatist institutions unnecessary, and the broader and more representative base of Parliament would make such an alternative both more desirable as well as fundamentally sounder and more stable in a democratically-based society.

The need and goals for reform were best summarized by Peart in his forward to The Growth of Parliamentary Scrutiny by Committee. His observations will form the basis for a program of reform which I will develop below:

It has become increasingly difficult for Parliament to exercise its historic role of being an informed and effective critic of the actions of the executive. If it is to continue this vital role in our constitution, Parliament must adapt its procedures to take account of...the expansion in the range and complexity of governmental activities. It must have access to the facts of contemporary government in a way which will enable its Members to be properly informed; and it must have institutions which will enable the informed views

of Members to be given their due weight.<sup>1</sup>

Meaningful reform must start with active Parliamentary involvement in the pre-legislative stage of a bill, before caucus and the Executive actually become committed to specific policies. To help achieve this aim, the Standing Orders should be amended to require the old English procedure of asking "leave to introduce" a bill before it is actually printed or negotiated.<sup>2</sup> The House would then refer the request to an appropriate select committee, where submissions would be heard from interested parties and the department would explain why or why not legislation in that particular area is needed. The committee would decide if a need for action had been adequately established, and the House would consider the committee's recommendation. If the House votes to accept the leave to introduce a bill, the Government may then proceed to prepare the bill in the normal manner, except that now valuable input from both the Government backbench and the Opposition would be available at the earliest possible stage and hopefully before party politics could become entangled with particular policy options or wordings.

This new stage in the legislative process should also be opened up directly to the public services by allowing them to ask leave to introduce bills, a variant of Jackson's proposal to create a third class of "General Bills".<sup>3</sup> Jackson's recommendation that bills be submitted in a draft form comparable to Green Papers is most compatible with the concept of a leave to introduce stage and the Government could at this stage decide whether or not to adopt the proposed legislation as its own.

I would suggest that two changes be made to the subsequent Introduction stage of bills. First, the two hour Introduction Debate should be

eliminated, thereby restoring to the Second Reading its unique feature of being the first stage at which the specific policies within a bill are debated by Parliament. The original intent of the Introduction Debate to provide the Opposition with the opportunity to ask questions about the specifics of the bill, if such an opportunity is indeed necessary given the reaction of the Opposition to its introduction, will be better achieved through the new leave to introduce stage and the next reform I will propose shortly. While the elimination of the Introduction Debate does not guarantee select committees the freedom to actually explore policy considerations, it does remove the barrier of convention which precludes such consideration once the House has actually debated the policies embodied in a bill.

The second major change I would recommend at this stage in the legislative process is the adoption of Griffith's proposal that all bills be introduced accompanied by a document setting out the history and need for the bill (although the committee's report from the leave to introduce stage might be substituted here), and a clause-by-clause explanation of the bill so that the Members would understand the purposes of each clause and why a particular means was being used.<sup>4</sup> This document should also include any necessary statistical and other background information so that, in effect, the Member will be as well informed as the Minister introducing the bill. The intention is that Governments be required "to yield-up, not their secrets, but their processes of thought and the documents which support, together with the documents which do not support, their conclusions."<sup>5</sup> Much of this information is already generated in making the Minister's brief. The advantage of such a reform

is, however, that it facilitates informed and reasoned debate, while maximizing any educational functions of Parliament and attempting to equalize the amount of information available to the Opposition, backbenchers and Ministers.

There are many potential areas of reform concerning the specific structure of select committees. Rather than look at them all, I will focus on two major changes that must come first if other possible reforms are to have a major impact.

The most immediate concern is for the provision of more professional, permanent expert staff to aid select committees. Select committees should be empowered to appoint their own permanent expert advisers, responsible to the committee and independent of the Executive. They should, as Jackson suggests, be nonvoting members of the committee, to help compensate for the small size of the New Zealand Parliament.<sup>6</sup> Select committees should also be empowered to appoint temporary advisors and call upon outside expert advisers for advice on particular issues. It is important that committees be given adequate research capacity, independent of the Government, so that their scrutiny is not dependent upon the resources made available to them at the discretion of the Government.

Following from this, select committees must be given the freedom to initiate their own investigations. Only in this way can effective, systematic and on-going review of both the consequences of government legislation and activities be made possible. The provision of permanent professional staff responsible to each committee will not only make such a broad investigative role feasible, it will also make it more fruitful by providing for professional input as to which areas warrant select

committee scrutiny and which temporary experts and advisers would be best suited to aid in particular investigations. Many of these investigations should be by select committee subcommittees with Opposition chairmen.

One specific change in the structure of select committees, however, is crucial enough to warrant brief mention here. A permanent select committee must be established to oversee the government regulatory process. At present, no select committee has adequate authority to effectively oversee such an important legislative function of the Executive, yet it is in this area that the largest threat to the effectiveness of Parliament lies.

Several changes are required in the reporting stage of bills. Committee reports should be expanded to include both minority opinions and the reasoning behind the committee's recommendation, along with the necessary supporting evidence where appropriate. Such reports should be tabled with the bill and subject to debate. Whether or not the reports will actually be debated is, of course, at the discretion of the MPs (or more appropriately the two political parties), but arbitrary limits on the debate of committee reports should be eliminated.

The New Zealand Parliament is in definite need of an extended timetable,<sup>7</sup> and this is perhaps the most radical of the changes I would propose. Palmer suggests that Parliament meet 3 days per week, 3 weeks per month, and 10 months per year. Committees could meet on a fourth day of the week and during the fourth week of the month. Such a timetable would decrease committee overload and provide more time for investigatory work. A further modification of the timetable would be the provision of



a certain number of days per session, perhaps 8 as in the original British reform proposals of 1979, for the consideration of select committee reports. This would not only help ensure investigative reports are not ignored, but it would encourage select committees to undertake more investigations if they are guaranteed a parliamentary outlet for their findings.

These reforms, while far-reaching in some respects, have the important common characteristic of preserving, and even enhancing, Parliament's traditional role within a parliamentary system of government. The potential for parliamentary "control" of the Executive, in the sense that Crick refers to it, is restored and enhanced through the provision of the necessary information and resources to gather further information independently of the Executive, in combination with several comparatively minor procedural changes designed to give MPs the institutional means for ensuring that their informed views are accorded their due weight. More importantly, the procedural changes are designed with the intention of putting a "wedge" in-between the point at which policy formation begins and excessive party discipline removes flexibility and the ability to compromise from the legislative process.

Critics of expanding the role of select committees fear that in doing so the focus of attention will shift away from debates upon the floor of the House, thereby diminishing their effectiveness and reducing the central importance of the House within Parliament. They emphasize, as do Herman and Mendel in the previously quoted passage, that select committees are created to assist and not supplant Parliament. In keeping with these

fears, the reforms presented here should not pose a threat to the centrality of the House. Within the select committee structure as I have envisioned it, select committees perform for Parliament only those tasks which Parliament itself is unable to accomplish given its size and the complexity of issues involved. Select committees are to provide the means for effective and reasoned debate on the floor of the House and the House must still ultimately vote on all decisions taken by committees. While select committees will undoubtedly have some indirect influence on policy through their close dealings with Government departments, the overall aim of these reforms is to give Parliament, and in particular the Opposition, more opportunity to affect changes in Government legislation and policy. Finally, the fear that House debate will be superseded by select committee activities is somewhat misplaced. As Jackson points out, the balance between committees and the House floor was inadvertently lost in the late 1920s when shorter weeks and caucus meetings began to eat into Parliamentary timetable anyway, and given the orchestrated and contrived nature of House debates, any further shifts in the balance towards select committees would only "recognize what has already occurred and contribute to an improvement of the situation."<sup>8</sup>

Still, any real change will be dependent upon the willingness of New Zealand political parties to accept it. The reforms presented here can only provide the institutional machinery which is a necessary precondition to effective reform. As was the case with the 1972 reforms, Parliament and select committees can exercise only as much power as the two main political parties allow them. Of course, if Social Credit of any

other third party were able to win enough seats to force either a minority or coalition government, and the inability of Social Credit to gain additional seats in the 1981 election is just one more unfortunate outcome of that election, the situation could be changed quite dramatically. If there was no majority party in Parliament, there would not be a party in majority on select committees either, and the scope of select committee activity might be increased as a result without any major changes in the existing select committee structure. Similarly, a major third party influence could lead to more substantive changes in the select committee structure itself. The key is that the intense two-party adversarial nature of New Zealand politics, which is a major factor in explaining the extremely high level of party discipline, might be sufficiently weakened so as to allow, or perhaps force as a means to achieve compromise, an easing up of the party constraints to effective select committee activity. The experience in Australia, where the loss of the Government majority in the Senate was a significant factor in the creation of a strong system of select committees, may offer some valuable insights for New Zealand.<sup>9</sup>

Other, much more drastic reforms have been offered to provide Parliament with more effective control over the Executive. These reforms, which are beyond the scope of this study, such as a fixed four-year term for Parliament, a more representative electoral process, and even the recruitment of Ministers from outside of Parliament, would indeed go far in this direction. And perhaps it is only through such far-reaching reforms that truly effective parliamentary control can be exercised. But the reforms presented here offer a more realistic foundation upon which to

base all other reform. Hopefully, in the environment which they could create, Parliament will once again be able to fulfill its basic constitutional role in "controlling" the Executive.

In the final analysis, it will not be easy to reverse past trends in the evolution of the New Zealand system of government. Yet, such a reversal is needed if New Zealand is to safeguard precisely what it values most: the well-being and rights of all of its citizens. Effective parliamentary "control" of the Executive offers perhaps the most appropriate, and most easily achievable, alternative to a corporatist state in New Zealand. For, in essence, such "control" amounts to little more than ensuring that the true public interest, as defined by the whole of New Zealand society and not any particular interest group, is followed in governmental decision-making.

### Footnotes

<sup>1</sup>Fred Peart, "Foreword", in Alfred Morris Jr. ed., The Growth of Parliamentary Scrutiny by Committee (Oxford: Pergamon Press, 1970), ix.

<sup>2</sup>This particular reform was first suggested by John P. MacKintosh, ed., People and Parliament (Westmead, England: Saxon House, Teckfield Ltd., 1978), 178-180.

<sup>3</sup>Keith Jackson, "New Zealand Parliamentary Committees: Reality and Reform", The Parliamentarian, LIX (April 1978), 99.

<sup>4</sup>J.A.G. Griffith, Parliamentary Scrutiny of Government Bills (London: George Allen & Unwin, 1974) 234-247.

<sup>5</sup>Griffith (fn. 4), 256.

<sup>6</sup>Jackson (fn. 3), 99.

<sup>7</sup>Geoffrey Palmer, Unbridled Power? An Interpretation of New Zealand's Constitution and Government (Wellington: Oxford University Press, 1979), 74-75.

<sup>8</sup>Jackson (fn. 3), 100.

<sup>9</sup>See Martin Indyk, "Making Government Responsible: The Role of Parliamentary Committees", in Patrick Welles and Dun Jainsch, eds., Responsible Government in Australia (Victoria: Drummond Pub. for the Australian Political Studies Association, 1980), 94-95.

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