

Adam Smith's Islands: New Zealand's Incomparable Restructuring: 1980-1995.

By John C. Weaver.

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Reviewed by Brian Easton.

Critics of the restructuring of the New Zealand economy in the 1984 to 1993 period have suffered from there being no good defence of the changes that were made. There are memoirs by various actors and the odd academic article, but they do not address the two elephants in the room. Namely: why was the restructuring associated with the decade of a stagnant economy (and why were there no changes in the underlying growth rate afterwards) and why was it necessary to downgrade the role of equity in economic policy and substantially increase economic inequality? One might therefore welcome a study by Canadian historian John Weaver, a Distinguished University Professor at McMaster University. But one will be greatly disappointed.

Weaver relies heavily upon conversations with, and the archives of, Roderick Deane, Roger Douglas, Michael Bassett, Stan Rodger and David Caygill but he does not seem to have talked to any informed critic, a failure compounded by a cavalier coverage of the literature. As far as I can judge, the omissions are from ignorance rather than bias. Extraordinarily, his bibliography does not include Douglas's *Unfinished Business* (1993), which, one would have thought, contained Douglas's most profound reflection on the politics of the restructuring. Nor does it refer to Hugh Oliver's article, 'The Labour Caucus and Economic Policy Formation, 1981-1984' (1989) based on Douglas's archives, which sets up the background to the Rogernomics era.

The book is primarily based upon archival material, especially those of the aforementioned. Weaver is a historian, so he is comfortable working with archives and personal papers but does not seem aware of their limitations. If the period of interest had been, say, the Tudors, one does not have much choice of reasonably reliable information other than the documents and so Hilary Mantel had to resort to fiction while being consistent with their evidence. But she would have leapt at the opportunity to interview Thomas More, say, even though there is a view that she was less than fair to him.

A document has to be taken in a context. The Sunday 17 June 1984 Treasury recommendations to Robert Muldoon for measures to deal with the run on the New Zealand dollar which began on 15 June, the day after Muldoon called the 1984 election, would not be Treasury's proudest effort. Weaver does not discuss it, but it is a good illustration. It was produced in a hurry but, more importantly, it had been preceded by discussions with Muldoon, who had already indicated what options he was willing to contemplate. Thus, the document was not standalone but part of a dialogue. Many of the archives Weaver cites are similarly part of a dialogue and need to be evaluated in this context.

Weaver also said he had 'conversations' with some of the Rogernomes. Not all: Graham Scott is a notable omission and while Roger Kerr predeceased the study, he certainly deserved more attention than three references in the book and nothing in the bibliography; there were people close to him who would have been good sources.

Weaver sometimes seems cavalier with the records he uses. There were assessments attributed to them which surprised or intrigued me. Looking at the references, it turned out the assessments did not come from the record but were Weaver's own, although that is not clear in the text. One does not object to an author presenting her or his own views, especially in such a controversial area, but the duty of the dispassionate scholar is to distinguish them from the narrative. Perhaps Weaver was so enamoured with Rogernomics that the scholar was not always able to distance himself from their rhetoric. He can be obsequious, as when he quotes, without comment, an anonymous source describing Douglas as a 'genius' (p. 388). While Douglas had some impressive political skills, he would only be judged a genius by someone who was very distant from that status.

Weaver readily dismisses opponents of Rogernomics with the Rogernomes' misleading descriptions. Jim Anderton is described as a proponent of deficit financing (which was not evident in his time in the Clark-Cullen cabinet), ignoring that when the Rogernomes cut taxes they would leave a deficit hidden by the cuts being introduced halfway through the fiscal year. They may have believed that the economic growth that the taxes were meant to generate would provide the revenue, as do those holding the views the Rogernomes criticised. The following year they would scramble to restrain expenditure or invent some mysterious accounting device which hid the underlying deficit; Ruth Richardson's 1991 'mother of all budgets' was partly the result of their deficit financing.

While published by an academic publisher and with almost a hundred pages of notes and bibliography, the book does not really meet scholarly standards. The manuscript does not seem to have been discussed much with knowledgeable New Zealand scholars, which may explain the numerous irritating factual errors that slipped past the Canadian editor and the failure to understand New Zealand practices. One is reminded of the FIFO, the Overseas Expert who 'flies in and flies out' and, in between, gives polemical seminars at a more relaxed standard than he or she would ever dare to scholars at home.

The book is a bit of a potpourri and can jump around from topic to topic and period to period. How to review the book other than in a page-by-page critique as its editor should have? Briefly, the opening is three chapters on the politics of restructuring from a Rogernomics perspective, omitting any reference to the other side's case; there were mistakes and deceit on both sides. Little attention is given to the critical feud between the Douglas and Lange offices. That would have required more oral history – of participants on both sides – and access to memoirs and diaries which Weaver did not pursue. Had he done so, Weaver would have met the social-democrat modernising discussed below.

Part Two, the Macroeconomics of Restructuring, is six chapters. It starts with monetary policy, perhaps signalling Weaver's commitment to monetarism. It is a curious chapter beginning with a general history of monetary theory from the nineteenth century, but omits the particularity that New Zealand was once on a sterling exchange standard, which is still a useful background for understanding New Zealand's monetary situation during, say, the Global Financial Crisis. This is but another example of the repeated feeling that Weaver has a poor grasp of the intricacies of New Zealand's institutional arrangements.

The so-called macroeconomics section includes taxation, corporatisation and privatisation. There is a Rogernomics convention that they made no mistakes. So there is no discussion, for

instance, on the Telecom privatisation which skipped standard parliamentary scrutiny – it was treated as a budget bill – so that the private monopoly had no adequate regulatory framework; it took two decades to address the monopoly’s excessive profitability and the poor innovation record which resulted.

Disappointingly, the book gives little attention to the ending of border protection which modernisers argued was necessary given the diversification of exports and the changing global economy and was the reason that so much internal restructuring was needed. A discussion on fiscal consolidation – one of the significant achievements of the time – is omitted, perhaps because it was led by largely ignored Treasury Secretary Scott. More generally, the focus on politicians as heroes – a not infrequent biographical trope – underplays the central role of officials – especially Treasury economists – and outsiders in the revolution. Admittedly, it is politicians who give the decisive political leadership to implement the policies, sometimes after having their minds redirected by non-politicians’ logic.

The four chapters of Part Three are more focused on the state: social welfare and changes to the public service together with labour relations (which really belong to Part Two). I shall critique the latter chapter because it opens up the central problem when discussing Rogernomics. The chapter starts with what amounts to a Rogernomics rant at the wage-setting system before the mid-1980s, simplifying its complexity. Stan Rodger, on whose papers the chapter is based, had more understanding because he had been the president of the PSA before he entered Parliament. Weaver seems to bracket Rodger with the Rogernomes, which further distorts the chapter’s account. Rodger was a moderniser, but he was a social-democrat moderniser seeing the need to change arrangements within a social democrat context; the Rogernomes were neoliberal modernisers aiming to change that social and political context.

The labour movement – both its political and union wings – were torn between traditionalists keen to maintain the status quo, especially the relativities built into it, and modernisers who, observing the economy and society had changed during the postwar era, saw a need to change – in this context – the wage-setting arrangements. The wider internal political dispute substantially undermined the ability of the labour movement to resist the neoliberals; there is a sense that the tension remains unresolved today.

Rogernomes ignored the social-democrat modernisation option because it challenged their rhetoric that ‘there was no alternative’. They only contrasted their policies with that which existed before 1984. Weaver seems to agree with them, even including in the book’s subtitle the claim that the restructuring was ‘incomparable’, a dangerous notion for a scholar since scholarship is dependent upon explicit or implicit comparisons. In fact, but unnoticed by Weaver, Rolf Gerritsen and I did a comparison between Australia and New Zealand.¹ Any comparison is imperfect, and Australia had some advantages – and disadvantages – over New Zealand but the comparison demonstrates there was a social-democrat modernising option.

The tension between the modernising and traditionalist unions is evident in Weaver’s chapter on the labour market, but his Rogernomics perspective obscures the story. Rodger found his way through the tensions with the 1987 Labour Relations Act. But getting the greater flexibility that the modernisation required meant there was some loss of traditional relativities, while some well-established (traditionalist) unions were undermined. The difference between the social-democrat modernisers and the neoliberal modernisers is evident in the contrast between the

1987 Labour Relations Act and the 1991 Employment Contracts Act; Weaver seems hardly to have noticed the difference.

Despite the book's titular claim to be a '1980-1995' history it has the barest discussion of what happened after Labour lost power in 1990. The 1990-1993 period is usually treated as the second half of the restructuring. It is not clear whether Weaver simply ran out of energy to complete the story – it was already a big book – or whether he was confined by his narrow sources. All the Rogernomes were out of power after 1990 (except Deane who was CEO of Telecom). The unfortunate effect is to give the impression that these were heroic men, but it disguises others who continued with the restructuring after the 'heroes' had faded. Focusing history on individuals neglects the processes which are driving the change and giving them the opportunity to achieve their heroism.

While I am grumbling about the title, it is anachronistic to associate the restructuring with Adam Smith. It is doubtful he would have supported all the changes had he been alive. After all, he also wrote *The Theory of Moral Sentiment* before, and became a commissioner of customs after, he published *The Wealth of Nations*.

I draw to a conclusion by returning to the two questions that Rogernomes hardly address. First, why did the economic changes we associate with Rogernomics make no discernible change to aggregate economic performance? I confess I have more invested in this question than a mere observer. I was trained in orthodox economics (although I have explored the non-orthodox) and have probably done more research on economic growth than any other New Zealand economist. When the Rogernomics policies (especially its market liberalisation) were instigated, I assumed there would be a one-off boost to economic performance – in the medium term at least – and perhaps even some acceleration of the economic growth rate. Neither happened.

The Rogernomes have responded that they did all the things which their theory said would boost the performance so it must have occurred. That the evidence says otherwise indicates there is something wrong with their theory – with the theory I was trained in and respect. A subsidiary Rogernomics response that not all their measures were adopted and improved economic performance only happens thereafter is just silly. Sufficient policies were implemented to have made a difference but any difference is not evident. This is not the place to go through a subsequent analysis, but it would help if a Rogernome would put her or his mind to providing an evidence-based answer to the performance question.

Insofar as Weaver addresses the growth issue it is in the third- and second-to-last paragraphs of the book's conclusions – almost as an after-thought. The section starts, 'I used Statistics New Zealand data that provided an annual index number representing productivity' (p. 434). No source is cited. Nor does Weaver explain which measure he is using; Statistics New Zealand provides three. The confusion is compounded by his citing calendar years, whereas the Statistics New Zealand data periods are years ending in March. His periods do not match the Statistics New Zealand summaries and the remaining presentation is a jumble; there is no tabulation.

I went back to the Statistics New Zealand data. It is only for the 'measured sector', so it is not economy-wide (and even that is not comprehensive until from 1995/96). Moreover, the Statistics New Zealand series do not exist before 1977/78 so we cannot use them to evaluate long-term trends. Forgive me, if I don't go through the tedious details – this discussion on

growth is already almost as long as Weaver devotes to the topic without his obiter dicta – but per capita GDP was flat from about 1985-1994; that is the Rogernomics stagnation. New Zealand's per capita GDP fell 15 per cent relative to the OECD average over this period and that deficit has never been caught up since. Not only does that greatly trouble me, and should trouble other economists concerned about growth, but it provides a background to the second question.

Was it necessary for economic inequality to be substantially increased during the restructuring? Weaver records that 'reconstructed gini coefficients show a slight [sic] rise in inequality from the early 1970s to the early 1990s (from 0.30 to 0.40)' (p. 214). It is not clear where he got the 1970s figure from because the data does not exist since New Zealand's household income series do not start until 1984. The figure is not in the 2011 OECD report, *Divided We Stand*, Weaver cites after the next sentence. Figure 1 of that report points to New Zealand having an exceptional increase in inequality between 1985 and 2008. It is comparable to Sweden's increase but that took longer than the 1985 to 1993 period in which New Zealand's happened and was from a much lower base.

Weaver describes the increase as 'slight'. That Figure 1, which has different estimates for the gini coefficients from his, shows the term is a nonsense. A shift in the gini coefficient from 0.3 to 0.4 represents a doubling of the standard deviation of a log-normal distribution. To simplify, the share of disposable income for the top fifth increased from about 20 per cent to 25 per cent in the period from 1984 to 1994; that represents a boost of their incomes of around a third relative to those left behind. Meanwhile, the share of income of the poorest fell; their absolute income did not return to its mid-1980s level until roughly 20 years later. The reader is left to decide whether this change is 'slight'.

Surprisingly, to me anyway, the change was not a result of changes in market (factor) prices. As best as can be judged, the market price changes – we saw the anxieties about the wage rate dimension debated with the 1987 Labour Relations Act – were not particularly biased against any income strata in society. Rather the dramatic share changes were the result of the cutting of top income-tax rates and the switch to the imputation method of assessing corporate taxation. The reductions were funded by higher taxes further down the income distribution and cutting benefit levels and entitlements. One consequence was that, while the economy stagnated, those at the top of the income distribution continued to experience real disposable income growth while others suffered real income reductions. That the elite were insulated from – and often seemed unaware of – the hardship of those lower in the distribution says something about growing class divisions in New Zealand society. To round off the story, the tax cuts on the rich were initially unfunded with the resulting financial deficit (and resulting debt) a burden on future generations. The early initiatives of the National Government elected in 1990, which cut income support (benefits), shifted the burden from the future onto, especially, the poorest.

Despite the book's title, Weaver does not cover these 1990 and 1991 measures. He even seems unaware of them, commenting that 'a report from the United Nations Children's Fund claim[ed] that starting in 1984 New Zealand had "demolished a cradle-to grave social welfare system in the name of economic efficiency". This allegation is patent nonsense' (p. 186). Weaver is reporting a statement made in 1995 after the Ruth Richardson-Jenny Shipley 'redesigning of the welfare state' (their expression) of 1990-91. The shift was from a European-style welfare

state which aims to enable everyone to participate in society to one closer to an American one which aims to provide the minimum to sustain life and health. You may disagree with UNICEF but the term ‘patent nonsense’ is extravagant for a scholar.

The change was justified as being necessary in order to stimulate economic growth. The faster growth has not happened; perhaps its advocates should apologise. But there was also a moral dimension in the change. The neoliberals wanted to change the political economy of New Zealand. In this they were more successful.² Was that transformation and its increase of economic inequality a necessary consequence of the restructuring? Weaver does not discuss the question. At issue is whether social-democrat modernising was possible, with the hint from Australia of a cautious ‘yes’. What is unquestionable is that the significance of equity in public policy has been downgraded since the neoliberal changes.

What are we to make of Weaver’s book? The uncritical Rogernomes and their allies will be delighted with it; I am not sure what Rogernomes with a critical facility will think. Anti-Rogernomes and those antagonistic to neoliberalism will be outraged. Uninformed readers may find the text a bit tedious. Depending on their background, they may recognise enough signals to know the text is often unreliable and incomplete; this will be particularly a problem for offshore readers. No doubt some lazy or uninformed readers will use the material in their own writings, in part misled by the inadequate bibliography. Scholars will admire Weaver’s diligence and be grateful for his work from archives and personal papers but will soon find they have to check his findings against primary sources. As for me, I greatly regret that Weaver did not follow normal scholarly standards. The purpose of the book was ambitious, but the writer had neither the resources nor equipment to achieve his ambition. One does not object to a scholar having a strong point of view, but they should test it against the alternatives, especially by engaging with those who disagree with theirs.

¹ Brian Easton and Rolf Gerritsen, “Economic Reform: Parallels and Divergences,” in *The Great Experiment: Labour Parties and Public Policy Transformation in Australia and New Zealand*, eds. Francis Castles, Rolf Gerritsen and Jack Vowles (Auckland: Auckland University Press, 1996), 22–47.

² B.H. Easton, *Not In Narrow Seas: An Economic History of Aotearoa New Zealand* (Wellington: Victoria University Press, 2020).