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THE NEW ZEALAND LABOUR PARTY AND THE RISE OF 'ROGERNOMICS'
1981-1984.

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ABSTRACT

This thesis is an attempt to account for the emergence of the set of economic policies now known as 'Rogernomics' in the Labour Party after 1981. It will be argued that the crucial issue in economic policy debates in the Labour Party between 1981 and 1984 was the issue of participation in the formulation and implementation of the economic policies of a future Labour government. Many in the Labour Party were committed to fostering a broad national consensus and sense of collective purpose and wished to do this by means of a negotiated agreement between government, employers, and trade unions. This meant in effect sharing governmental power with employers and unions and this corporatist intention was seen as a way of democratising the society.

Those in the caucus who were involved in the consideration of economic policy matters were also in general committed to restructuring the New Zealand economy. It was realised that this would involve high social costs in terms of living standards, unemployment, and disruption to traditional patterns of employment and residence.

It is argued that these two commitments, to both broad participation and restructuring were contradictory for an economic policy involving high social costs could not have received the prior and informed consent of the nation as a whole or of the organisations of labour that were deemed to represent a large section of the nation.

It is argued that this contradiction led to the collapse of the corporatist tendency in the caucus and that this was the crucial strategic opportunity for Roger Douglas and the policy of market led restructuring. 'Rogernomics' is seen to be in general an elitist doctrine which seeks to narrow the range of participants in, and influences on, the formulation and implementation of economic policy.

This empirical study of the rise of 'Rogernomics' is taken to validate a general theoretical point: that in times of economic stagnation the restoration of a capitalist economy is incompatible with the expansion of opportunities for democratic participation in the formulation and implementation of the policies of the state.

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INTRODUCTION

Since the election of New Zealand's fourth Labour government in 1984 there have been a number of attempts to account for the phenomenon of a Labour government pursuing decidedly uncharacteristic economic policies. There are currently five published works which set out some form of analytical framework in an attempt to explain the disruption of conventional political patterns. It will be argued here that these analyses by Colin James, Bruce Jesson, Simon Collins, Jack Vowles, and Brian Easton, are inadequate in explaining the rise of what has come to be known as 'Rogernomics' within the Labour Party. It will be argued that the phenomenon cannot be understood without a detailed empirical inquiry into the processes of economic policy making in the New Zealand Labour Party. Colin James and Bruce Jesson set out their analytical frameworks in some detail so these two are examined in most detail below.

Colin James' The Quiet Revolution¹ was the first of these analyses of the process of political change. The book purports to trace the emergence and rise to power of a new force in New Zealand society and politics, a force characterised by its relative youth and distinctive temperament. The argument contains a central inconsistency which limits its analysis.

James argues at the outset that:

politics depends on the mood of the people: sometimes their need is for little or no change, sometimes moderate change, sometimes big change. Politics responds accordingly.²

According to James the presence or absence of this need for change, and its intensity, is determined by the level of 'strain', i.e., of social conditions that give rise to anxiety, in the society at large. The more strain, and the greater the number of its sources, the greater the need people feel for change.³

1. Colin James. The Quiet Revolution: Turbulence and Change in Contemporary New Zealand.

2. *ibid.* p.23.

3. *ibid.* p.10.

But when it comes to examining the origins and course of his so-called 'revolution' in New Zealand politics James drops this initial framework. Instead of a broad popular desire for change James emphasises the role of a elite in motivating and directing change.⁴ The people in general become passive onlookers in the process. Not only that, the sentiments of the people are seen to have been opposed to the process of change when James admits that their preference in 1984 was probably for the stabilisation of the status quo rather than for a period of rapid and uncertain change.⁵ Therefore the important factor is the elite which was able to take over decisional power.

This being so one would expect James' narrative to be a detailed account of the formation and rise to power of the elite and of the origins and development of their political programme. But this is not so. James' elite turns out to be an undifferentiated and amorphous mass of groups and individuals ranging from monetarists to trade unionists, from Maori activists to radical feminists, from businessmen to artists. Any disunity, debate, or conflict within this mass is obscured by James' refusal to consider as relevant what he refers to as 'ideology', meaning, in effect, anything to do with the real policies, aims, and objectives of his elite. He prefers instead to analyse only their 'temperament': apparently the elite all share a preference for innovation over stability, for individualism over collectivism, and for a cosmopolitan orientation rather than an economic and cultural parochialism.⁶

This focus on temperament, and the neglect of 'ideology', allows James to neglect the differences in policy preferences of different parts of his elite. The only parts of The Quiet Revolution that deal in detail with the course of political debate and conflict are those that trace in narrative form the resistance of the 'old guard' in both National and Labour parties to the growing insurgency of James' Vietnam generation.⁷ There is no equivalent narrative of either political conflict between groups of younger politicians and activists or of conflicts between groupings that included, on the same side, both older and younger figures.

In the case of the National Party James accomplishes this omission by sleight of hand. Having earlier in the book postulated as his central explanatory idea that people of similar ages possess similar 'temperaments', and that a two-generational cycle ensures that stability and

4. *ibid.* pp.71 - 72.

5. *ibid.* p.73.

6. *ibid.* p.74.

7. *ibid.* Chapters 6 and 8.

innovation become alternately the dominant principle in New Zealand political life,⁸ he, when confronted by the fact that many younger National Party members of parliament were opposed to 'big change', makes the astounding discovery that they were not really part of the Vietnam generation at all. They were, rather, fellow travellers of the elite and 'in it' rather than 'of it'.⁹ In James' account the political homogeneity of the elite is preserved at all costs to the logic of the analysis.

In the case of the Labour Party and trade unions James proceeds differently. Probably this is because it would be rather difficult to write people like Mike Moore out of the elite Vietnam generation even if they are 'traditionalists' in the context of the Labour movement. So what the author does is to simply note that conflicts existed without investigating them. We are told that there were ideological debates, that books like Davis' edited collection Labour Perspectives and Campbell and Kirk's After the Freeze were produced as part of this¹⁰, that Ann Hercus was at one time an opponent of Roger Douglas,¹¹ that Caygill, Moore, and Palmer were at one time not particularly enamoured of free market economics, that even Douglas himself was at one time in some respects an interventionist. We are told that conflicts existed, but not what they were about, or who won, and how. We are told that people changed their opinions but not where they left from, where they arrived, or how they got there. The fact that they were all temperamentally of a piece is enough for James and the analysis does not proceed further.

James' approach surely neglects important questions. If we seek to account for the rise to power of a group of politicians espousing a certain collection of economic policies, and this does seem to be James' intention, then it is important to know not only that they were possessed of an innovative spirit but the ways in which this was expressed. If different groups of innovators espoused different innovative policies, and if they actively opposed one another and fought for control of political party programmes, then in order to account for the outcome we must know what course the conflict took, and why one faction and not another was the one that emerged victorious.

8. *ibid.* pp.9-10.

9. *ibid.* pp.104-105.

10. *ibid.* pp.70-71.

11. *ibid.* p.158.

This reluctance on James' part to ask important questions about the phenomena he is trying to explain is interesting in itself. It seems to occur as a result of the central inconsistency in The Quiet Revolution. It has been pointed out that James initially locates the source of change in the collective experience of 'strain', and in the collective desire for change, of the society as a whole. Since this model of change forms little part of his subsequent analysis it would seem that it gives an insight into how James would prefer to see the phenomena.

James adheres to a set of assumptions that in a work of sociology would be described as functionalist. His basic theoretical postulate is that if large scale change is seen to occur in a society it must be in response to the 'needs' of the society as a whole. Change occurs because the society must adapt to internal or external disturbances to its equilibrium. Large scale change is the restoration of stability to the social organism. It is motivated by the experience of 'strain' and results in the elimination of 'strain.'¹² Given this set of assumptions it must also be assumed that whatever set of changes are made are in fact, and by definition, a right, adequate, and sufficient response to the problems facing the society.

The problem with this set of assumptions is that it inhibits detailed examination of political change. If one delves too deeply into the empirical processes of change then such assumptions become hard to maintain because then one is confronted with the possibility that the outcome was not an automatic result of the functional requirements of the entire social system but was rather a contingent result of a particular balance of political forces. The analyst is then confronted with the possibility that there was a plurality of possible outcomes and that the actual result was determined by the intersection of multiple and contingent factors: chance, political calculation, the mistakes of opponents, etc.

James maintains his assumptions about the nature of change by refusing to look closely at the course of change. The silences in his book are determined by the need to preserve the notion that the changes observed are socially necessary, appropriate, and inevitable. As a result real conflicts are marginalised and the extent and nature of opposition within the Labour Party to the emergent policies now known as 'Rogernomics' is obscured.

This set of assumptions leads to a very limited account of the rise of 'Rogernomics' in the Labour Party. It is limited for two major reasons. Firstly, James ascribes much more coherence and consistency to Douglas' intellectual development, since the early 1970s, than is

12. *ibid.* p.8.

actually warranted. James seems to believe that the policies Douglas espoused on coming to power in 1984 were the logical development of his earlier positions. He points to Douglas' supposed iconoclasm in the context of Labour orthodoxy, to his early enthusiasm for deregulation and the reduction of the government deficit,¹³ and claims that the policies of the fourth Labour government were foreshadowed in Douglas' 1980 book There's Got to be a Better Way. For James the development of Douglas' thinking over a decade and a half was nothing but the process of refinement and clarification of a basic approach. Therefore the 'traditional', or more accurately interventionist, elements that can be discerned in many of Douglas' proposals over the years are treated merely as residues. The proposals for state planned and publicly financed industrial development, the statements about the need to act against monopolies, the belief that massive state assistance would be necessary for industrial restructuring in a less protected environment; all these are treated as if they were mere aberrations from the main tendency of Douglas' thought and as if they were discarded fairly early on.

James' account is teleological; it assumes that Douglas was developing toward some pre-ordained end-point. This is mistaken for, as is argued in this thesis, the existing documentary evidence points to a more equivocal situation. It would seem more reasonable to assume no logical development and instead see Douglas as subject to multiple influences, including interventionist tendencies in the Labour Party, with no logical inevitability about which strand would become dominant by 1984. An acceptable account of the development of Douglas' economic policy positions should emphasise the contingent factors that led to this non-necessary outcome.

The second major shortcoming of James' account is that the teleological form of explanation is repeated at the level of the development of Labour Party economic policy as a whole. He notes that several figures who later became central to the implementation of the economic policies of the fourth Labour government were once far more 'traditionally' inclined. He notes, for example, Caygill's commitment as late as 1983 to a belief in the necessity of general economic stimulation through tax cuts, public works projects, and an expanded state house construction programme.¹⁴ However such traditionalist residues were soon abandoned and as the inexorable process unfolded the Labour front bench became convinced of the 'truth' of Douglas' ideas and hence were by late 1983 unified under the banner of Rogernomics.¹⁵

13. *ibid.* pp.137-138.

14. James, p.141.

15. *ibid.* pp.158 and 161.

In fact James makes no convincing argument as to why this development happened. He says that the weight of economic argument of the past decade was on the side of Douglas' policies.¹⁶ But this is not sufficient reason for a political party to adopt such policies as the example of the National Party shows. James also states that there was little capacity for economic policy debate in the Labour Party¹⁷ and that there was no 'cogent' alternative to the Douglas programme.¹⁸ This is inaccurate. In fact considerable efforts were made both inside the caucus and outside to formulate a traditionalist alternative to Douglas' proposals. James may not consider this a 'cogent' alternative, or one technically adequate to the task of encouraging economic growth, but such observations do not constitute sufficient grounds for the lack of success of the alternative. Political parties are quite capable of adopting mistaken or incompetent policies if indeed that is what these alternative proposals were.

Much the same form of explanation is to be found in Simon Collins' Rogernomics: Is there a better way? published in 1986. Collins portrays Douglas as a market liberal throughout his career. Thus Douglas' involvement in the Caucus Economic Committee of the early 1970s, and his advocacy at this time of export-led growth is seen as symptomatic of the 'new direction' of 'both Douglas and his party'.¹⁹ According to Collins, Douglas' efforts in the 1972 - 1975 Labour government were a first attempt to apply his present ideas and run a state enterprise, broadcasting, 'as a business'.²⁰ There was then a brief post-1975 'lurch to the left' when Douglas fulminated against big business, speculators and monopolies, followed by a return to his earlier orientation in time for the 1978 election.²¹ This is mistaken because the same sentiments that, according to Collins, characterised only Douglas' brief flirtation with left wing positions in the mid 1970s can in fact be found in his public policy pronouncements as late as 1982. The same is true of Douglas' former belief in state planned and publicly financed economic development. According to Collins, Douglas' 'Strategic Plan', presented to the first caucus meeting of 1982, marked his final abandonment of this 'picking winners' approach.²² In fact the same approach can be found in economic policy proposals written by Douglas in 1983 as part of the policy making effort for the 1984 election.

16. *ibid.* p.133.

17. *ibid.* p.145.

18. *ibid.* p.173.

19. Collins, p.7.

20. *ibid.* p.8.

21. *ibid.* p.10.

22. *ibid.* p.14.

Bruce Jesson's Behind the Mirror Glass²³ constitutes an analysis that in its theoretical framework departs significantly from the teleological form of explanation common to James and Collins. Jesson traces the origin of major reorganisations of state policies to changes in the economy and to the changing requirements of the various fractions of the capitalist class. In Jesson's view two major processes are involved here.²⁴ First, there is the disappearance of New Zealand's colonial economic role as producer of bulk foodstuffs for the British market. This made it impossible to maintain traditional patterns of state involvement in economic production which were predicated upon this colonial role. The second process was the globalisation of the international capitalist economy through the rise of multinational companies and the transnational integration of markets. This process provided the basis and justification for a revival of classical economic liberalism and political groupings adhering to this theory arose to push for the abolition of all protectionist measures and other barriers to the internationalisation of New Zealand capitalism.²⁵ With the election of the fourth Labour government they at last attained political power.

In so far as Jesson treats political change as a dependent variable in relation to broad economic and social changes his method is not unlike that of James. But Jesson is more theoretically sophisticated in that he recognises that changes in the system of production do not automatically call forth a single necessary response at the political level. Instead there are a variety of possible responses on the part of political parties and the state. Therefore Jesson argues that, while major political changes were inevitable after 1984, the actual programme of change could have been of the left rather than the right.²⁶ In view of his comments on the ad hoc and uncoordinated nature of state capitalism in New Zealand it can be presumed that for Jesson the potential for a left wing programme lay in an expansion of the capacity of the state to effectively plan and direct economic development as a way out of the economic stagnation of the 1970s and early 1980s.²⁷ The choice of a deregulatory and market oriented strategy was, he says, a matter of choice on the part of the inner circle of the Labour Cabinet.

23. Behind the Mirror Glass: the growth of wealth and power in New Zealand in the eighties, 1987.

24. *ibid.* p.7.

25. *ibid.* p.62.

26. *ibid.* pp.175-176.

27. *ibid.* p.58.

However the determinants of this choice, and the mechanisms by which it came to dominate the Labour caucus and party, are left vague. Jesson is at his best on the structural changes to the economy, on the resulting changing composition and interests of business elites, and on the subsequent changes to state policy that demonstrate a 'fit' with the interests of the dominant fractions of capital. His account is less satisfactory on the exact mechanisms through which a programme based on market liberalism came to dominate the Labour Party.

His account of the rise of Rogernomics in the Labour Party goes like this. The economic reform programme of the fourth Labour government was formulated outside the party and eventually reached its most coherent expression in the Treasury document Economic Management. From outside sources the programme was imported into the Labour Party through the conversion of Douglas (sometime after 1980 for, as Jesson correctly notes, There's Got to be a Better Way is in no sense a blueprint for his policies in government),²⁸ through Lange's political patronage of Douglas, and through the eventual conversion of other leading front bench Labour members of parliament. Apparently this process of conversion was impelled by the sheer intellectual force of market liberalism which was alone able to present a coherent alternative to Muldoonism in an environment where the prevailing anti-intellectualism of New Zealand culture had led to the atrophy of economic policy debate on the left and in the Labour Party.²⁹ Consequently the most Douglas opponents were able to do was prevent his policies becoming formalised as Labour Party policy by mounting a campaign against them in the party's Policy Council prior to the 1984 election.³⁰

Jesson's statement that Douglas' policies were unequivocally rejected by the Policy Council prior to the 1984 election is a major inaccuracy. Apart from this his account is overly schematic and, like that of James, both exaggerates the force of Rogernomics to the point that its ascendancy comes to appear inevitable, and neglects the importance at the time of attempts to reconstruct 'traditional' Labour Party orientations and apply them to the contemporary situation. As a history of the rise of Rogernomics in the Labour Party Jesson's account is inadequate.

28. *ibid.* p.124.

29. *ibid.* pp.9-10.

30. *ibid.* p.121.

The Fourth Labour Government,³¹ edited by Jonathan Boston and Martin Holland, presents three attempts to causally account for the rise of Rogernomics in the Labour Party. Boston and Holland in 'The Fourth Labour Government: Transforming the Political Agenda'³² argue that two sets of circumstances acted to push Labour towards free market policies. The first was economic crisis, resulting, according to the authors, from ad hoc interventionism, political manipulation of the business cycle, and the dominance of organised sectional interests over state policy. This ensured that big policy changes would be necessary after the 1984 election regardless of which party won. Secondly, Boston and Holland draw upon Olson's hypothesis that in conditions of economic stagnation it is possible that the benefits for a political party of pursuing innovative policies, rather than maintaining the status quo, will outweigh the electoral risks. Boston and Holland speculate that the fourth Labour government is an example of the operation of this principle.

However the authors neglect extensive empirical enquiry and their analysis is deficient for this reason. There is no explanation of why the Labour Party settled upon a free market response to economic crisis even though it may be granted that some kind of innovative response was necessary. Their contention regarding the applicability of Olson's thesis on the growing 'returns to political entrepreneurship' remains in the realm of speculation.

In the same volume Jack Vowles³³ explores the possibility that the Labour Party's shift from traditional policy commitments may be traced to changes in the party's own social composition and in the composition of its voting base. His answer seems to be a cautious 'maybe'. Vowles does state that the declining percentage, in both party and caucus, of those with any direct experience of social or economic deprivation may have led the party to gradually abandon its earlier 'entitlement theories'. As to changes in the voting base Vowles notes that, despite changes, the manual working class remain the most reliable source of Labour's voting support. He warns that the fourth Labour governments may cut the electoral ground from under its feet if it alienates these voters. Vowles may be right and a significant influence on the rise of 'Rogernomics' may have been the changing composition of the party and its electoral base. However, such influences would seem to be more in the nature of

31. The Fourth Labour Government: Radical politics in New Zealand, 1987.

32. *ibid.* pp.1-14.

33. 'The Fourth Labour Government: Ends, means, and for whom?', *ibid.* pp. 15 - 35.

predisposing factors rather than sufficient causes. In the context of this thesis Vowles' work emphasises the need for a closer empirical study of processes of economic policy making in the Labour Party prior to the 1984 election.

Brian Easton's 'Labour's Economic Strategy'³⁴ is the only published attempt to study the development of the economic policies of the fourth Labour government in such a way. Easton notes at the outset that There's Got to be a Better Way is not a blueprint for Douglas' later policies in government. Douglas was in 1980 committed to interventionism, to state planning, and to public financing of economic development. Therefore Easton seeks the major determinants of the major shifts in Douglas' opinions, and in the policies of the Labour Party, that must have occurred later.

Easton enquires as to whether the change was brought about through the independent policy development in the Labour Party or through 'miscegenation', i.e., by the influence of Treasury. On the side of independent development he argues that the experiences of the wage and price freeze of 1982-1984, of the Think Big programme, and of the Australian Labor government economic policies after 1980, all may have contributed to turn the New Zealand Labour Party away from interventionist policies. Easton notes also that doubts as to the capacity of the organisations of business and labour to ensure compliance of their members with centrally negotiated wage and price growth guidelines may have contributed to a decline in the credibility of proposals for basing Labour economic policy on a tripartite prices and incomes policy. He concludes that though independent development took place some miscegenation must also have occurred.

Easton's is the most valuable published work on the rise of Rogernomics in the Labour Party because it seeks to empirically examine the internal policy making processes of the Labour Party and treats these processes as central determinants of the economic policies of the fourth Labour government. Easton's thesis is discussed more fully in Chapter Two below. However his account does suffer from being based on little actual evidence and is consequently highly speculative.

34. *ibid.* pp.134-150.

It has been argued that the existing attempts to account for the rise of Rogernomics in the Labour Party are inadequate. The inadequacies stem in the main from teleological forms of explanation, from an emphasis on external pressures to the exclusion of internal party processes of policy formation, and from a lack of detailed empirical study of the phenomenon. This thesis is an attempt to produce an explanation from a detailed empirical study.

It will be argued that the crucial issue in economic policy debates in the Labour Party between 1981 and 1984 was the issue of participation in the formulation and implementation of government economic policies. Many in the Labour Party were committed to fostering a broad national consensus and sense of collective purpose and wished to do this by means of a negotiated agreement between government, employers, and trade unions. This meant in effect sharing governmental power with employers and unions and this corporatist intention was seen as a way of democratising the society.

In the theoretical chapter it will be argued that in capitalist economies periods of economic crisis require a narrowing of the extent to which democratic pressures are allowed to influence economic policy development. It is therefore most unlikely that a policy programme predicated upon the expansion of opportunities for participation can in fact provide a credible policy programme for any major political party seeking to administer a capitalist economy in crisis.

In the succeeding three chapters this argument is applied to the economic policy debates in the Labour Party between 1981 and 1984 in order to produce an explanation of the rise of Rogernomics in the party. The second chapter traces the development of Douglas' economic policy proposals from 1981 and it is argued that such continuity of development as does exist lies not in the specific proposals themselves but in Douglas' characteristic attitude to democratic participation. For Douglas the institutions and practices of representative democracy have been, and continue to be, a threat to the proper conduct of economic policy by the state and government. His concern has always been to remove 'political', that is, governmental, influence from the realm of economic policy. In his more interventionist proposals this can be seen in a concern to insulate regions of state policy and activity from the influence of government ministers. His later swing towards a deregulatory and market led programme is fully consistent with this basic attitude, for transferal of decision making to the market is par excellence the means of preventing 'political' influence over economic decision making.

In chapter three the degree of agreement and disagreement in caucus with Douglas' proposals is examined for the period under study. It is argued that there were two major focuses of concern as regards economic policy. The first was on restructuring; it was generally agreed that whether by market oriented or interventionist means the economy would have to be extensively reorganised in order for renewed high rates of economic growth to occur. The second area of concern was with a kind of liberal corporatism, i.e., with the institutionalisation of broad social participation in the formulation and implementation of the economic policies of the future Labour government.

Over time it came to be realised that these two commitments were contradictory, that restructuring would require a level of restraint in social demands, and would impose a level of social dislocation, that would make it impossible to secure voluntarily and in advance a broad-based consent for the programme. Restructuring could not be implemented or legitimated democratically. Consequently the corporatist theme lapsed and survived only as the rhetoric of consensus prominent in the Labour Party's 1984 campaign. It is this contradiction between restructuring and corporatism that best explains the collapse in the caucus of alternatives to Douglas' economic policy proposals. This also confirms the theoretical argument of chapter one; it is shown empirically that under conditions of economic crisis the administration of the capitalist economy and broad social participation in economic policy making are mutually exclusive.

In chapter four the final attempts to advance an alternative to Douglas' proposals are examined. This abandoned restructuring while retaining a commitment to building a national consensus through liberal corporatism. This occurred outside of caucus in the Policy Council of the Labour Party. It is argued that the failure of this attempt is best explained as an aspect of the traditional and entrenched dominance of the Labour caucus over the extra-parliamentary wing of the Labour Party.

CHAPTER ONE

Introduction

There is an old idea in political theory that democracy is in some way, or to some extent, incompatible with the existence of capitalist society. The implications of this notion are explored in this chapter. It is argued that in the current situation it is true that the measures required to reorganise the capitalist economy do necessitate a reduction in the scope of democratic influence on the formulation and implementation of state policy and a narrowing of the range of participants in, and influences on, the economic policies pursued by governments. In the final section of the chapter this idea is applied to political parties and it is argued that they must of necessity become the agents of this elitist reorganisation of the process of decision making. In the three succeeding chapters this theory is applied to the recent history of the New Zealand Labour Party and provides an explanatory framework for accounting for the rise of 'Rogernomics' in the party.

Capitalism and Democracy

The term 'liberal-democratic' has been used to describe societies, like New Zealand, which are both capitalist and democratic. However this is a descriptive term and it remains a matter of debate as to what the nature of the relationship between capitalism and democracy is in such societies. There are those who argue that capitalism and democracy are fundamentally harmonious modes of social organisation, that the association is mutually reinforcing and results in the political harmonisation of a class society. Others argue that they are fundamentally antagonistic and that liberal-democratic societies are for this reason bound to suffer recurrent crises of political integration.

Amongst the former group was Max Weber who argued, against both the hopes of the German socialists and the fears of conservatives, that the extension of the suffrage to the working class would lead to no severe disruption of the existing social order. On the contrary, the political organisation of the working class through a socialist party wedded to the forms and conventions of parliamentarism would strengthen the political cohesion of capitalist society.¹

1. Claus Offe. Contradictions of the Welfare State, 1984, p. 184.

Roberto Michels further elaborated this argument in proposing his 'iron law of oligarchy'. With reference to the German Socialist Party Michels argued that it, like all large and complex organisations, was inevitably dominated by its leadership. Those in positions of leadership could by virtue of their expertise, status, and indispensability to the organisation, dominate and manipulate the rank and file membership. They were beyond democratic sanction or control. Their position as employees of the organisation gave them an intrinsic interest in the growth and stability of the organisation which became for them an end in itself. A direct challenge to the existing capitalist order would endanger the existence of the organisation and so the upper strata of the party became an essentially conservative force adopting, in Michel's terminology, the lifestyles and habits of mind of the *petit bourgeoisie*, and acting to moderate the socialist movement as a whole.² Universal suffrage would under these conditions be no threat to capitalist society.

Within the Marxist tradition similar arguments were made. Lenin held that the political form of the democratic republic was the 'best possible shell' for capitalism because of its capacity to disguise real social relations.³ Democracy would produce the illusion of popular sovereignty. It would pacify the exploited at the same time as it left real power in the hands of the bourgeoisie. More recently this theme of the ideological masking of real social relations has been developed systematically in the writings of Nicos Poulantzas.

According to Poulantzas the capitalist mode of production is unique in that it allows the separation of the political realm from the sphere of production. This is possible because exploitation in capitalist economies is hidden, the wage relation appearing as a fair exchange of labour for equivalent wages. There is thus no need for the state to be involved as a continuously active apparatus of coercion to enable exploitation to continue. This opens up the possibility of a state which appears to represent the interests of the society as a whole rather than those of a single class within society. In capitalist societies all people can potentially be given the status of citizens with formally equal political rights without disruption to the existing class-based social order. This results in the 'isolation effect'; members of the same class are isolated one from another by the perception that their essential social identity inheres in their citizenship of a particular nation rather than their membership of a particular class.⁴

2. Roberto Michels. Political Parties: A sociological study of the oligarchical tendencies of modern democracy, 1966.

3. Bob Jessop. 'Capitalism and Democracy: The best possible shell?', in David Held (ed) States and Societies, 1983, pp.272-289.

4. Bob Jessop. Nicos Poulantzas: Marxist theory and political strategy, 1985, pp.55 and 63.

For Poulantzas this resulted in the distinctive form of politics under democratic capitalism being that of hegemony. The political programmes of particular classes could only be advanced through the state to the extent that they could plausibly be argued to be in the 'universal' interest of the society as a whole. An argument advanced by Przeworski shows the consequences of this.⁵ According to Przeworski in capitalist societies it is inevitably the bourgeoisie that can most plausibly claim to represent the interests of the society as a whole. This is so because it is through the mechanism of the private appropriation of profit that the interests of all classes in investment, economic growth, and the creation of employment, are realised. It is therefore very easy for the bourgeoisie to present its interests as synonymous with those of the society as a whole and thus operate as a hegemonic force. For this reason, according to Przeworski, conservative parties find it easy to appear as 'national' parties with a heterogeneous class membership. Therefore working class parties must either become subject to the hegemony of capital or propose an alternative. This latter option is very difficult, for any anti-capitalist political programme presupposes a class-based politics. Its chances of success are slight given that it must be pursued through a political system that, as Poulantzas argues, erodes class identity and solidarity. From this it can be concluded that democracy provides a congenial political shell for capitalist society.

The contrary argument has also been advanced that democracy does not in the long run facilitate the maintenance of capitalist society and that capitalism and democracy in fact stand in a precarious, immanently contradictory, relation to one another. Certainly the founders of liberalism were not so sure that the right of private property was compatible with democratic political arrangements. Wolfe has argued that liberalism and democracy originally belonged to quite different political traditions and that the early egalitarian connotations of the latter made it an implicit antagonist of the former.⁶ Thus C. B. MacPherson has argued that: 'The concept of a liberal democracy became possible only when theorists - first a few then most liberal theorists - found reasons for believing that 'one man, one vote' would not be dangerous to property, or to the continuance of class-divided societies.'⁷

In a survey of pre-nineteenth century conceptions of democracy MacPherson shows them to be predicated upon either an absence of classes in society (implying communal ownership of property) or a one-class society (in which all would own some property and function as independent producers). Liberalism, which from the first accepted the principle of

5. Adam Przeworski. Capitalism and Social Democracy, 1985, p.43.

6. Alan Wolfe. The Limits of Legitimacy: Political contradictions of contemporary capitalism, 1977, pp.1-10.

7. C.B. Macpherson. The Life and Times of Liberal Democracy, 1977, p.10.

private property and the capitalist class structure, initially expressed considerable reservations concerning the desirability of 'universal' (i.e. male) suffrage. MacPherson examines the writings of James Mill and Jeremy Bentham and shows how both gradually moved toward the acceptance of democracy but only because their own logic impelled them to do so rather than because of any great enthusiasm for the idea.⁸

They came to accept it because their basic postulate - that the only reasonable criterion for deciding what was socially good was that which secured 'the greatest happiness for the greatest number' - was considered to imply a democracy with universal voting rights. This was so because the principle was considered to require a relatively even distribution of property in society and this could only be guaranteed with democratic government which would ensure that the state was not used by a minority to dispossess the majority of citizens. Nevertheless democracy itself posed similar dangers and the founders of Liberalism vacillated on the question because they feared that democratic rights would be used by the propertyless to seize the property of the rich. Their acceptance of democracy tended consequently to be hedged about with restrictions, most importantly the property qualification for the right to vote. Bentham only fully embraced the idea of full adult male suffrage when persuaded by the example of the United States that it would not lead to the overturning of the existing unequal distribution of property.

On the socialist left the same uncertainty reigned. For some socialists participation in democratic institutions was a great opportunity to do exactly what the Liberals feared, mobilise the people against capitalism and bring about the revolution quickly and, perhaps, peacefully. For others 'bourgeois' democracy was a trap to be avoided at all costs. Eventually the socialist movement was split on the issue into a social democratic camp which favoured electoral participation and the communist and anarchist movements which rejected the idea.⁹

In the event liberal democracy did prove a workable system but the debate went on as to whether it possessed internal contradictions that might render it unviable in the long run. Karl Polanyi's The Great Transformation¹⁰ was a comprehensive attempt to argue that in the long run capitalism and democracy could not coexist.

According to Polanyi the peculiarity of capitalist societies was that in them the economic realm and the institution of the market had become dominant. Previous societies had had markets but these had been heavily regulated and were by and large not permitted to set

8. *ibid.* pp.25,35, and 37.

9. Przeworski. Capitalism and Social Democracy, p.8.

10. Karl Polanyi. The Great Transformation, 1957.

prices through the mechanism of supply and demand. But in early capitalist society they were allowed to set prices and the consequent autonomy of the market unleashed an uncontrolled and unregulated economic dynamic.¹¹

For Polanyi no society could exist for long in this form. Unregulated capitalist production had created tremendous material wealth but a system based on unrestrained self-interest could not survive. To demonstrate this point Polanyi drew upon Durkheim's argument concerning the non-contractual bases of law. For Durkheim the law, in societies characterised by organic solidarity, had changed from being basically retributive to being primarily concerned with the enforcement of contracts between individuals. But Durkheim did not agree with theorists like Spencer who saw contract as the basis of modern society and who thought that the structure of the society could therefore originate in, and be sustained by, contracts between individuals. For Durkheim there had also to be a system of law that enforced contracts and this system had to be based ultimately on conceptions of ethical behaviour that could not arise from mere self-interest.¹²

On this basis Polanyi argued that the dominance of the market in capitalism would undermine the system of normative or cultural integration of society. Capitalism, though materially highly productive, was a cultural disaster because its dominant institution, the market, could provide no normative criteria for distinguishing socially acceptable means of pursuing self-interest from unacceptable means. A range of consequences would follow, among them the exploitation of labour at below subsistence and the wholesale destruction of the environment.

For this reason there had to be a counter-movement to reassert the dominance of 'the social' in society. This movement was based primarily in the working class but succeeded because it expressed a general societal need and was therefore able to attract wide support. Its aim was 'protectionism'; that is, measures instituted by the state to alter market outcomes in accord with ideals of social justice and the 'right to life' of individuals. The most important achievement of the protectionist movement was the regulation of the price of labour. The price of labour was no longer to be set purely by supply and demand but could be influenced by the bargaining power of trade unions (which required legislative sanction to survive) or by the direct intervention of the state.

11. Fred Block and Margaret R. Somers. 'Beyond the Economistic Fallacy: the holistic social science of Karl Polanyi', in Theda Skocpol (ed), Vision and Method in Historical Sociology, 1984.

12. Raymond Aron. Main Currents in Sociological Thought, vol. 2, 1968, pp.29-30.

But according to Polanyi this democratic intervention in the market did not, and could not, produce the long run social stabilisation which it sought. This was because by the time that the protectionist movement came into existence the capitalist system was entrenched and the mechanism for the material reproduction of society depended on private profit. Protectionism could lead to the regulation of some prices on some markets but if regulation grew too extensive capitalists would refuse to invest leading to economic and social crisis. The best that could be created was a hybrid system.

This combination of the capitalist free market with democratic protectionism contained the seeds of future crises. According to Polanyi the unregulated market had been, in strictly economic terms though not in cultural terms, a self equilibrating system. Its continuous expansion was guaranteed by its own internal dynamic and governed by the laws of supply and demand. But the political regulation of some prices and not others destroyed this balance and led to severe crises: autarchy, imperialist competition, war and depression.

Polanyi wrote during the second world war and before the long period of post-war economic expansion. The post-war period was celebrated in social theory as the 'end of ideology', and an era in which industrial capitalist societies had solved all major problems of economic growth and political integration. The stability of the social order seemed unshakeable and theories like that of Polanyi were of little interest. However the more recent emergence of high rates of inflation and renewed high unemployment have prompted a renewal of interest in theorisations of the possibly antagonistic relationship between capitalism and democracy.¹³

The renewed crisis of liberal democracy has been conceptualised through the idea of the 'fiscal crisis of the state'. The state is said to be in fiscal crisis when its expenditure exceeds its capacity to raise revenue. It is argued that most western capitalist states have passed into fiscal crisis over the past two decades as economic growth rates have declined, the tax base has shrunk, and demands for state assistance have continued to escalate.

There are two arguments that attempt to demonstrate that this situation reflects a contradiction between democracy and capitalism. The first of these concerns the causes of fiscal crisis. In a democracy political elites compete for popular support. Popular support is gained by the promise and delivery of real material gains. Generally this implies the promise of rising living standards and the provision of various public goods and services that protect

13. Fred Block. 'The Fiscal Crisis of the Capitalist State', Annual Review of Sociology, vol.7, 1981, pp.1-27.

individuals from the vagaries of the market and enhance their chances of upward social mobility. This competition between party elites is one of the means by which consent is secured for the political and social order as a whole. It follows that democracy tends to transfer resources, via the taxation system, towards consumption expenditure. It is in consequence argued that democracy implies a diversion of capital that might otherwise be used for investment purposes. Therefore democracy may produce a tendency toward lower rates of economic growth and, in the long run, economic stagnation. With economic stagnation comes the fiscal crisis of the state as the tax base shrinks and the democratic pressure for improved standards of living and social security continue to escalate.

This argument is pursued in somewhat different formulations by both James O'Connor and Claus Offe.¹⁴ Both of these writers also recognise that state spending tends to escalate because of the increasing expenditures on measures designed to support, facilitate, and coordinate the capitalist economy. The balance between these escalating expenditures and legitimating expenditure is different between O'Connor and Offe with the latter paying more attention to legitimation than the former.

The second argument concentrates not on the contradiction of capitalism and democracy as a cause of fiscal crisis but as an obstacle to its resolution. The most obvious solutions to the fiscal crisis are either to raise taxes or cut state spending to bring it back into line with the revenue raising capacities of the state. The trouble is that these measures endanger the legitimacy of the political order. Tax increases may give rise to tax revolts and increase incentives to avoid or evade taxes. Cutting expenditure is also risky because it implies a situation in which the democratic system can no longer function as the means by which popular demands are articulated and responded to by the state. Therefore the capacity of the democratic state to achieve a harmonious and consensual political integration of the society is endangered.

We have, then, two diametrically opposed theoretical arguments concerning the relationship between capitalism and democracy. Jessop adopts what is in effect a resolution of the issue by maintaining that democracy can be the 'best possible shell' for capitalism if certain prior conditions, i.e., the hegemony of capital, are fulfilled. The relationship between capitalism and democracy is therefore historically variable depending upon the conjuncturally specific

14. James O'Connor. The Fiscal Crisis of the State, 1973, pp.69-70.
Claus Offe. Contradictions of the Welfare State, 1984, pp.38-40,
51-59.

capacity of the political system to organise and maintain consent for the dominance of capitalist social relations. Thus the important question becomes that of how consent is maintained.¹⁵

In social theory this problem has been approached from two different directions by theorists of legitimacy and theorists of hegemony. The two concepts are strictly speaking very different but it will be argued here that some comparatively recent formulations of the concept of legitimacy bring it closer to the notion of hegemony. It is significant that the conclusions reached, as to the bases of consent for capitalism, can be similar in the two schools of thought.

Legitimacy has been traditionally an idealist concept. The most influential writing on the subject of legitimacy has been that of Weber who held that political authority was able to acquire legitimacy and inspire obedience if it conformed to certain normative procedures, e.g., the procedures of bureaucratic decision making, juridical norms, etc. However some theorists of legitimacy have moved away from this towards a materialist definition of the concept. Habermas and Offe reject Weber's conceptualisation of legitimacy and argue that consent is guaranteed not by adherence to certain procedures but by the outcomes of these procedures. The outcomes must be in line with prevailing beliefs about social equity before the system will be accepted as legitimate.¹⁶

These legitimate outcomes are primarily material rather than non-material rewards. Habermas draws this distinction through a dichotomy of 'meaning' and 'value'.¹⁷ It is in principle possible for a political order to legitimate itself in terms of either meanings or values. In the former case consent is gained because the people see that the authorities affirm certain ideologies, e.g., the cult of tradition, or the ideology of the market, or the rights of the individual. Legitimation in terms of values is achieved by exchanging material benefits for consent, e.g., continuously rising standards of living and improved social services in health, education, etc.

According to Habermas legitimation in contemporary western capitalist societies is less and less in terms of meanings. If legitimacy is to be maintained this must be compensated for by an increased supply of 'values'. Offe implicitly concurs in this view as his characterisation of legitimacy is almost entirely in terms of material benefits derived through the wage relation and the social welfare system.

15. Jessop. 'Capitalism and Democracy', pp.282-284.

16. Jurgen Habermas. Legitimation Crisis, 1975, pp.98-99.

17. *ibid.* p.73.

Among theorists of hegemony the conclusion is much the same. Gramsci insisted that hegemony was basically a system of compromises on material issues.¹⁸ A recent debate around the analysis of Thatcherism and Stuart Hall's conceptualisation of 'authoritarian populism' has reasserted this point. Hall's analysis is heavily oriented toward explaining Thatcherism in terms of its capacity to win support by mobilising ideological beliefs widespread among the electorate. He has been attacked for this by Jessop and others who see the support for Thatcherism amongst large sections of the British workers as largely dependent upon its capacity to offer real material benefits to skilled and strategically placed sections of the working class. Hall in fact admits the point regarding the material basis of hegemony though he insists that ideological mobilisation has been extremely important in the rise of Thatcherism.¹⁹

If legitimisation were not now achieved primarily by the provision of 'values' rather than 'meanings' then legitimisation and the economy might have little to do with each other. For example, if all that mattered for the legitimisation of a political order were that it be traditional in some specific sense then the condition of the economy would probably not effect the political stability of the society. But if consent is maintained through material transfers then legitimisation has become dependent upon the production of commodities. It follows that under these conditions a crisis of the economy will translate into a crisis of the political order.

This crisis tendency within advanced capitalist societies is exacerbated by another circumstance, namely the expansion of the activities of the state. Over time the state has become much more heavily involved in the regulation and support of economic production and also heavily involved in the distribution of the surplus product. This influence is felt not only directly, as for example in the provision of educational services or of research and development institutes, but also indirectly as state involvement in activities of a formally 'private' nature. For example, bargaining between employers and trade unions is effected by a range of state interventions, from legislative actions to establish and control trade unions, to wage growth guidelines, to policies that either intentionally or unintentionally affect the extent to which wage increases can be passed on by employers. To the extent that economic life has become, in Offe's words, life by political design rather than life by market contingency²⁰ then the state is more likely to be widely blamed for the social impact of economic crisis.

18. Przeworski. Capitalism and Social Democracy, pp.136-137.

19. Bob Jessop. et al. 'Authoritarian Populism: Two nations and Thatcherism', New Left Review, 147, Sept/Oct 1984, pp.32-60.
Stuart Hall. 'Authoritarian Populism: A reply', New Left Review, 151.

20. Offe. Contradictions of the Welfare State, pp.128-129.

Economic decline thus raises the possibility of a crisis of the legitimacy of the political order. Claus Offe has outlined the possible course of development of such a crisis in which the hegemony of the bourgeoisie breaks down and capitalism and democracy become once again contradictory.

First of all, assume conditions in which there is an unproblematic consensus about a regime of power that confirms itself, as Marcuse put it, by delivering the goods. Under these conditions, questions pertaining to legitimacy...are displaced or pushed to one side by the very fact that the society 'works'.

Then comes a second stage of development in which empirical attitudes of trust and satisfaction are disturbed by the system's failure to function. This leads to the development of a sense that society does not work according to its own established standards of, say, continuous economic growth, full employment and open and competitive party democracy.²¹

If even more basic questions are raised, then a third level of legitimation problem appears. Philosophical arguments break out concerning the validity of the normative foundations of liberal democratic arrangements. Certain fundamental questions are provoked: do we really need trade unions? What is the role of the mass communications media? Is majority rule justifiable? Must the constitution be altered? Should democracy be understood as synonymous with parliamentary democracy?²²

Such questioning of the basic assumptions of the system pose problems for the political elites concerned to organise consent through parliamentary politics. The parliamentary system is designed to cope only with dissatisfaction with a particular government. It can provide alternatives in this situation and the replacement of one government with another strengthens the legitimacy of the system as a whole. Under conditions of economic stagnation it is possible that dissatisfaction will arise with the system of parliamentary politics itself or, further, with the existing capitalist organisation of the society.

Therefore it can be argued that in societies where consent is secured primarily through the provision of 'values' crises of commodity production will become crises of the political order. If this occurs then democracy is, under these conditions, unlikely to secure a harmonious and consensual political integration of capitalist society.

It can further be argued that if this situation occurs then the existing democratic system of legitimation will complicate and obstruct the resolution of the crisis of production. This point can be demonstrated on at least three grounds. The first is an argument formulated explicitly

21. *ibid.* p.268.

22. *ibid.* p.269.

by Habermas²³ though its theoretical basis is in the idea of the contradiction between socialised production and individual appropriation which has always been important in the Marxist tradition. Legitimation crisis, according to Habermas, increases the pressure for democratic participation in decision making. As the system no longer delivers the level of rewards that are expected of it there is a greater militancy and attempts to influence the course of decision making. Increasing militancy is, according to Habermas, dysfunctional for capitalist economies because greater public participation will eventually discover and emphasise the contradiction of socialised production and individual appropriation.

The idea here is that production in advanced capitalist societies is inevitably 'socialised' to a large extent, i.e., the system of production is complex, highly interdependent and therefore requires a high degree of central (state) support and coordination. Yet profit is still appropriated privately and on profit depends investment and the expanded reproduction of the system of production. The state has little power to direct the uses to which profit is put and the key variables in economic management are therefore beyond its control. Thus the central body that intervenes to coordinate the system as a whole does not possess the necessary policy instruments to be able to do this effectively. The ineffectiveness of attempts by the state to plan capitalist economic development are thus traced to the insufficient nature of state policy instruments rather than to any supposedly inevitable incompetence of public sector bureaucracies. Habermas argues that the irrationality of the situation is such that its public legitimacy could not withstand increased public participation in and knowledge of the system of decision making. The survival of private appropriation in tandem with socialised production depends upon a closed, elitist, and technocratic approach to decision making.

The second complication to the resolution of the crisis of production concerns the provision of incentives to capitalists. Here it is argued that the task of funding the system of legitimation has imposed a wage and tax burden on the owners of capital such that expected rates of return on new investment are depressed and economic growth rates are in consequence lowered.²⁴ Therefore 'restraint' must be imposed on the populace and this implies a reorganisation of the system of legitimation. The argument is usually associated with right wing theorists who advocate the partial or total abolition of the welfare state as a solution to economic recession. However the argument has also been developed on the left, notably by Offe, though the conclusion that the welfare state could or should be abolished is rejected.

23. Habermas. Legitimation Crisis, pp.36 and 96.

24. Block. 'The Fiscal Crisis', pp.14-17.

The third complication concerns the problem of 'flexibility'. It is argued that the 'protectionist', to use Polanyi's term, measures enacted to soften the impact of the market make both capital and labour less responsive to the exigencies of the marketplace. Schumpeter argued that the periodic crises of the capitalist market are episodes of 'creative destruction' in which unproductive industries and firms are liquidated and capital and labour shift to new applications. 'Protectionism' inhibits this necessary process in a number of ways including the provision of subsidies to declining industries to protect employment and the provision of welfare benefits which make workers less vulnerable to the discipline of the market.²⁵

Therefore it can be argued that in periods of accumulation crisis the legitimacy of the political order is undermined and the existing system of legitimation undermines the recovery of the accumulation system. It can therefore be concluded that in periods of high economic growth democracy does provide a harmonious political framework for capitalism. But in circumstances of economic decline this is no longer the case and democracy and capitalism become mutually undermining. This latter situation is treated extensively in the political sociology of Claus Offe.

Accumulation, Legitimation, and Crisis

According to Offe the state in democratic capitalist societies has two basic functions which he labels legitimation and accumulation.²⁶ In a democracy the legitimacy of the political order is judged in terms of its 'capacity to manage and distribute societal resources in ways that contribute to the achievement and securing of prevailing notions of justice...'²⁷ In practice this means that redistributive measures must be taken to assure minimum standards of living and opportunities for social mobility. To secure and maintain mass loyalty to the social order the state must ensure greater social security than would be typical of an unregulated market economy.

These legitimating actions include all the institutions and activities that can be included as part of the welfare state in its widest sense. Offe does not mean the narrow 'residual' definition of the welfare state as the provider of benefits to the poor but rather the entire range of social policy measures in income support, health, housing, education, etc. that are provided

25. Eric Wright. Class, Crisis, and the State, 1978, pp.175-176.

26. Claus Offe. Contradictions of the Welfare State, 1984, pp.120-123.

27. Claus Offe. Disorganized Capitalism: Contemporary transformations of work and politics, 1985, p.5.

to the population at large. He includes here the official recognition and sanction given to the activities of trade unions for the reason that this recognition implies support for a redistribution of income away from capital and toward the working class.

The accumulation function of the state has to do with its support for the capitalist economy. Accumulation, the process of investment, profit-taking, and reinvestment, is fundamental to all other activities of the state in the sense that the economy must continue to function if the state is to survive.

In the absence of accumulation, everything, and especially the power of the state, tends to disintegrate. If we think of the budgetary obligations of the state in advanced capitalist societies, its extensive reliance on resources created in the accumulation process and derived through taxation from wages and profits, this becomes immediately clear. Thus every interest the state (or the personnel of the state apparatus, its various branches and agencies) may have in their own stability and development can only be pursued if it is in accordance with the imperative of maintaining accumulation.²⁸

These measures have included not only the counter-cyclical activities of the state prescribed by the economic theory of Keynesianism but also many activities that both preceded this and continue to be performed even after the temporary or permanent abandonment of Keynesian remedies in many countries. The state has provided necessary infrastructure, it has socialised many costs of production, enforced protectionist trade barriers and provided direct subsidies to some industries. It has also socialised many of the costs associated with the provision of labour to business by means of education, health care, and housing programmes.

The state therefore faces two basic imperatives; the imperative of supporting and maintaining the capitalist economic system, and the imperative of legitimating this system as in the common interests of all classes and sections of society as a whole. It follows that neither function can be performed for long without the other activity taking place more or less simultaneously. According to Offe legitimation depends upon a functioning economy. Conversely, policies to maintain and facilitate the accumulation system can only be implemented by a democratic state if it can be made to appear that such activity is in the genuine interest of all in society.

28. Claus Offe. 'The Theory of the Capitalist State and the Problem of Policy Formation', in Lindberg et al (eds), Stress and Contradiction in Modern Capitalism, 1975, p.126.

Offe argues that there is one, and only one, set of circumstances under which the functions of accumulation and legitimation can be carried out with relative ease and in such a way that they do not conflict with one another. These circumstances obtain where all citizens (or at least the vast majority of them) can participate in exchange relationships on the capitalist market. For most citizens this means exchanging their labour for a wage. For the owners of capital it means the ability to sell commodities at a price that justifies further production. Generally speaking this requires a condition of high and continuous economic growth.

As long as every owner of a unit of value can successfully exchange his/her value as a commodity, there is no need for the state to intervene in private economic decision making; there is no lack of the material resources required by the state; there is no problem in maintaining a steady process of accumulation... and, finally, there is no legitimation or consensus problem for political elites.²⁹

The 'Keynesian Welfare State' was for a long time successful in meeting these requirements. Within it:

An 'active' economic policy stimulates and regularizes economic growth; the 'tax dividend' resulting from that growth allows for the extension of welfare state programmes; and, at the same time, continued economic growth limits the extent to which welfare state provisions... are actually claimed.³⁰

The welfare state is here conceived of as a politically instituted class compromise whereby capital was left in possession of its power in economic decision-making, and its right to appropriate profit, in return for a less unequal distribution of the economic surplus. Offe quotes Bowles' description of the compromise as one which:

represented on the part of labour, the acceptance of the logic of profitability and markets as the guiding principles of resource allocation, international exchange, product development, and industrial location, in return for an assurance that minimal living standards, trade union rights, and liberal democratic rights would be protected, massive unemployment avoided, and real incomes would rise approximately in line with labour productivity, all through the intervention of the state, if necessary.³¹

The Keynesian Welfare State integrated harmoniously the requirement of maintaining the system of accumulation with the requirement of legitimation. This settlement was however predicated on continuous economic growth and with the end of the long post-war boom in the early 1970s this precondition was no longer present. From this point on accumulation and legitimation have become once again contradictory. Therefore some new combination of accumulation strategy and legitimation strategy was necessary for the reintegration of the capitalist system.

29. Claus Offe. Contradictions of the Welfare State, p.121.

30. *ibid.* p.195.

31. *ibid.* p.193.

In an article first published in 1975, 'Theses on the Theory of the State',³² Offe set out what he saw then as the range of possible strategies for dealing with the accumulation crisis. There were three. Of the strategies the first was inaction, to simply do nothing. This would operate on the assumption that private capital, left to itself, would eventually find it profitable to increase investment and production once the crisis had run its 'natural' course. But in an age of state economic intervention, in the midst of a crisis that was, at least arguably, caused in part by state policies, it seems unlikely that a resolution of the crisis would occur without the reorganisation of state activity. Nor would inaction have been politically viable; the requirements of legitimation would seem to be that the state must be seen to at least be doing something.

According to Offe there were essentially two ways of doing something. First, there was subsidisation; the state could use transfer payments to capitalists to ensure that industries remained in existence, producing goods and employing workers. However, given the fiscal crisis of the state this strategy was not really practicable. The state was already caught between a high level of demand for state support and its own limited capacity to satisfy them due to the economic recession. In the New Zealand context this has a familiar ring given the oft-repeated accusation that the Muldoon administration, by subsidising primary and secondary exporting industries, constructed a 'welfare state for business' which was so costly as to be unsustainable in the long run.

This left a final strategy which Offe refers to as 'recommodification'. It is, for Offe, axiomatic that the historical development of capitalist society, towards greater complexity and interdependence, has led to a greater and greater need for state intervention to keep the system running. Since state produced goods and services are in general not produced as commodities, i.e., goods that are produced only if they can be exchanged profitably on a capitalist market, this was tantamount to a process of 'decommodification'. Decommodification is the creation of a condition of extreme dependence of the capitalist economy on non-commodity (or non-market) forms of production and exchange. This, as has already been pointed out, imposed huge and possibly unsustainable burdens on the state. Therefore the strategy of recommodification was an attempt to withdraw this support without thereby precipitating the collapse of the capitalist economy.

Offe saw this strategy as having three components:

32. *ibid.* pp.119-129.

'first, the saleability of labour power is enhanced through measures and programmes directed towards education, training, regional mobility and improving the general adaptability of labour power. Second, the saleability of capital and manufactured goods is enhanced through the transnational integration of capital and product markets, research and development policies, etc. Third, those sectors of the economy (identifiable according to particular industries, regions and labour market segments) which are unable to survive within the commodity form on their own strength are allowed, according to plan, to fall victim to market pressures. At the same time, these sectors are urged to modernize, i.e., to transform themselves into marketable goods.³³

This concept of recommodification has considerable applicability to the kind of strategies that have in fact been adopted in many capitalist countries in recent years to 'restructure' and reinvigorate capitalism. The policies of New Zealand's fourth Labour government are illustrative of it. The replacement of subsidised work schemes like the Project Employment Programme with Access Training Programmes would seem to be a particularly striking example of the replacement of a subsidisation strategy with an attempt at the recommodification of labour power through training. Other policies aim at enhancing the geographical mobility of labour. The liberalisation of financial controls and import restrictions are good examples of the internationalisation of capital and product markets with the intention of recommodifying capital. And in line with the third strand of the strategy there is to be no special assistance to industries and regions which cannot survive without state aid.

However in this 1975 article Offe concluded that the strategy of recommodification would not work in the long run but would quickly lead to renewed and severe economic crisis. He believed that two groups of measures would be necessary to put recommodification into effect. First, the state would have to initiate and fund enormous infrastructural development, research programmes, and training programmes to enable capital and labour to function as commodities independently of direct state aid. In essence the strategy would merely shift the burden on the state from the provision of direct subsidy to indirect facilitation of the commodity form. Secondly, he believed that capital would only be able to function as a commodity in the future if it were protected against competition. Some means had to be found to regulate and pacify the destructive competitive pressures of capitalist markets. This was necessary to give capitalists a secure and predictable environment in which to operate. The only existing vehicle for such pacification was the state.

Therefore, according to Offe, the strategy of recommodification could only lead to a even greater transfer of resources and regulatory power from capitalists to the state. It would in fact defeat the purpose of the whole exercise and would cause greater problems for capitalism because it would exacerbate disincentives to invest.

33. *ibid.* p.124.

'To the extent that state policies of 'administrative recommodification' are 'effective', they are bound to put a burden on the owners of capital. This, in turn, has the paradoxical effect of threatening the effectiveness of state policies. Since, in a capitalist society, all exchange relationships depend upon the willingness of owners of money capital to invest...; since this willingness depends upon the expected profitability of investment; and since all state policies of recommodification do have the empirical side effect of depriving capital of either capital or labour power or the freedom to use both in profitable ways, the remedy turns out to be worse than the illness.³⁴

Again it would seem that the New Zealand experience provides an illustration of this. The 'Think Big' policies of the former National Party administration were an attempt to restore capitalist economic growth through a vast programme of state supported and funded industrial development. This imposed an enormous debt burden on the state and its system of revenue collection. There were also widespread claims that this undermined the activities of private capital by creating a scarcity of development capital and driving up interest rates.

Though he later wrote on the topic Offe did not at this time contemplate the rise of a new movement for laissez-faire economic management that would withdraw state support from the accumulation process without providing new supports for its renewed expansion. But with the revival of classical economic doctrines, and the rise of Thatcherism in the United Kingdom, it became clear that a new version of recommodification was possible. It is unclear whether he regards this neo-liberal movement, that now dominates state policy in several countries, as providing a lasting means of restablising capitalist society. But regardless of its prospects in the long run Offe did come to regard this laissez-faire version of recommodification as a serious contender for state power. Since it proposed no expensive strategy for state facilitation of renewed economic growth it would logically not have the outcome, that Offe predicted for recommodification, of depriving capitalists of economic liberties and incentives to invest.

According to Offe this neo-liberal version of recommodification was opposed by another, older, strategy for coping with the crisis. Instead of acting to reduce the volume of claims on the state this strategy proposed to increase the capacity of the state to respond to a high level of claims. This was to be done by increasing the state's share of national income, through higher taxation, and by enlarging the ability of the state to facilitate and plan economic development. An important prerequisite for such development was that the cooperation of capital and labour be secured. In order that this cooperation acquire a harmonious, stable, and ongoing character it was necessary that it be voluntary. Voluntary cooperation would require that business and unions both be given real power in the determination of government

34. *ibid.* p.126.

economic and social policy. Therefore, by the end of the 1970s, the opposing strategy to neo-liberalism was characterised by support for liberal-corporatist forms of policy formulation and implementation.³⁵

Corporatism can be defined as a system of political representation in which individuals are recognised as political subjects by virtue of their 'functional' position in the system of production. It is as such distinct from liberal democracy in which all citizens have in theory an equal and similar character as political subjects. Corporatism establishes governing bodies composed of the representatives of each 'corporation' or functional group. The corporatist 'parliament' is made up of the representatives of the state, of capital, and of labour.³⁶

Corporatism per se is most strongly identified with the ideology of fascism. However the concept of liberal corporatism breaks with this association and has led to the application of the corporatist label to contemporary liberal democratic regimes.

Liberal corporatism exists where there is an uncoerced, voluntary, and revocable arrangement of cooperation between the state and representatives of capital and labour, and where this collaboration or consensus is crucial to the implementation of important areas of state policy. The liberal corporatist label is strongly associated with attempts to create a consensual tripartite alliance with the aim of restraining inflation by means of a prices and incomes policy.³⁷

The trend toward liberal corporatism predated the rise of neo-liberalism becoming both widespread and influential in the 1960s and 70s.

The arrangements that underlie Swedish economic and labour market policy, the Austrian 'social partnership', the German 'concerted action', the National Economic Development Council used in Britain by Labour and Conservative governments alike, and the 'social contract' between government and trade unions - all these are examples of the attempts - intensified in the 1960s and 1970s - to enhance the performance capacity and steering effectiveness of state actions. This was attempted not only through intra-administrative forms of co-ordination, but also through an institutionalization of alliances and consultative mechanisms among government, trade unions, employer associations, organisations of managerial personnel and even consumer groups.³⁸

35. *ibid.* pp.72-73.

36. J.T.Winkler. 'Corporatism', *European Journal of Sociology*, 17, 1976, pp.110-136.

37. Leo Panitch. 'Recent Theorisations of Corporatism:Reflections on a growth industry', *British Journal of Sociology*, vol.31, no.2, 1980, pp. 159-187.

38. Offe. *Contradictions of the Welfare State*, p.72.

These attempts at a liberal corporatism were attempts to 'save' capitalism by increasing the power of the state to coordinate and plan economic development. As such they imply exactly the result that Offe predicted in his initial writing on recommodification. Such a strategy would inevitably remove economic power and incentives from capitalists and thus in the long run undermine the system it sought to preserve.

Other theorists of corporatism have reached similar conclusions. Winkler,³⁹ for example treats corporatism as a logical development of advanced capitalism but one which leads to a new form of economic organisation. It marks the transition from a supportive role for the state vis a vis the economy, to a directive role, i.e., one in which the state directs both capital and labour. Underlying this conclusion is the belief that capitalist society has become so complex and interdependent that it can only survive given a highly stable and predictable environment. Therefore the disruptive 'anarchy' of unregulated markets must be suppressed through state intervention by means of corporatist institutional arrangements.

Therefore, for Offe, contemporary politics at the end of the 1970s were dominated by the competition of two distinct strategies of economic reform. Both strategies aimed to save capitalism by resolving its intractable economic crisis. However it seems likely that one of these, that associated with liberal corporatism, would, if implemented, have as an unintended but inevitable result the usurpation by the state of powers, privileges, and rights traditionally belonging to capital as a class. The other strategy, neo-liberalism, represents an opposite result and may have been deliberately constructed as the reaction of capital against the threat of corporatism. It has as its aim the strengthening and extending of capitalist prerogatives through the withdrawal of the state from areas of activity that have been formerly within its legitimate sphere of activity.

Recommodification and liberal corporatism are basically accumulation strategies, i.e., they aim to maintain and expand the system of production of material goods. However, in so far as they require implementation through the policies of governments, and in so far as these governments are democratically elected and remain vulnerable to the demands and pressures of the electorate, any accumulation strategy will require an accompanying and compatible legitimisation strategy. A legitimisation strategy is necessary to bring popular sentiment into line with the requirements of the accumulation strategy or at least to ensure that the accumulation strategy can be implemented without obstruction by the demands that the people make of the government and state.

39. Winkler. 'Corporatism.'

Offe makes the observation that the implementation of recommodification is facilitated by the propagation of a 'public pedagogy' which proceeds from the maxim: 'That's just the way things are.'⁴⁰ Here there is an implication that recommodification must operate by convincing people that there is no alternative to its own accumulation strategy.

Offe makes other observations about the implementation of recommodification. He says that recommodification excludes the demands of the public from consideration in the formulation of state policy by defining many areas of policy as requiring the intervention of 'experts', be they economists or specialists in administration. In this way the range of legitimate influences on policy making can be narrowed, public involvement can be reduced, and technocratic forms of decision making can prevail. Therefore two strategies would be used in the implementation of recommodification; one in which an attempt is made to restrain the demands of the people through a 'public pedagogy' and one in which these demands are prevented from influencing decision making. This amounts to a reorganisation of the system of legitimation.

Offe does not deal with the question of whether this constitutes a legitimation strategy per se or whether it represents the abandonment, by the state, of the attempt to legitimate capitalism. In so far as neo-liberals stress a need for 'restraint' then it would seem that recommodification represents an attempt to contain rises in living standards. Since rising material benefits are the means to legitimacy it would follow that legitimation itself is abandoned. However this is not necessarily so. The actual experience of neo-liberalism in power has been of a regime that does not refrain from promises of material advancement but rather seeks to defer the delivery of benefits. A period of constraint is to be followed by renewed growth in standards of living. To the extent that this claim is credible to the population at large, neo-liberalism is able to defer the legitimation problems that will arise if the material expectations of the electorate are not met. It would seem therefore that legitimation has not been abandoned but simply deferred for a time.

Offe has less to say on the legitimation of liberal corporatism. Corporatism, he says, operates by integrating the controlling elites of the state, business, and trade unions, into a single governing alliance. It is thought that the successful operation of such an alliance is facilitated to the extent that it is removed from the public gaze and scrutiny. Therefore it helps if the peak organisations of capital and labour have become highly centralised and have developed a high degree of elite domination of the membership as a whole.⁴¹

40. Offe. Contradictions of the Welfare State, p.70.

41. *ibid.* p.167.

Both recommodification and liberal corporatism face legitimisation difficulties because neither can be particularly responsive to democratic pressures, at least not to nearly the same extent as the preceding Keynesian state. It is clear that for Offe both accumulation strategies require an elitist reorganisation of the Keynesian system of legitimisation, that is, a reorganisation that makes the state less vulnerable to democratic pressures by narrowing the range of participants and influences upon the formulation and implementation of state policy. An elitist reorganisation is required for the reasons discussed above. Given the current crisis of production it is evident that the interests of the people at large (in higher incomes and improved welfare state provision) can no longer be equated with the requirements for the expanded reproduction of the system of production. Instead, the necessary reorganisation of the system of production imposes social costs and cannot therefore be imposed through a system of decision making open to influence by public opinion. The reorganisation of the economy requires 'restraint' in social demands (so as to restrict the growth of consumption expenditure and transfer funds to capitalists and thus, hopefully, to higher rates of investment) and disruption to settled patterns of occupation and residence in the quest for greater flexibility and mobility of labour. Such an accumulation strategy requires an elitist system of policy formulation and implementation which can continue to operate undisturbed in the face of the social disruption and protest that its operation will cause.

This amounts to a reorganisation of the structural selectivity of the state. The concept of structural selectivity has been used by both Offe and Poulantzas to describe the 'exclusion rules' that operate in the state to ensure that demands incompatible with the reproduction of capitalism are excluded from consideration.⁴² It has been argued here that the exclusion rules of Keynesianism, suited to an era of high rates of economic growth, are not rigorous enough for the reorganisation of accumulation in a period of economic crisis. The following section examines the implications of this argument for political parties.

Political Parties

Thus far it has been argued that changes in economic policies pursued by the state must have an effect on the system of legitimisation and hence on the role given to democratic participation in the determination of state policies. It can be argued that political parties play a crucial role in this process. For this reason the analysis of political parties, though not central to Offe's writings, is crucial to the application of his theory to concrete situations.

42. Bob Jessop. The Capitalist State, pp. 107-108.

If the legitimacy of the social order depends upon the ability of the state to respond positively to demands voiced by the people it follows that political parties play a central role in this process. Political parties are the major link between the citizen and the state for they are the institutional means by which demands are articulated in an organised way and transmitted into the state. Some political parties perform this function more than others. Duverger distinguished between 'internally' and 'externally' created parties on the basis of whether a party had originated in a social movement external to the political system or had grown from a group of functionaries within the existing state apparatus. He predicted that the memberships of externally created parties would be less amenable to control from the centre and would function as an autonomous source of demands and policies.⁴³ For this reason the Labour Party is of greater interest than the National Party in the New Zealand context for it is the former that seems to correspond most closely to the typology of the externally created party.

Political parties are also a part of the means by which demands are responded to; for example, the welfare state was attained through widespread social pressure, articulated through political parties, and responded to only after the electoral victory of political parties committed to a programme of ameliorative legislation. In this respect it is possible to think of political parties as dependent variables responding to the autonomous pressures of social groups.

But, as Sartori⁴⁴ has argued, this is not sufficient if the role of political parties is to be understood. Political parties also constitute independent variables and shape public opinion by emphasising certain issues and solutions while suppressing others. In so far as parties are committed to the maintenance of a capitalist economy it can be presumed that party elites will seek to render the demands of the party membership compatible with what it is believed are the requirements of the accumulation system. This will be expressed in the economic policy of the party and if Offe is right the formulation of this policy should, in current circumstances, involve a choice between recommodification and liberal corporatism.

As with the state in general this task will have considerable effects on the party's attitude toward the role and importance of democratic participation in political life. Przeworski has analysed the history of social democracy from this point of view.⁴⁵ He argues that once

43. Maurice Duverger. Political Parties: Their organisation and activity in the modern state, 1969.

44. Sartori. 'The Sociology of Parties: A critical review', in Martin Seymour Lipset and Stein Rokkan (eds), Party Systems, Party Organisations, and the Politics of New Masses.

45. Przeworski. Capitalism and Social Democracy.

labour and social democratic parties accepted the role of manager rather than undertaker of the capitalist order they were compelled to recognise the overriding importance of capitalist interests in decision making.

According to Przeworski, once capitalism was taken for granted then it came to be in the interests of the working class that capitalists appropriate profits for only through profit could investment rates increase and the economy expand producing employment and a taxable surplus. At the same time these parties were forced to attempt to broaden their electoral appeal, and become less exclusively working class parties, in order to have any prospect at all of electoral success. The result of these two pressures were what Przeworski refers to as the reinstatement of a classless conception of politics. The interests of capital and labour came to be seen as essentially harmonious and were subsumed under a general national interest that all citizens had in the expanded reproduction of the capitalist economy.

Thus labour and social democratic parties performed a dual role that mirrored the dual role of the democratic capitalist state as a whole. On one side they performed a legitimating role in as much as they reflected and responded to the demands of their constituents. On the other hand they performed an accumulation function in as much as they accepted capitalist relations of production, and when in power sought economic policies that would maintain and expand the existing economy.

The earliest European social democratic governments in the 1920s predated the Keynesian revolution in economics and so were forced to adopt a conservative and orthodox economic perspective which held that the only solution to economic depression was to lower labour costs and cut government spending. At the same time they had made the institutions and practices of parliamentary democracy a central value of the socialist movement. These two circumstances are contradictory and must have put these governments in the difficult position of resisting the demands of their constituents in the interests of what they took to be the appropriate accumulation strategy.

The advent of Keynesianism changed the situation and began a long period in which the requirements of accumulation and legitimation were much easier to integrate. Under Keynesianism consumption expenditure, in the form of higher wages and expanded welfare provision, was no longer regarded as antithetical to the maintenance of a capitalist economy for it was by these means that demand was maintained. Thus the same measures that in effect legitimated particular governments, the political system, and by extension the social system as a whole, could also be seen as having a useful function vis a vis the expanded reproduction of

the system of accumulation. It follows that under these conditions democratic pressures did not have to be so rigorously excluded from influencing the formation of economic policy. The fact that democracy and accumulation were no longer contradictory made life easier for the leaderships of labour and social democratic parties and governments.

In the New Zealand context this point can be demonstrated in relation to the history of the Labour Party. It is argued by R. M. Oliver that though the conservative deflationary economic strategies, pursued during the depression of the 1930s, were unacceptable to the Labour Party it took time for the party to discover an economic theory that would be compatible with its humanitarian premises. This need for an economic policy that would reconcile support for welfare provision, on which Labour based its electoral appeal, with support for the maintenance of a capitalist economy, was satisfied in various ways. For some the theory of social credit was attractive for this claimed to offer a reformed capitalism that would work to the social good. For the mainstream of the Labour caucus in the 1930s this same reconciliation was provided by the theory of underconsumption associated with the economist J. A. Hobson. Hobson held that the cause of economic depression lay in an extreme concentration of wealth which lowered demand and thus led to declining production. His solution was redistribution. It was after this that the Labour Party was converted to Keynesianism, Keynes' General Theory being published first in 1936, and the problem of reconciling social concern and economic policy was finally solved by the notion of deficit spending.⁴⁶ Therefore the Labour Party held that capitalism could be restructured and living standards raised at the same time.

This situation has now changed. The economic situation is now widely seen within major political parties as requiring a restructuring of the economy. This has certain implications for the system of legitimation as it has been customarily practiced. The two major implications are in the areas of incomes and protection from the consequences of the market. As regards the first of these the restructuring of the system of accumulation is now commonly seen as requiring 'restraint' on demands for higher incomes and expanded social spending. The second implication is that the restructuring of the economy is seen as best served by increasing the mobility of both capital and labour thus producing enormous insecurity as workers in 'obsolete' industries and depressed regions are made redundant.

Therefore a prerequisite for implementing such a programme of economic restructuring is that the pressure of the electorate, for higher and more secure standards of living, must no longer be allowed to feed through into the determination of the economic policy of whichever

46. R.M.Oliver. 'Ideology, the Slump and the NZLP', 1981, chapter 5.

party is in power. A reorganisation of the structural selectivity of the party as an institution is necessary so that barriers are erected which suppress or marginalise demands that are contrary to the perceived 'needs' of the accumulation system. Such barriers were not needed to nearly the same extent under Keynesianism. Therefore it can be concluded that there must inevitably be a close relationship between the adoption by a political party of certain economic policies and the transformation of its attitude to the role and purpose of democratic pressures vis-a-vis the formulation and implementation of policy.

CHAPTER TWO

Introduction

The purpose of this chapter is to examine the development of Roger Douglas' economic policy positions and to trace the development of an accompanying reorganisation of the system of legitimation. The aim is to explain the apparent anomaly, observed before by Brian Easton and Colin James, that Douglas has not always been a devotee of the free market and that his intellectual development over the years seems to show a conversion away from more interventionist positions.

Easton has posed the question of whether this conversion was an independent development on the part of Douglas or whether it was the result of influences outside the Labour Party and caucus. In this chapter it will be argued that Easton's answer to this question is insufficient and an alternative will be proposed.

The pertinence of the outside influence explanation is strongly suggested by an examination of the advice tendered to Douglas by the Treasury advisor to the Labour Opposition prior to the 1984 election. While it is not possible to show conclusively from this that Douglas was in fact influenced in this way it can be shown that major changes in his economic policy positions correlate with a period of close collaboration between Douglas and the Treasury advisor, Doug Andrew.

The argument for independent development is also supported here. It is argued that there were shifts in Douglas' thinking, prior to his conversion to an anti-interventionist market liberalism, the nature of which illuminate the reasons for an initial, seemingly independent, convergence between the views of Douglas and Treasury. This argument is based on Douglas' conviction that the social aspirations of the electorate in general cannot be satisfied at the same time as steps are taken to encourage economic growth. Social and economic policy fields are contradictory and mutually exclusive. This, as was argued in the preceding chapter, is very much in contrast with the traditional Labour view which, as a consequence of Keynesian economics, held that social aspirations and economic growth objectives could, and indeed must, be advanced simultaneously and by means of substantially similar policy instruments. Government spending was seen as the means by which both goals could be simultaneously attained as such expenditure would both stimulate the economy and fulfill social objectives like full employment and income maintenance. For Douglas the demands of

the electorate for social measures, such as protection of employment, expanded social services, and higher incomes, have been in the past, and remain today, destructive influences on the conduct of government economic policy. In other words, accumulation and legitimisation are in his mind contradictory and mutually exclusive.

This belief in the incompatibility of economic and social policy objectives has certain consequences for the way in which Douglas views and practices politics. It will be argued that for Douglas the key political problem is finding some way of deferring, marginalising, or excluding the social demands of the electorate from the field of economic policy. It will be argued that this constitutes an elitist reorganisation of the system of legitimisation which is the necessary concomitant of Douglas' adherence to an accumulation strategy with marked similarities to Offe's typology of recommodification.

Note on Referencing

In the following three chapters the box numbers and file names given in footnotes refer to the Douglas collection in the Alexander Turnbull Library, Wellington, acquisition no.75.301. In these footnotes, where the date for a document is given exactly, to the day and month, then this is the actual date on the document. Where only a month or year is given the dating has been arrived at by reference to other documents: minutes, position papers, memos, that allow an approximation to be reached.

The Shift From Interventionism

Douglas' thinking on economic policy matters over the years has not been nearly as consistent as is often assumed. The picture of Douglas as a rebel against Labour orthodoxy is in many respects an accurate one but his advocacy of a coherent 'free market' economic policy is of comparatively recent origin. Easton¹ is right to dismiss the 'myth' that the economic policies of the fourth Labour government can be found prefigured in Douglas' publication of 1980, There's Got To Be A Better Way. His advocacy of interventionist and regulatory policies was at this time too prominent to bear out such a view. These, in fact, remained characteristic of Douglas' policy proposals throughout the early 1980s.

1. Brian Easton. 'Labour's Economic Strategy', in J. Boston and M. Holland (eds), The Fourth Labour Government: Radical politics in New Zealand, 1987, pp.134-150.

Douglas often criticised the way in which the market operated. The most striking example of this lies in his denunciations of the plight of small businesses in the economy. The development of the small business sector was at one time a subject close to Douglas' heart. Small business he saw as the repository of the entrepreneurial spirit, of initiative and imagination, and thus as the potential salvation of the New Zealand economy. This was the theme of a paper written by Douglas in 1982, entitled 'Does New Zealand have an economic future?',² in which he argued that the government ought to provide capital for the development of the small business sector. Also in 1982 he sponsored a private members bill which aimed to reorient the activities of the Development Finance Corporation towards the needs of small business. Douglas claimed that small business was discriminated against in the private sector and criticised an alleged failure of the finance sector to provide the requisite development capital for small business. He claimed that small business was being 'driven to the wall' at a time when finance was plentiful for large companies.³

Sentiments like these were part of more general criticisms of the processes of capital concentration in the New Zealand economy. The acquisition by Watties of a 25% stake in Waitaki NZR was the occasion of a press statement lamenting this aggregation of ownership:

Initiative, incentive to take a risk, and the ability to experiment with innovative ideas - common to small businesses - is removed by such a trend. Personal commitment and drive is being swallowed up by the move towards a stagnant, 'fat cat', business sector...⁴

This development he blamed on large institutional investors in the stock market, in particular the insurance companies:

If this financial game persists - to the detriment of small shareholders, the economy, the interests of small business and the productive sector of this country - then the privileges of these large financial institutions should be removed.⁵

All this reveals a clear intention to intervene in economic development based on the belief that the market, left to itself, would develop in ways that were detrimental to the national interest and common good of society. This theme constantly reappeared. For example

2. Douglas Papers, Turnbull Library, Box 119, File 'Labour Party Economic Strategy. Misc. Papers 1982.'

3. Douglas. Press Statement 22/7/82, Box 130, File 'Press Statements 1981-82.'

Douglas. Press Statement 10/12/81, Box 107, File 'Press Releases Opposition 1981-1982.'

4. Douglas. Press Statement 21/4/82, Box 122, File 'Press Statements 1983.'

5. *ibid.*

Douglas often took the view that investment should be seen as divided into two types, productive and speculative, and argued that the state should take action to discourage the latter and facilitate the former. 'There must be a system of taxation which rewards investment in productive enterprise, instead of speculation.'⁶

Throughout 1982 and most of 1983 Douglas' proposals for economic policy treated investment as the key problem and advocated a highly interventionist dual strategy for influencing the rate and pattern of investment. On the one hand a Labour government would provide capital directly to build up promising new industries. On the other hand a Labour government would use exchange rate, taxation, and protection policies to influence the business environment 'so that profit making is encouraged only in ways that are beneficial to the economy and society as a whole.'⁷ The two aspects of this dual strategy are here discussed in turn.

Direct State Investment

In 'Does New Zealand have an economic future?' Douglas called for a programme to develop 'industries that make use of our comparative strengths, such as horticulture and fisheries'. Later, in February 1983 at a Caucus Economic Committee seminar, held with the intention of formulating economic policy proposals for submission to the Labour Party's Policy Council, Douglas presented a paper entitled 'Picking Winners for Investment'.

Why should a Nation attempt to pick winners.

- (1) Limited resources need to be allocated carefully.
- (2) A Nation, like a business organisation or a sports team, should have a series of objectives in mind.

If New Zealand is to adopt and implement a set of policies designed to promote certain industries to be largely export based, then Government must inevitably play a leading role in directing the flow of capital within the economy.⁸

Douglas argued that the government should establish a number of regional 'development groups' with representatives of business, labour, and the government. These would define economic growth opportunities and development capital needs on a regional

6. Douglas. 'Does New Zealand have an economic future?'

7. Douglas. 'New Zealand Labour Party Strategic Plan 1982-1984', Appendix B, 1982, Box 119, File 'Labour Party Economic Strategy Misc. Papers 1982.'

8. Douglas. 2/1983, Box 118, File 'Caucus Economic Committee 1983.'

basis. Also, in his 'Proposals for Taxation Reform', distributed publicly in August 1982, Douglas had proposed the revival of the third Labour government's New Zealand Superannuation Scheme as the means of funding such a programme of industrial development.⁹

Influencing Private Investment

Douglas proposed a number of measures to influence private sector investment patterns. In the 'Proposals for Taxation Reform' Douglas' main idea was for an assets tax designed to discourage wasteful and unproductive investment on the part of companies.¹⁰ According to Douglas the taxing of companies on the basis of their income made for a disincentive to produce more and provided no incentive to invest in productive activities. His proposal was a shift to taxing the value of company assets so as to encourage companies to ensure that their investments earned revenue and that profits were not used for luxury expenditure.

There was also, in this document, what had become the Douglas trademark in the Labour Party: his advocacy of a substantial devaluation.¹¹ This would, he argued, restore profitability to exporting and remove from the state the responsibility for supporting exporting industries rendered unprofitable by the high value of the New Zealand dollar. Export incentives and supplementary minimum prices could therefore be removed as one of the first acts of a Labour government.

A third measure that Douglas advocated in order to influence private investment patterns was the partial removal of import protection. This, like the devaluation, was seen primarily as a means of encouraging exporting and the earning of foreign exchange. Douglas was extremely enthusiastic about the Closer Economic Relations agreement with Australia. However his attitude towards the removal of protection remained, throughout 1982 and into 1983, cautious and gradualist. He feared that CER could be a disaster if introduced in the wrong way. The following quotations are from a parliamentary speech of May 1982.¹²

New Zealand companies will have to gear themselves up for a much greater production capacity to take advantage of the Australian market. On the other hand Australian firms could move in and quickly wipe out some New Zealand industries....This will happen if CER is phased in too quickly.

9. Douglas. 8/1982, p.5., Box 121, File 'Economic Policy 1983'.

10. *Ibid.* p.2. and Appendix 2.

11. *Ibid.* p.4.

12. Douglas. Uncorrected Hansard draft, 5/5/82, Box 130, File 'Speeches 1974-1983'.

Douglas believed that extensive economic restructuring would be both desirable and inevitable under CER and he advocated massive state involvement as necessary for ensuring a positive outcome to the process.

Under CER some New Zealand industries will close down. Others will phase out part of their operation, and even if the jobs lost in one area are more than made up in other areas, that will not be much comfort to those thrown out of work unless positive policies to retrain and re-educate the work force are developed.

There will also be a need to provide financial and other assistance to those affected.

Let us devise and implement an entire economic and social strategy designed to assist, stimulate, and prod New Zealand industry towards the type of readjustment that will be necessary to take advantage of CER. It will not happen automatically. It will have to include retraining and re-education programmes, an active labour market policy, and structural adjustment assistance to industries that are affected under CER. Compensation payments will have to be made to industry and to workers affected...

By the end of 1983 an enormous change had taken place in Douglas' economic policy thinking. Of the areas discussed above this change can be discerned in three: small business policy, investment policy, and protection policy. In December 1983 the Caucus Economic Committee met and considered a paper on small business assistance referred to it by the Policy Council. The paper was by Jim Anderton, then the party president, and his arguments for state assistance were virtually identical to those of Douglas the year before. However the committee rejected the paper as being incompatible with the 'Economic Policy Package' written by Douglas and advisors Doug Andrew and Geoff Swier in late 1983. The committee stated: 'The arguments that small businesses require special assistance because they are small have little economic content either theoretical or empirical.'¹³ The alleged discrimination of the finance houses against small businesses that had so infuriated Douglas the year before was now seen as justified by the 'greater market risk' involved in lending to small enterprises: 'it's fair and therefore not a justification for government intervention to provide cheap credit.' The committee argued that the problems of small businesses were in any case to do with lack of management skill and not shortage of capital. They further expressed their confidence that: 'Commercially-viable enterprises will be established anyway' in the course of normal private sector activity.

13. Caucus Economic Committee. Minutes of meeting held 1/12/83, Box 132, File 'Caucus Economic Committee 1984.'

The whole idea of government funded industrial development was undergoing changes. It was by no means extinguished, and it remained a part of the economic programme developed by Douglas, but it became a fairly marginal part. There was a new scepticism on Douglas' part as to the capacity of the state to 'pick winners'. Douglas' notes on one proposal for an investment strategy indicate that, by late 1983, he considered such state expenditure as simply a transfer of resources from the private sector to a public sector that was unlikely to do better with them.¹⁴ He expressed the belief that investment levels in New Zealand had been as high as could be expected but that capital had been diverted into unprofitable areas through government ineptitude and by 'market distortions'.¹⁵ This latter term was used as a euphemism for the alleged detrimental effects of state intervention in the economy. Increasingly Douglas came to regard state intervention as the root of all economic evil.

This had a major effect on his proposals for state funded industrial development. State funding was no longer seen as necessary to the positive development of the economy as a whole, rather it was to be confined to special cases. These special cases were to be found where the state already owned the resources that would be used by the industries to be established, and/or where 'market failure' could be demonstrated which prevented private capital from investing in a particular area. Examples of market failure were:

- (1) Long developmental periods for research and development of technology.
- (2) Expenditure which has external benefits, i.e. falls over a large number of firms (e.g. promotion in the Tourist Industry is difficult to fund internally, because the benefits are wide spread.)
- (3) High risk/return investment where returns are spread over a variety of producers (e.g. the returns from export market development)...

In the 'Economic Policy Package', the Douglas, Swier, Andrew document that eventually formed the main basis of Labour's publicly released economic policy for the 1984 election, the state investment programme remained an integral part of the industry assistance section and was expected to raise state spending substantially in the initial period of a Labour government. However its restriction to cases of market failure meant it had become a far less central element of Douglas' economic programme. Douglas' recollection now is that he had come to the conclusion that if 'the general environment' set by government economic policies

14. Douglas. Marginal notes on first 'Harris/Rowling/Hercus paper', 11/1983, Box 132, File 'Policy Council Papers 1984.'

15. Douglas, and Geoff Swier. 'Objectives and Priorities', 5/1983, Box 129, File 'Policy Papers 1983.'

16. Douglas. et al. 'Economic Policy Package', 11/1983, Box 121, File 'Economic Policy 1983.'

was right then there would be private sector finance available for any financially viable project.¹⁷ The proposal for tripartite participation in the running of a public investment programme also lapsed.

Two documents produced in 1983 can serve as benchmarks for other changes that were going on in Douglas' positions. The first is 'Objectives and Priorities',¹⁸ a Caucus Economic Committee document of May 1983 which was written by Douglas and Swier apparently incorporating some material from an earlier paper by Peter Neilson. The Caucus Economic Committee sent the paper to the Policy Council in response to a request for a paper on economic policy objectives. The second document is the first version of the 'Economic Policy Package' written by Douglas, Swier and Doug Andrew for a Caucus Economic Committee meeting late in 1983. The paper was subsequently revised and submitted to a meeting of the Policy Council in November 1983 as the Caucus Economic Committee's recommendation for Labour's economic policy in the 1984 election campaign.

'Objectives and Priorities' contains what may be the last of Douglas' condemnations of the trend towards monopoly ownership in the economy. 'Consumer protection will be a major priority and will be achieved by stimulating effective competition and by taking effective action against cartels, monopolies, and other restraints on trade.' This is not a theme in the 'Economic Policy Package'. Neither is the old dichotomy between speculative and productive investment. This distinction made what looks like a last and token appearance in the joint Lange/Douglas press release of July 1983 'Labour's Approach'.¹⁹

Gone also, somewhere between May and the end of 1983, was Douglas' formerly cautious attitude to the removal of import barriers. The 'Objectives and Priorities' paper of May stated that,

until faster rates of production and employment growth have been achieved, there will be no major reductions in import protection - it is not Labour policy to deliberately increase unemployment.

In contrast the 'Economic Policy Package' argued for a rapid reduction in trade protection while recognising and accepting the fact that 'aggregate output and employment will fall initially.'

17. Interview with Roger Douglas, 20/1/87.

18. Box 129, File 'Policy Papers 1983.'

19. Lange and Douglas. 26/7/83, Box 118, File 'Caucus Economic Committee 1983.'

Explaining the Changes

Clearly an enormous shift had taken place in Douglas' positions on economic policy and it appears that most of this shift was concentrated in the latter half of 1983. It is also apparent that the shift was in the direction of the kind of monetarist economics that were espoused by the Treasury probably since the mid-1970s.²⁰ In general this can be seen as a shift away from the belief that market outcomes and socially desirable outcomes are two different things. In consequence Douglas increasingly discarded the notion that state intervention in economic development was necessary to ensure that economic growth occurred and was of a type compatible with what were considered appropriate social objectives.

Easton postulates two explanations for this shift in ideas, one in which the growing similarity between Douglas' positions and those of the Treasury is the result of 'parallel and independent development' and a second in which it is the result of 'miscegenation' or direct Treasury influence. Not surprisingly he concludes that the reality was a bit of each.²¹ The purpose of this section is to evaluate Easton's explanation. The 'miscegenation' argument will be supported in more detail than it is by Easton and it will be argued that the case for parallel but independent development is valid but not adequately demonstrated by him.

Miscegenation

Since 1975 it has been established practice for an official of the Treasury to be seconded to the office of the Leader of the Opposition in an advisory capacity. Two of these officials figure in this thesis: John McCarthy and Doug Andrew. Andrew replaced McCarthy when the latter returned to the Treasury in June 1983.²²

During his time with the Labour Opposition Andrew produced papers on a range of economic policy topics and debated with existing tendencies in the Caucus Economic Committee. Andrew argued for lower levels of trade protection as the key economic policy instrument. He argued for floating the currency as a matter of course.

20. Janet Whitwell. (forthcoming) in Alan Bollard and Bob Bunkle (eds), The Opening of the New Zealand Economy, Allen and Unwin.

21. Brian Easton. 'Labour's Economic Policy', p.146.

22. Lange. Memo on staff changes in the Leader's office, 5/7/83, Box 123, File 'D. Lange 1983.'

It is likely that sections of some heavily protected industries will become uncompetitive early on, others later on....Other industries will become increasingly competitive and will expand as the costs are reduced. The role of floating exchange rate is important here as it balances the demand and supply of foreign exchange.²³

He opposed all proposals for publicly funded industrial development arguing that only private interests could reliably 'pick winners' and that state agencies could not. The following passage is from a paper Andrew wrote in response to Douglas' 'Picking Winners for Investment'.

Selective assistance creates uncertainty in the community - it means that the rate of return on identical investment by private sector operators can be different in quite arbitrary ways - one investment will get a subsidy the other won't. No matter how the criteria are written both the administrative process and the political process will mean that selective assistance creates distortions, uncertainty and must be arbitrary in the final analysis.²⁴

The dramatic changes in Douglas' economic policy proposals over the latter half of 1983 correlate with Andrew's term as advisor to the Leader of the Opposition.

Another close advisor to Douglas was Geoff Swier of the Opposition Research Unit. Previous to this Swier worked in the Ministry of Energy. Swier was in general agreement with the free market approach with, prior to the 1984 election, the apparent exception of the floating exchange rate. In a paper on exchange rate policy written in May 1983 Swier seemed to advise against floating the dollar despite claiming that it had benefits such as providing an 'efficient market clearing rate' and thus avoiding the periodic balance of payments crises to which the New Zealand economy is prone. However he produced a number of points against the idea including the problems of rate instability and volatility in an unregulated market, the lack of 'developed financial markets' in New Zealand, the impact of 'cyclical changes in the terms of trade' and seasonal fluctuations in the exchange rate.²⁵ Swier was also an enthusiast for privatisation and in 1984 wrote against the inclusion of an anti-privatisation clause in Labour's policy on the state services.²⁶

23. Doug Andrew. 'Trade Offs', 9/1983, Box 129, File 'Policy Papers 1983', p. 6.

24. Doug Andrew. 'Picking Winners:some comments', 8/1983, Box 129, File 'Policy Papers 1983.'

25. Geoff Swier. 'Exchange Rate Policy', 5/1983, Box 118, File 'Caucus Economic Committee 1983.'

26. Geoff Swier. 'Costing of Policy', 1984, Box 132, File 'Caucus Economic Committee 1984.'

Labour went into the election with an economic policy based indirectly on the 'Economic Policy Package' written by Douglas, Andrew, and Swier. Something of the degree to which Douglas had, by the end of 1983, moved into line with Treasury thinking is revealed by a comparison of this document with Doug Andrew's papers and the Treasury/ Reserve Bank briefing document published after the election as Economic Management.

The basis of the 'Economic Policy Package'²⁷ was the proposal for a substantial devaluation to 'restore external balance' to the economy. Devaluation, it was claimed, would encourage exporting, discourage imports, and lead to a shift in investment patterns in favour of the development of exporting industries. The devaluation would also take the pressure off the government finances by allowing the abolition of export tax incentives, supplementary minimum prices, and a range of other agricultural subsidies. For Douglas there was nothing new in this; the basic idea dates back at least to his 'Alternative Budget' of 1980.

However there is a divergence here with the Treasury approach. There are two reasons for saying this. One is that Doug Andrew on at least two occasions wrote papers advising against the use of devaluation as the key economic policy instrument.

A big devaluation, to the extent it is maintained, does not correct the bias towards the heavily protected low productivity industries and against the lightly assisted import - competing and exporting industries.

Thus, the package relying on exchange rate adjustment while achieving external balance may not stimulate productive investment and hence growth and new jobs.²⁸

For Andrew the key to restoring economic growth was the removal of import protection.²⁹ To this end he advocated a rapid abolition of protectionist measures. His was a more radical position on free trade than ever became current in the Labour caucus. The second reason is that the 'Economic Policy Package' does not reveal an intention to float the exchange rate which was an important Treasury recommendation. The package hints at a more regulated regime than this.

The aim will be, in the medium term, to use the exchange rate in a more flexible manner than has been the case under the present Government, to assist in achieving external balance.

27. Douglas. et al. 'Economic Policy Package', 11/1983, Box 121, File 'Economic Policy 1983.'

28. Doug Andrew. 'Trade Offs', 9/1983, p. 7.

29. Doug Andrew. 'On Protection Policy', 7/1983, Box 123, File 'Labour Party Conference 1983.'

According to Swier the issue was as yet undecided in Douglas' mind prior to the 1984 election.³⁰

There is another section of the 'Economic Policy Package' that obviously clashes with the Treasury line and this is the section on industry assistance. Here it was envisaged that a Labour government would establish a 'central fund' to help finance industrial development. 'Sectoral groups representing industry would approach the Board to request financial participation in projects.'

The Treasury position was that government economic policies should be 'neutral', or even, in their impact on the market. The 'selective intervention' of the industry assistance policy would not have been approved as it would alter the 'natural' investment pattern of the economy by making more attractive to investors those areas for which a government subsidy could be claimed. But it is apparent that Douglas still took the idea quite seriously prior to the election. He went to the extent of asking Henry Lang, a former Secretary of the Treasury, for his opinion. Lang, after consultation with various caucus figures, produced a paper in support of the idea. Lang stated that he took the view that 'the Government has a role in helping to pick winners rather than rely entirely on the market.'³¹

Easton considers seriously the possibility that Douglas was, prior to the election, committed to the full Treasury programme, including a floating exchange rate, but that in government found he had to wait a few months to implement it. This is Easton's explanation for the sudden change in government policy that occurred with the floating of the currency in 1985.³² The evidence presented here does not support this view. Instead it seems to point to a situation in which the convergence between Douglas' and the Treasury's views was underway throughout 1983, but incomplete at the time of the election, and still proceeding in the first few months of the fourth Labour government. The evidence of miscegenation is however fairly clear. It is most unlikely that Douglas' views would have shifted either so far or so quickly had economic policy proposals been formulated solely by groups of Labour caucus members without the involvement of outside advisors.

30. Interview with Geoff Swier, 20/1/87.

31. Henry Lang. 'Comments on Investment Strategy', 5/1984, Box 132, File 'Caucus Economic Committee 1984.'

32. Brian Easton. 'Labour's Economic Policy', p.141.

Independent but Parallel Development

The case for independent and parallel development is less clear cut. One problem is that the question as framed by Easton is unanswerable. No firm case for independent development can be made for, as James points out, there had been contact between Douglas and Treasury advisors at least since the mid 1970s. What can be examined are aspects or developments of Douglas' policy positions, prior to his radical shift to free market economics in 1983, that may have predisposed him to such a shift. Whether these predisposing factors developed independently or not remains a moot point.

Easton mentions five factors that may have propelled Douglas in a policy direction similar to that of the Treasury. These were: the experience of the wage and price freeze of 1982 - 1984, overseas trends especially the policies of the Australian Labor government, a general fashion for monetarism, the debate over Think Big, and the daunting political problems involved in implementing an economic programme of planned change based on consensual and negotiated agreements with business and trade unions.³³

The trouble with this explanation is that each experience, say of Think Big, could potentially have been interpreted in a number of ways. A number of critiques of Think Big are possible. The dominant one now explains its failure in terms of the allegedly inevitable incompetence of the state as planner of economic development. An earlier, and in the Labour Party far more widely supported, critique held that Think Big was really an example of what happens when multinational companies gain control of economic development in a small and dependent nation.³⁴

Similarly, others of Easton's causal factors can be likewise criticised for not leading necessarily in the direction of a deregulatory economic policy. There is no reason why the wage and price freeze should necessarily have been seen as an argument against government involvement in wage determination. For many in the Labour caucus the wage freeze seems to have been seen instead as emphasising the need for consensual and negotiated agreements on wage growth with the trade union movement. The policies of the Hawke government in Australia, notably the Accord with the Australian Council of Trade Unions, could also have been a stimulus for moves toward a similar consensual tripartism in New Zealand. As to the general fashion for monetarism, many in the Labour caucus resisted this and strove for an alternative. Fashion does not necessarily carry all before it.

33. *ibid.* pp.135 and 146.

34. see, for example, Rowling's speech as Leader to the 1981 party conference, in New Zealand Labour Party. Report of the Sixty Sixth Annual Conference. pp.33-35.

Easton's argument about the political difficulties of maintaining a consensual prices and incomes policy is an important one, and is central to this thesis, but the point remains that the shift in Douglas' positions on economic policy must be explained not only in terms of particular experiences, like Think Big or the wage freeze, but crucially in terms of the underlying intellectual framework which gave to these experiences a particular meaning and significance. The important task is to find out why Douglas interpreted particular events in the way he did. It will be argued here that previous characteristics of Douglas' thinking laid the foundation for his eventual conversion to a deregulatory and non-interventionist economic policy. From this point of view the shift from interventionism acquires more of the character of a logical development and seems less of a radical break with his interventionist past.

The shift towards free market policies was accompanied by a significant change in the way in which Douglas framed his proposals for interventionist policies. This can be seen most clearly in the changes in his proposals for state planned and funded economic development, changes seemingly motivated by his reflections on the National government's Think Big programme.

Think Big certainly did have a considerable impact on Douglas' proposals for state funded industrial development but it does not seem to have caused him to abandon the idea. Instead it caused him to revise the criteria proposed for state involvement in particular projects and to alter the proposed administrative form for such a programme. These changes can be seen by comparing the 'Picking Winners for Investment' paper of February 1983 with the 'government assistance to industry' section of the 'Economic Policy Package'. The earlier paper outlined the criteria to be used in deciding if a particular industry or project was to merit government assistance.

- The number of jobs created per million dollars invested.
- The amount of export earnings per million dollars invested.
- The expected contribution to economic growth per million dollars invested, recognising that subsidies can reduce the growth rate.
- The extent of any extra Government revenue that will accrue for each million dollars invested - revenue available for education, social welfare and health.
- Any contribution to regional growth the project might make.
- The extent to which investment is resource based.

Mixed though these criteria were Douglas claimed that their application would have ruled out a number of Think Big projects, notably the second smelter and the New Zealand Steel expansion. He thus believed that the state could play a major role in financing industrial

development without necessarily disastrous results. He also at this time proposed that the investment programme be controlled by a board made up of representatives of government, business, and trade unions.

Nevertheless as time went on he revised the criteria. This seems to have been mainly motivated by a concern to exclude the possibility of an investment programme being used for party political purposes. Possibly this was the most powerful lesson of all taught by Think Big; that investment decisions could be immensely important for the future electoral prospects of a government. Therefore as time went on Douglas sought more and more to exclude these 'political' influences from the process in favour of, to him, more appropriate 'technical' criteria. For this reason he revised the criteria above to place the economic rate of return on capital invested first and to stress its pre-eminence.

Evaluation would be on the basis of forecasted rates of return. This would often require considerable business judgment, as well as use of analytical techniques.³⁵

In general the proposals should be capable of producing a return to the fund...³⁶

Other, less strictly economic, criteria like employment creation or regional development were relegated to a less important status. Another change, seemingly to accomplish the same purpose, was a proposal to remove such an investment programme from the immediate jurisdiction of government Ministers. Therefore an 'independent' body would be set up to make the actual investment decisions in order to prevent governments directing development capital for electoral purposes as was alleged to have occurred with the Think Big programme.

Administration of the fund would be by a Board of capable private and public sector people. It would be serviced by a small team of experts, business analysts etc., from public and private sectors.³⁷

The fund would be responsible to a Minister of the Crown, and be overseen by Cabinet Economic Committee. Thus Government would be responsible for general policy, staff, and the criteria by which the fund would evaluate investment proposals. However, the fund is not intended to assist pet projects or to favour particular sectors.³⁸

Douglas no longer expressed any support for trade union representation on this body.

Therefore one of the important shifts that can be detected in Douglas' thinking involved not an abandonment of interventionism but an attempt to remove 'political' influences from the realm of economic policy. It is this dislike of 'political' influences that provides the link between

35. Douglas et al. 'Economic Policy Package', 1983, p.38, Box 121, File 'Economic Policy 1983.'

36. *ibid.* p. 40.

37. *ibid.* p. 38.

38. *ibid.* p. 41.

Douglas' earlier interventionism and his later conversion to market liberalism. Exactly what he meant by 'political influence' can be uncovered from an examination of Douglas' pronouncements on Labour Party policy in 1981.

In 1981 Labour Party publications identified unemployment as the focus for the party's policy and its economic policy was largely oriented toward employment creation. The economic policy was based on a proposal for the massive use of government funds to establish employment creating industries. The programme was to concentrate on small to medium sized enterprises because it was thought that these would produce more jobs than larger projects.³⁹ Think Big was condemned for the very reason that the scale of its projects made it a minor provider of employment. This fact was used to argue that Think Big was contrary to the national interest; a takeover by multi-national capital with the complicity of a corrupt government that no longer cared about the interests of its people.

It can therefore be said that in 1981 the Labour Party saw no contradiction between the implementation of a responsible economic policy and the advancement of its social goals in employment, regional development, etc. It did not matter that the party's economic policy was determined by 'political' ends, i.e., by its concern with the immediate creation of employment and with regional development, for it occurred to few in the Labour Party that there was any contradiction here. There was none of the now familiar Douglasite rhetoric that social goals ought to be postponed in favour of the implementation of economic policies.

In 1981 economic policy was also placed in tandem with a range of social policy proposals requiring new government spending. Despite some references to equitably sharing a 'burden of restraint' by means of a prices and incomes policy, and mention of a 'tough monetary policy', the prevailing impression given was one of confidence that a Labour government could simultaneously stimulate economic growth and expand social welfare provision. Higher social spending and the hope of immediate improvements were the inducements offered the electorate to vote Labour.

The policy was opposed vehemently by Douglas who in that year came close to resigning the candidacy for Manurewa and leaving politics. In a speech of resignation (written for an electorate meeting in Manurewa) he announced that he did not believe in the party's

39. New Zealand Labour Party. The Labour Economic Plan. A balanced programme for growth: economic statement by the Rt. Hon. W.E. Rowling, Leader of the Labour Party, 1981.

election policy and could not therefore campaign in support of it.⁴⁰ He maintained that it was contradictory to claim that the economy was in desperate straits while simultaneously promising tax cuts and higher social spending. In the event he did not resign having been persuaded out of the idea by Lange and by the promise of the finance portfolio in a future Labour government.⁴¹

Earlier in the year, at the party conference, Douglas had argued that the goal of economic growth in fact contradicted the immediate attainment of social goals. In his speech he claimed that the key economic problem was inflation and that this was caused primarily by wage increases and high government spending. Therefore economic recovery would depend on constraining demands for higher incomes and higher social spending.⁴² For Douglas the 1981 policy was nothing but electoral bribery and in a letter to Rowling just prior to the election he asked when Labour was going to 'stop promising every small vested interest the world.'⁴³

In Douglas' critique of the Labour Party's 1981 policies we have a coherent expression of his conviction that the attempt to immediately pursue social goals, like higher incomes and expanded social services, would lead only to further economic decline. Here are the beginnings of the conviction that later, in more expanded form, came to dominate Douglas' thinking; the notion that governments behave irresponsibly when they respond to the demands of the electors for improved material standards of living. Douglas was not, and perhaps is not, against intervention per se but is against intervention that is motivated or conditioned by electoral pressures and by the desire of political parties to win votes.

Later this argument became the basis for Douglas' critique not only of Labour Party policy but of the entire series of post-war National Party administrations up to the early 1980s. A whole range of past economic policies came to be seen by Douglas as basically responses to electoral demands and were claimed to have produced or exacerbated tendencies towards economic stagnation. The justification for this argument proceeded from the claim that for the past few decades New Zealand had been on the lower rungs of 'the OECD productivity ladder'. More recently, in the 1970s, the fall in the terms of trade had exposed this 'underlying

40. Douglas. Speech of resignation as candidate for Manurewa, draft, 9/1981, Box 116, File 'Tax Reform 1981.'

41. Colin James and Nikitin Sallee. 'Lange's hands still steady two years further on', interview with David Lange, National Business Review, 11/7/86, pp.17-21.

42. New Zealand Labour Party. Report of the Sixty Fifth Annual Conference, 1981, pp.48-49.

43. Douglas. Letter to Rowling, 1/11/81, Box 121, File 'Economic Policy 1981.'

weakness' and produced a situation of very low, or no, economic growth. This had been accompanied by massive levels of public debt as capital had been borrowed overseas and used to support consumption expenditure domestically.⁴⁴

The blame for this state of affairs, according to Douglas, lay with the electorate and political parties.

The National Government has made no attempt to tackle the New Zealand structural problems - inadequate savings and inadequate productive investment, particularly in the new technologies. Rather its policies have been primarily designed to preserve the status quo and win the next election.⁴⁵

High expectations among the public have strengthened those sections of the political parties who refuse to face economic reality.⁴⁶

Douglas claimed that there was a belief 'among certain politicians that positive action to rectify New Zealand's economic problems could only result in electoral defeat...'⁴⁷

A range of particular policies were cited as examples of this principle: the practice of election year stimulation, an allegedly overvalued exchange rate which slowed increases in the cost of living but damaged exporting industries, producer subsidies and trade barriers which preserved people's livelihoods at the alleged cost of encouraging economic stagnation, and Think Big which was seen as driven more by electoral considerations than economic ones. All of these Douglas eventually came to see as primarily attempts to buy votes, by responding to electoral demands, at the expense of implementing truly appropriate economic policies.

The implication of this belief is that a responsible government insulates economic policy from the influence of the electorate and its aspirations for higher and more secure standards of living. Given that this idea formed no part of Labour Party policy in 1981 it follows that what Douglas had in mind, before he settled on any particular set of economic policies, was a reorganisation of the system of legitimation. In Chapter One it was argued that, during the post-war period of the Keynesian Welfare State, capitalist social orders like that of New Zealand acquired popular legitimacy because of their capacity to allow the democratic expression of demands for improved material standards of living and because of their capacity to satisfy these demands.

44. Douglas. and G. Swier 'Objectives and Priorities', 5/1983, Box 129, File 'Policy Papers 1983.'

45. *ibid.*

46. Douglas. 'On the eve of the New Zealand Labour Party Conference', press release, 5/1982, Box 119, File 'Labour Party Economic Strategy Misc. Papers 1982.'

47. *ibid.*

It was exactly this system that Douglas was dissatisfied with. Traditionally democratic pressures had come to have effects on economic policy in two analytically distinct ways. Firstly, there was the direct pressure exerted by the electorate on politicians to 'deliver the goods' in terms of higher living standards and increased social provision. Secondly, there were certain values and beliefs that had over time become a part of economic policy itself, such as the belief that the welfare of the people required that a distinction be maintained between productive and speculative investment and that the government, as part of its economic policy, ought to take action to encourage the former and discourage the latter. Such beliefs, when entrenched in the practice of economic policy, made it impossible for economic policy to be formulated or implemented without regard to the consequent social costs. Both these types of influence came to be disapproved of by Douglas as a logical development of his beliefs about the effects of democratic politics on economic policy.

Douglas devised means to insulate economic policy from both of these forms of democratic influence. In relation to the first he attempted, successfully, to propagate a new electoral strategy for the Labour Party. Prior to the 1981 election, in two papers on the youth vote, he argued that the traditional approach embodied in the 1981 party manifesto no longer functioned to attract votes.⁴⁸ The electorate, he said, had become cynical and disillusioned and would no longer believe the extravagant promises of political parties at election time. 'Some may believe that the "promise anything" strategy will win the next election. I don't. But even if it does help us win, it would make it impossible for us to govern.' In place of the traditional approach, which depending on one's point of view can be characterised as either 'electoral bribery' or as a positive responsiveness to the legitimate and democratically expressed wishes of the people, Douglas counterposed a strategy based upon an absence of such responsiveness. Instead of promising much to attract votes they would promise little except a 'responsible' economic policy and the hope of improved living standards at some indeterminate point in the future.

This was the new recipe for winning elections which gained credibility from the defeat of 1981. This defeat was a crucial break with the past because Douglas' interpretation of its causes made it possible to argue that social goals and aspirations could be subordinated to

48. Douglas. 'Election Strategy and the Youth Vote', 4/1981, Box 113, File 'Labour Party Policy Development 1981.'

Douglas. Untitled paper on the youth vote, 8/1981, Box 119, File 'Labour Party Economic Strategy Misc. Papers 1982.'

economic policy and the party would still have a better chance of winning the next election than it had previously. It created the possibility of a Labour government that could pursue its economic policy objectives without regard to the immediate social consequences.

Given this electoral strategy, and the underlying conviction that electoral pressures had been responsible for national economic decline over a long period, it is difficult to see what positive role representative democracy can play in the context of Douglas' positions on economic policy. Traditionally democracy has been seen as the means by which the people articulate interests and have an effect on the policies of the state. This has included effects on economic policy. As was shown in the preceding chapter the system of legitimation of the Keynesian Welfare State treated the expression of such popular demands as a positive and beneficial influence on economic policy and an aid to the continued expansion of the capitalist economy. 'Rogernomics', in direct contrast to this, maintains that such influence is a pernicious evil in relation to economic policy. In consequence of this Douglas' views tend inevitably towards elitism and towards a narrowing of the range of participants and influences on economic policy.

On the second front, that of the effects of values and beliefs that had become entrenched as part of economic policy, Douglas came to pursue a different tactic. The changes in his proposals for interventionist policies, and his later shift toward free market policies, involved the progressive removal of these entrenched values and beliefs from the field of economic policy. Thus the dichotomy of productive and speculative investment disappeared from Douglas' economic policy proposals and no further distinction was to be drawn between what market actors found personally advantageous and what would be of benefit to the society as a whole. Also the preservation and creation of employment ceased to be a key criterion in the formulation of economic policy, and social costs were no longer regarded by Douglas as acceptable arguments against particular economic policies. His eventual conversion to free market positions thus makes sense as a logical development of previous positions for the transference of existing state functions to the market is, par excellence, the means of insulating economic decision making from democratic influence.

It would seem therefore that the monetarist economics of the Treasury solved an existing political problem for Douglas. Douglas believed that the formulation and implementation of economic policy had been subverted by the influence of social goals and values. In theoretical terms it might be said that he realised that accumulation and legitimation (as customarily practised) were now contradictory activities and thus needed to be carried on

in greater isolation from each other. The ideology of the market, and of the inevitable incompetence of state economic planning activities, gave him the rationale for finally and completely excluding pernicious social and political influences from the field of economic policy.

Conclusion

It has been argued in this chapter that Douglas' intellectual development shows a shift from interventionist to laissez-faire economic policies. It was argued that the influence of Treasury advisors can be discerned in this process. It was then argued that there was in fact considerable continuity in the shift from interventionism for it appears to have been simply a development of Douglas' earlier concern to exclude electoral considerations and democratic pressures from the field of economic policy.

In terms of the theory presented in Chapter One Douglas' development in terms of accumulation strategy has involved a shift from the first to the second version of recommodification outlined by Offe. In the first period Douglas contemplated a restructuring of the economy in which the state would have a major role. For example CER was to be the mechanism by which industries would be forced to adapt or die in the commodity form but in order to avoid complete economic disaster the state was to take a predominant role in raising investment capital, compensating capital for losses, facilitating training and mobility of labour, and directing the flow of investment in the economy through planning mechanisms. The latter part of 1983 saw a shift to the more laissez-faire version of recommodification with a broad rejection of state intervention to alter market outcomes.

In terms of legitimation strategy it was shown that the commitment to recommodification was accompanied by a rejection of the existing system of legitimation. Accumulation and legitimation (in its traditional Keynesian form) were held by Douglas to be contradictory and this was manifested in a negative assessment of the effects of democracy on economic policy. The economy was held to have been undermined by the intrusion of democratically expressed demands and social values.

The development of this notion had two major effects on his policy proposals. First, Douglas propagated a new electoral strategy for the Labour Party based on the notion that democratic institutions had lost credibility with the electorate and seeking to capitalise on this

fact. According to Douglas mass cynicism had set in and this provided the electoral opportunity for the Labour Party to win power and impose a 'responsible' economic policy that would be implemented without regard to popular pressures and social aspirations. Second, he removed from the sphere of economic policy all those social values that had in the past been a part of economic policy but which were fundamentally a result of efforts at legitimation. Elements like the distinction between productive and speculative investment were basically the result of democratic pressure on the state to make capitalism develop in such a way as to provide material advancement for the bulk of society. Thus it can be seen that 'Rogernomics' has the elitist character that Offe predicts will be the necessary complement to the accumulation strategy of recommodification.

The next chapter will examine the degree of caucus agreement with Douglas' positions after 1981. It will be shown that caucus opinion was internally contradictory with regard to economic policy and that Douglas' positions were therefore both agreed with and disagreed with. The most potent source of disagreement came from the wide caucus adherence to liberal corporatism and a legitimation strategy based on broad social participation in the formulation and implementation of the economic policies of a future Labour government.

CHAPTER THREE

Introduction

The purpose of this chapter is to trace certain debates in the Labour caucus in the period between the 1981 and 1984 elections so as to assess the degree of convergence between Douglas' positions, examined in the preceding chapter, and those of other figures in the caucus. Three debates will be covered. The first will be the debate over electoral strategy in the wake of the 1981 disaster. It will be argued that the majority opinion on the causes of the defeat, and the remedies for the next election, coincided with Douglas' own. This lent considerable force to his argument that economic policies based on the restraint or deferral of social policy goals were no longer electorally unviable.

The second debate to be covered will reveal the support in the caucus for an economic policy that included a considerable opening of the protected domestic economy to foreign competition. This support for 'restructuring' was widespread and included some members, notably Rowling and Hercus, who would later become firm opponents of Douglas in the formulation of economic policy for the 1984 election.

The third debate concerns what is known in political theory as corporatism, though this term never seems to have been used in the caucus. Instead it was known by the label 'consensus' but included all the hallmarks of liberal corporatism as outlined in the first chapter. Its proponents envisaged a consensual agreement between capital and labour, both represented by their peak bodies, and government, which would allow the implementation of a negotiated and agreed economic policy. This 'social contract' or 'accord', both terms in use at the time to describe the policy, would be both a means of implementing a desirable economic policy and a positive end in itself for, so it was said, it would express and encourage a sense of national unity, of common purpose, and would therefore facilitate harmony between employers, employees, and all sections of the society at large. The policies of a future Labour government, including its economic policies, would thus acquire popular legitimacy because they would be formulated and implemented with the participation and prior consent of the peak bodies (of capital and labour) that were deemed to represent the major divisions of the nation. In this context corporatism was a legitimisation strategy based on democratic participation. This is in severe contrast to the elitism inherent in Douglas' approach as was shown in the preceding chapter.

Three major conclusions follow from the examination of the three debates. The first is that Douglas was not quite a prophet in the wilderness even prior to Rowling's replacement by Lange as Leader of the party. In fact there was considerable support in the caucus for ideas similar to Douglas' on electoral strategy and for an economic policy based on the opening of the protected domestic economy to international market forces. Secondly, it is shown that the alternative programme to 'Rogernomics', referred to here as corporatism, had inherent weaknesses that undermined it despite its great attraction to many in the caucus. Thirdly, it is pointed out that the policy of restructuring contradicted support for corporatism.

This contradiction between corporatism and restructuring would eventually force those members of the Labour caucus who were interested in economic policy to choose between one or the other. Those who chose to continue to support restructuring would naturally tend toward the approach represented by Douglas for the policy of restructuring would require an elitist means of implementation. Those who chose corporatism would need a new economic policy distinct from restructuring.

Eventually this necessity of choosing would lead to the formation of distinct pro and anti Douglas factions, but this is the subject of the next chapter. Here it is only important to note that until late 1983 there were no such explicit factions in the caucus at least not factions formed around issues of a purely economic policy nature. There were divisions on economic policy but it will be argued that these were conflicts within an overriding consensus on economic policy. This is contrary to the general impression that the period between the 1981 and 1984 elections was one of conflict between Labour Party traditionalists and Labour Party innovators in the field of economic policy.

In fact, until late 1983 the policy of restructuring dominated economic policy debates almost to the exclusion of all other alternatives. Until the split into factions the dominant tendency in the caucus represented an attempt to adhere simultaneously both to tradition, represented by corporatism, and to innovation, represented by restructuring. Traditionalists and innovators only fought each other later after it had been realised that a commitment to restructuring could not coexist with a commitment to broadly based, consensual, or democratic modes of economic policy formulation and implementation.

The New Electoral Strategy

Prior to the 1981 election Douglas had criticised the party manifesto on two grounds: first, that it made extravagant promises of higher social spending at a time when this could only be counter-productive in terms of economic growth, and second, that the electorate had grown

tired of the unkept promises of political parties and would no longer accord them credibility when it came to voting. According to Douglas the way to win was now to promise little for public opinion would respect such honesty. As was pointed out in the preceding chapter this is a new kind of legitimisation strategy for the Labour Party, one predicated on economic retrenchment rather than continuous expansion and constituting one element in an overall elitist insulation of policy making from democratic pressures.

Douglas' charges seem to have been taken quite seriously in the upper echelons of the Labour Party prior to the 1981 election. One of Douglas' papers on the youth vote was sent to the Strategy Committee. A rebuttal by Ian Grant also appeared in the committee.¹ Grant acknowledged that the policy making process seemed to have gotten out of control with election promises proliferating at an alarming rate. He referred to the committee having already made recommendations which aimed 'at refining the committee's priorities and involving policy spokesmen [sic] in narrowing the policy debate and dovetailing it with the essential, primary economic objectives.' From this paper and from Douglas' Manurewa resignation speech it is apparent that the Strategy Committee was contemplating distributing the manifesto with a disclaimer to the effect that many policies would have to be postponed until rates of economic growth had been restored.

After the loss of the election there were widespread criticisms of the election policy and of the organisation of the campaign. Most of these were similar to the criticisms Douglas had been making prior to the election. A caucus subcommittee reported on electorate reaction to Labour Party policy and stated that the focus on unemployment had reinforced the public impression of the Labour Party as 'soft on the undeserving'.² It was stated that social welfare policies appeared to have won few votes. The Director of Publicity for the election, Simon Walker, held that there had been too much policy produced and that this had given the impression that Labour would promise anything to anybody in order to get into power.³ Even before the election it had been apparent how easily Labour could be damaged by spurious 'costings' of its policies.⁴

1. Ian Grant. Untitled comment on Douglas' paper 'Election strategy and the Youth Vote', 7/5/81, Box 113, File 'Labour Party Policy Development, 1981.'

2. Caucus Subcommittee. 'Report on electorate reaction to Labour Party election policy', 2/2/82, Box 129, File 'Caucus Documents 1983.'

3. Simon Walker. 'Report on 1981 campaign publicity', 1982, Box 129, File 'Caucus Documents 1983.'

4. Geoffrey Palmer. Text of speech delivered in Christchurch, 28/10/81, Box 107, File 'Correspondence, Members of Parliament, misc. 1982.'

The debate over remedies for the next election was closely connected to, and almost subsumed by, the controversy over the leadership of the party. The New Zealand Council report on the election defeat contented itself with merely calling for better internal discipline in future to combat negative public images of the party.⁵ Others went further and attributed the party's lack of public credibility and/or its internal disorganisation to Rowling's leadership. A report on election publicity by an ad hoc caucus subcommittee heavily implied that Rowling was substantially to blame for the defeat.⁶

The decision by the Strategy Committee to make Rowling the corner-stone of the Labour Party's campaign strategy seems to have been based more on internal politics than a cool professional analysis of the polls and election strategy. Labour actually based its campaign on what was, according to the polls, our weakest argument.

Others, such as Douglas and Bassett, wrote their own 'strategic plans' from the point of view that a new leader was the major prerequisite for future electoral success.⁷

But behind the overt leadership struggle a new strategy for fighting the next election was gaining support. Douglas was by no means its only promoter. In early 1982 he distributed to the caucus an analysis of the election defeat by James Holt,⁸ at that time a close advisor of Douglas and Associate Professor of History at Auckland University. Holt's argument was identical to that of Douglas before the election and he may actually have been its originator. In Holt's paper the election policy was held to have been internally contradictory; at the same time stressing the dire economic situation of the country and making expensive promises to attract support. The fact that the promises seemingly did not attract votes 'damned them doubly'. The first priority, Holt wrote, ought to be economic policy. Social welfare objectives should be postponed until economic growth began to produce the increased national wealth that was a prerequisite for redistribution.

5. New Zealand Council of the Labour Party. Untitled report on election defeat, 2/1982, Box 110, File 'Labour Party misc. files 1982.'

6. Caucus Subcommittee on Election Publicity. Untitled report, 1982, Box 129, File 'Caucus Documents 1983.'

7. Michael Bassett. 'Plan for Labour Victory 1982-84', 1982, Box 119, File 'Labour Party Economic Strategy misc. papers 1982.'
Douglas. 'NZLP Strategic Plan 1982-84', 1/1982, Box 119, File 'Labour Party Economic Strategy misc. papers 1982.'

8. Jim Holt. 'The 1981 election and the future for Labour', 1982, Box 119, File 'Labour Party Economic Strategy misc. papers 1982.'

In February 1982 Mike Moore presented his own analysis to the caucus.⁹ He stated that he saw his own proposals as 'dovetailing' with those of Douglas. According to Moore the first necessity was to shake off the, partially justified, public perception of Labour as a party that sought to 'reward the lazy and defend bludgers'. In terms of electoral strategy the best course would be to make economic restructuring the first priority and postpone welfare concerns.

In November 1982 John Henderson, of the Opposition Research Unit, produced a paper, 'Strategy for a General Election in 1984 or before'.¹⁰ This was a strategic plan for the party based on the deliberations of the Strategy Committee in 1982. The major problems were identified as the public perception of weak leadership, party disunity, and a lack of economic credibility. The first priority was to deal with the leadership question. The second was to prepare policies which did not promise too much and which by their lack of specific promises conveyed the party's independence from 'the major pressure groups'. The party ought to prepare a practicable economic growth strategy and this should become the framework for the entire policy making process. 'The 1981 process should be reversed: economic policy should be agreed upon first and policies in other areas forced to fit within that framework.'

The new electoral strategy was supported also by another argument whereby it was held that the cause of repeated defeats for the Labour Party had been its basic similarity to the National Party. The new strategy was put forward as the salvation of the Labour Party, as the means through which it could acquire a programme and appeal distinguishable from that of its opponents. As Moore put it:

We will only take centre stage with courageous policy action. We should apologise to no one that there is nothing for Welfare, if we were Government our first budget was to redirect investment and to disinvest ourselves from unprofitable traditional industries. That's our challenge and our most dangerous move, but it will also return to us the most because of its audacity.¹¹

From this position, it was claimed, the Labour Party could define issues in its own way, fight on issues of its own making, and no longer simply react ineptly to the initiatives of its enemies.

This new electoral strategy must have been an attractive idea for many in the Labour caucus, probably more so than the alternative proposal. A competing proposal for renovating the party revolved around the idea of breaking the formal affiliation links of trade unions to the

9. Moore. Untitled report to caucus, 3/2/82, Box 113, File 'Proposals R.O. Douglas - Alternative Budget, tax reform etc. 1980-82.'

10. Henderson. 11/1982, Box 129, File 'Strategy 1983.'

11. Moore. Untitled report to caucus, 3/2/82.

Labour Party. There was a resurgence of probably the oldest Labour strategy, that of attempting to move away from the party's identification with the working class in order to project a more truly 'national' image. The formal links with the trade union movement are the last relic left by what has been described as a shift from an 'exclusive address', that is, an orientation to one class only, to an 'inclusive address' on the part of the party.¹² It has become, to put it another way, a 'catch-all party'.

In February 1982 Frank O'Flynn submitted his own plan for the next election.¹³ There was an edge of panic in his warning that the Labour Party might disintegrate if defeated again and that Social Credit might be able to take its place in a two party system. His concrete proposals were the dissolution of formal ties with the unions and the organisation of a temporary electoral pact with the Social Credit Political League.

The notion that Labour could progress by breaking its ties with the trade union movement became a major issue at the 1982 party conference when the idea was taken up by Rowling. It was an unsuccessful tactic as such a move absolutely required the approval of the party conference and this was not forthcoming. The conference ended with the affiliation system very much intact. The issue of an inclusive or exclusive address was dealt with by the adoption of a New Zealand Council resolution repudiating the idea of class struggle as either necessary or desirable.¹⁴

With the accession of Lange to the leadership in early 1983 it was the first of the strategies, that associated with Douglas and Moore, which set the future pattern for the Labour Party. From the first there was a close connection between Lange's style as Leader and the new electoral strategy. The theme of constraint, of 'belt-tightening' became a constant theme in his speeches. James¹⁵ has pointed out that this discourse of suffering has a moral character suited to Lange's religious personality but it is just as importantly an aspect of a practical political strategy for winning elections in a period of popular disillusionment with the political process.

12. R.M.Oliver. 'Ideology, the Slump, and the New Zealand Labour Party: a study in the ideology of the NZLP in the 1930s', unpublished M.A. thesis, 1981, pp. 129-132.

13. O'Flynn. Memo distributed to the caucus, 2/2/82, Box 113, File 'Proposals R.O.Douglas - Alternative Budget, tax reform etc. 1980-82.'

14. New Zealand Labour Party. Report of the Sixty Seventh Annual Conference, 1982, pp. 22-25.

15. James. The Quiet Revolution, p.160.

However, the connection between 'Rogernomics' and the Lange leadership went deeper than the rhetoric employed. As well as providing an electoral strategy 'Rogernomics' solved a key organisational problem that had bedevilled the party's previous leader and its 1981 election campaign. In 1981 all areas of policy had achieved roughly equal status, i.e., there was no generally accepted and enforced hierarchy of priorities in policy making. This led to a number of different policy agendas competing for position in the overall policy and this led in turn to horrendous problems in the dissemination of policy. The following quotation illustrates this and is taken from the report of the ad hoc caucus subcommittee which enquired into the Labour Party's publicity effort for the 1981 election. The subcommittee was convened by Richard Prebble.

MPs, spokesmen [sic] and the like whose job it was to vet the proposed contents of pamphlets showed total irresponsibility in delaying the productions, in some cases for as long as three months.

In most cases the delay was the result of the intention of the MP to either alter by a backdoor method decisions made by the Publicity Committee, or to sabotage a decision of the Publicity Committee.¹⁶

Under Lange the new electoral strategy provided a 'centre' for the policy-making process; a pre-eminent economic policy to which all other policies would be subordinate. A strict hierarchy of policy priorities had been established and the chaos of 1981 could now in theory be avoided.

This new approach needed some enforcing and this appears to have led to a higher profile for the Caucus Economic Committee in overseeing the policy making process in general. The Caucus Economic Committee's coordinator, Peter Neilson, later requested that all other policy committees have their policy costings checked by an official attached to the Committee.¹⁷ In 1984 Geoff Swier's checking of social policy costings gave Douglas the material with which to intervene and argue against proposals that he felt were contrary to the deficit reducing aim of the economic policy.¹⁸ Douglas' recollection now is that the prior and over-riding status of economic policy was generally accepted in caucus during the policy making process for the 1984 election.¹⁹ This can be seen as an aspect of the elitist character

16. Caucus Subcommittee on Election Publicity. Untitled report, 1982, Box 129, File 'Caucus Documents 1983.'

17. Neilson. Memo to the caucus, 1982, Box 107, File 'Correspondence, Members of Parliament, misc. 1982.'

18. Douglas. Untitled paper on costing of policy, investment strategy, sale of government assets, 1984, Box 132, File 'Caucus Economic Committee 1984.'

19. Interview with Roger Douglas, 28/1/87.

of Douglas' positions in as much as it involved the replacement of a relatively open (and chaotic) system of competition between different policy agendas with an imposed framework establishing the unalterable primacy of one area of party policy.

The Support for Restructuring

The proposal to restructure the New Zealand economy through a greater opening to market forces gained wide acceptance in the caucus even among those who were not particularly in sympathy with Roger Douglas. Some of the most interventionist proposals were in fact offered as a means to guide or assist market-led restructuring. This is certainly the case with Rowling's economic policy proposals of 1982, his last year as Leader and as finance spokesperson.

Rowling proposed a programme of state investment for industrial development purposes in very much the same terms as did Douglas in 1982.

we are a small, relatively isolated economy, with specific but limited resources, with major structural problems, and with a much greater need than most to deliberately define those areas where we have competitive advantages and concentrate our capital and skills where they count.²⁰

Rowling proposed a 'strategy that will clearly identify the economic winners in our midst and give them the backing they need.'²¹ This backing was to be delivered in the form of cheap credit through the Development Finance Corporation and the Reserve Bank. The criteria for lending in support of particular projects were to be: employment creation, the contribution to export earnings, and the contribution to economic growth. There was to be an emphasis on supporting small to medium sized enterprises.

This approach was coupled with heavy criticism of the existing approach to economic management. Again like Douglas, Rowling criticised export incentives and supplementary minimum prices for distorting market signals to producers and undermining New Zealand's competitive position in the world market: 'if non-market related subsidies are to be the New Zealand government's solution to farm profitability, then we are set on a course that will see us out-priced, out-marketed and out-produced on the international market.'²²

20. Rowling. Text of speech to Wellington Chamber of Commerce, 1/9/82, Box 114, File 'Speeches, W. Rowling 1982.'

21. Rowling. Text of speech to Canterbury Chamber of Commerce, 30/10/82, Box 114, File 'Speeches, W. Rowling 1982.'

22. Rowling. 'The future of SMPs', text of speech at Lincoln College, 16/2/82, Box 114, File 'Speeches W. Rowling 1984.'

Rowling saw the careful removal of protectionist barriers as the key to economic restructuring. In this area the negotiations on closer economic relations with Australia were seen as a crucial initiative. The Labour caucus came to support the agreement thus giving it the bipartisan support that, as Swier says, was probably necessary for it to proceed.²³ Rowling's speeches and press statements of the time reveal an enthusiasm for closer economic relations and an anxiety lest it be undermined by inept implementation.

The greatest danger that I see right now, given the present lack of any coherent redevelopment strategy, given the widespread fear and uncertainty amongst both manufacturers and unions, given the complete incompatibility between CER and 'think big', is that not only will the opportunities be lost, but that some sectors of the New Zealand economy could be swamped.

There will be very strong pressures on the Government of the day to renegotiate or pull out. And that will in turn rebound very seriously on future attempts to make the New Zealand economy more effective, more responsive, and more outward looking.²⁴

It is in this context that his proposals for a state investment strategy should be understood. It was obvious that closer economic relations would lead to considerable change in the New Zealand economy as industries rendered unviable in the new environment shrank or closed down altogether. It was clear that there would be considerable job losses as a result and possibly a crisis of business confidence.

The extent to which the period would be followed by one of expansion in 'sunrise' industries was, according to Rowling, dependent upon state action in support of these new industries: 'you cannot, whatever the theorists may say, achieve a flow from sunset to sunrise industries through the simple mechanism of the market.'²⁵ He therefore proposed a system of compensation payments to effected businesses and workers, incentives to 're-deploy' and adjust, assistance in retraining, and assistance in market development.

There was a series of briefings held by government officials to inform Labour caucus members on the negotiations regarding closer economic relations with Australia. In these the issue of the connection between closer economic relations and a more general economic restructuring seems to have been somewhat veiled. In one such briefing, held in March 1982, Mike Moore asked about the connection and was told by the then Secretary of the Treasury Bernard Galvin that the officials had no brief to discuss the matter.²⁶

23. Interview with Geoff Swier, 20/1/87.

24. Rowling. Text of speech to Wellington Chamber of Commerce, 1/9/82.

25. *Ibid.*

26. Caucus. Minutes of briefing on C.E.R., 19/3/82, Box 125, File 'CER 1982.'

However it is apparent that Labour opposition members had already made the connection and approved of it. In April 1981 Ann Hercus and Geoffrey Palmer had returned from trips to Australia and had prepared reports for the party Leader and the Policy Council on their discussions with Australian officials on closer economic relations. Palmer stated:

Whether the prospects for economic growth for New Zealand can be achieved by free trade with Australia cannot really be proved.

In the end it becomes a question of faith as to whether New Zealand should in the words of one Australian official 'jump off the cliff with Australia'.

The CER is seen by Australia as an opportunity for New Zealand to break with the stagnation cycle. The New Zealand Treasury apparently shares that view.²⁷

Palmer approved of this approach arguing that: 'There is an historic inevitability about closer relations and it would be unfortunate if the matter became a political issue in either country.' Ann Hercus was even more forthright.

I believe that CER is seen very clearly by both sets of officials as a means of committing and speeding up 'restructuring' processes in both countries. Officials seemed to be admitting that an established CER regime would lock all industries into a 'restructuring' timetable which was outside the normal internal political system, and this they approved of.²⁸

It is clear from other sources that she approved of this restructuring approach as well. In a speech to the Woollen Mill Workers annual conference in February 1982 she claimed that the National government was making restructuring 'a dirty word' and that this was unfortunate. 'Let me make myself quite clear. In my view, the National Government was not incorrect in making the textile industry the subject of study and a candidate for more rapid structural change. But it has blundered in almost every step after that - and that is the tragedy.'²⁹

David Caygill's was another voice for restructuring and for state involvement in the process. In a paper to the Caucus Economic Committee policy seminar in February 1983 Caygill argued for closing down industries that were unviable in a freer trade environment and stimulating investment in other more profitable areas.³⁰ Later he expressed this in the form of a proposal to reform the Industries Development Commission.

27. Geoffrey Palmer, Untitled report to party leader and policy council, 4/1981, Box 125, File 'CER 1982.'

28. Ann Hercus. Untitled report to leader and policy council, 4/1981, Box 125, File 'CER 1982.'

29. Ann Hercus. Press statement on restructuring in the textile industry, 16/2/82, Box 107, File 'Press releases, Opposition 1981-82.'

30. Caygill. 'Disinvestment Policy: How to give dead industries a decent burial', 2/1983, Box 118, File 'Caucus Economic Committee 1983.'

The Commission will be required to come up with alternatives for industries that need to rebuild. It will be required to work with both management and unions. Labour will ensure that in future industry plans include:

- (a) Alternative employment opportunities;
- (b) Re-training programmes required;
- (c) Redundancy provisions required;
- (d) Investment measures required to promote new industry.³¹

Mike Moore attempted to link this caucus enthusiasm for trade liberalisation and restructuring to a formulation of socialist principle. He argued that trade protection, though it had once been a progressive policy and an important impetus to industrialisation and employment growth, was progressive no longer. Instead it had become a stimulus to monopoly control of the enclosed domestic market, and thus an encouragement to cost-plus pricing leading to high domestic prices. This imposed higher than necessary costs on other sectors of the economy from consumers to other producers who had to pay higher prices for inputs to production.³² Therefore to continue supporting a highly protected domestic market was to side with big business against the interests of the people as a whole. As for those who would lose their jobs with the removal of protection Moore claimed that protection only defended comparatively few jobs while slowing employment growth in other areas. Free trade, to some greater or lesser extent, would introduce competition into the domestic market and lead to a reduction both in consumer prices and in the costs of production in 'sunrise' industries.

He applied the argument to transnational capital as well. 'Overseas companies come into New Zealand, safely assured of a home market and when threatened, form a popular front with the union and in unholy alliance seek political protection.'³³ This line of reasoning was extended to make of free trade a means by which the people could strike a blow not only at high domestic prices but at the power of transnational companies as well. According to Moore agreements like CER could become the initial step in building up the multi-lateral intergovernmental forums that would be necessary to regulate the activities of transnational capital. Free trade, according to Moore, was part of a socialist political agenda.

Moore's major anxiety about CER was that inept implementation might reinforce the power of big business.

31. Caygill. 'Draft Policy for Trade and Industry', 7/1983, Box 129, File 'Policy Papers 1983.'

32. Moore. Untitled paper on C.E.R., 5/1982, Box 129, File 'Caucus Documents 1983.'

33. Moore. Untitled position paper on C.E.R., 1983, Box 125, File 'CER 1982.'

Closer Economic Relations with Australia should be good for New Zealand if handled correctly, if handled badly, it could be worse than foot and mouth in damage to our economy.

If we are not careful, the big monopolies and the multinationals could take advantage of New Zealand's weakened economic position by transfer pricing and marketing.³⁴

Like many in the caucus, and like Douglas at the time, Moore believed strongly in the necessity for economic restructuring but did not believe that the mechanism of the market would alone be enough to secure a socially desirable outcome to the process.

It can therefore be established that one of the central features of what would later be called 'Rogernomics', i.e., the restructuring of the New Zealand economy by means of trade liberalisation, was widely supported within the Labour caucus after 1981. It was supported by members, like Rowling and Hercus, who had little confidence in Douglas and it was supported by members on both sides of the Rowling/Lange leadership struggle. There was not a struggle between traditionalists and innovators over economic policy nor was there one between older members and a younger generation. As will be shown in the next chapter considerable conflict over economic policy was to break out by late 1983, and as the next section on corporatism will show forces were at work to bring about this conflict, but nevertheless one of the major reasons for Douglas' eventual success must have been this wide caucus support for the idea of trade liberalisation and restructuring. This was the overall framework within which debates on economic policy took place. The fact that there were debates, such as the one on exchange rate policy discussed below, does not alter the fact that there was an overriding consensus amongst those in the caucus who were involved in thinking about economic policy and formulating economic policy proposals. Examination of the debate over exchange rate policy also leads to the conclusion that there was no struggle between 'old guard' and innovators in the caucus until late 1983 and that Douglas was not outside of the caucus mainstream on economic policy issues.

An issue connected to restructuring was that of the party's attitude toward devaluation as a policy. The question of devaluation was a vexed one in the Labour caucus after 1981. Douglas had supported a large devaluation since at least 1980 but this was not the majority preference in caucus. Devaluation was disliked because of the effect on the inflation rate and impact on the cost of living of constituents. A popular alternative was the proposal for a foreign exchange surcharge. The idea made its first public appearance during the 1981 election

34. Moore. Press statement on C.E.R., 4/5/82, Box 107, File 'Press Releases 1981-82.'

campaign. Essentially the proposal was for a tax on imports which would encourage local firms into further import substituting production and thus ease the foreign exchange constraint on domestic economic growth.³⁵

The foreign exchange surcharge was developed into a central policy and was described by Rowling in August 1982 as 'a cornerstone of Labour's tax, industrial development, and external strategies.'³⁶ As well as being an alternative to devaluation it became, in the field of taxation, an alternative to another of Douglas' proposals, that for a massive shift toward indirect taxation. Many Labour caucus members disliked this idea because of the further regressivity introduced into the system as a result. The preference amongst those opposed to Douglas on this matter would seem to have been for personal income tax cuts for those on low incomes. The extra government revenue to accrue from the foreign exchange surcharge came to be seen as the means of funding these tax cuts.

Rowling was the major advocate of the foreign exchange surcharge yet as time went on he became equivocal as to whether it was an alternative to devaluation or an interim measure prior to eventual devaluation. Whereas in January 1982 he saw the balance of payments problem as solvable either by devaluation, or a 'crash programme of import substitution', or by a foreign exchange surcharge,³⁷ by August he seemed to regard the surcharge as an interim measure. 'In the medium term, the only answer to the entrenched structural problem which lies at the heart of our external difficulties is an appropriately valued exchange rate. In the interim, the Foreign Exchange Surcharge represents an ideal solution to our foreign problems.'³⁸

Therefore even before the end of Rowling's leadership doubts were growing about the surcharge policy and Douglas' position on devaluation was within the generally accepted spectrum of policy options. With the end of Rowling's leadership the idea of the surcharge disappeared altogether. Douglas had never liked the idea probably because it was oriented toward import substitution rather than export development. Another reason for its loss of support may have been the fact that caucus representatives at a C.E.R. briefing in March 1983 were informed by officials that a foreign exchange surcharge would be inadmissible under the

35. Caygill. Press statement, 12/2/82, Box 107, File 'Press Releases, Opposition 1981-82.'

36. Rowling and J. McCarthy. 'An Economic Overview', 8/1982, Box 114, File 'Speeches W. Rowling 1982.'

37. Rowling. Press Statement, 11/1/82, Box 107, File 'Press Releases, Opposition 1981-82.'

38. Rowling and J. McCarthy. 'An Economic Overview', 8/1982, Box 114, File 'Speeches W. Rowling 1982.'

agreement.³⁹ The demise of the surcharge idea lent further support to Douglas' version of restructuring predicated on devaluation and also reinforced his argument for a shift to indirect taxation.

The Support for Corporatism

Mike Moore was also a leading proponent of the corporatist tendency in caucus. The term corporatism is justified because what Moore and others proposed under the rubric of a prices and incomes policy was in fact a very broad social contract based on a tripartite consensus ranging over all major areas of government policy. The prices and incomes policy was to be 'part of a programme that seeks to contain inflation at minimal cost in terms of output and employment.'⁴⁰ It was to be an alternative to the programme of the National government which allegedly aimed to cut the rate of inflation by constraining credit, freezing wages, thus cutting demand and leading deliberately to cuts in living standards, more bankruptcies, and higher unemployment.

The prices and incomes policy came to be seen by Moore as the basis of an economic strategy for a future Labour government.

There will be little room to manoeuvre. The Labour Government may feel that it needs to seek restraint from the major social partners if it is to hold inflation and reduce unemployment, while it tries to put growth into the economy.⁴¹

However, Moore recognised that a negotiated agreement with unions and employers could not be limited simply to the establishment of wage growth guidelines and agreements on price restraint but that 'any form of incomes policy must be seen as part of a total economic and industrial package.'⁴² It was this total package that needed tripartite consent if a Labour government was to be successful in the narrower field of wage and price restraint.

If a Labour Government sought such a consensus policy, many things would need to be included in matters for negotiation: maintenance of living standards of wage and salary earners, low pay targets, investment policies and use of resources, industrial planning, wealth redistribution, consumer protection, use of subsidies, control of interest rates, industrial relations legislation, industrial democracy, annual holiday improvements, improved social services, house building programme, and pre-Budget consultations.⁴³

39. Caucus. Minutes of C.E.R. briefing, 17/3/83, Box 125, File 'CER 1982.'

40. Moore. Untitled report of the Caucus Committee on Wages and Prices, 2/1983, Box 118, File 'Tatum Park 1983.'

41. *ibid.*

42. *ibid.*

43. Moore. Untitled paper on incomes policy, 7/1983, Box 129, File 'Policy Papers 1983.'

This desire for a broadly based consensus on social and economic policy manifested itself also in the proposal for a summit conference of sector groups to be held prior to the 1984 election. The Economic Summit Conference of September 1984 was the eventual, much belated, result of this corporatist impulse.

The Summit: We should organise a 'Camp David' type situation where for a weekend the cream of New Zealand's business, union, social and moral leadership come and go to advise the Labour leadership on what must be done to rebuild our Nation. We want more than this; we want to know what they are prepared to do for our country; we seek their advice and knowledge, and to bask in their reflected glory.⁴⁴

Once elected to power, Moore proposed, the future Labour government's tripartite consensus should be implemented through the devolution of governmental power to a 'New Zealand Economic and Industrial Council' thus 'enabling the major social partners to participate in the formulation and implementation of effective economic policy.'⁴⁵ The Council would have had wide functions in the establishment of a prices and incomes policy, in investment policy, in pursuing an active labour market policy, and in overseeing redistribution via the social wage of the benefits of renewed economic growth.

Bill Jeffries, in 1983 the chairperson of the caucus committee on Labour, Transport, and Housing, was another advocate of the corporatist approach. Like Moore, he saw a negotiated incomes policy as the basis for Labour's alternative to the National government's policies.

Labour's economic programme has the dual aim of restoring economic growth and simultaneously reducing inflation and unemployment. The policies intrinsic to such a programme will be in marked contrast to the Conservative policies exemplified by the Thatcher, Reagan, Fraser and Muldoon regimes.

The name given to the lynch-pin policy for the economic programme of simultaneously attacking unemployment and inflation, is an incomes policy.⁴⁶

However, and again like Moore, what Jeffries proposed was not simply a narrowly focused agreement for slower wage growth. The immediate object of the policy was the establishment of agreed wage growth norms but this necessarily was to be 'in the context of common perceptions of the macro-economic situation.' This common perception was to be established through a process of consensus building.

44. Moore. Untitled paper distributed to caucus, 1/1982, Box 129, File 'Caucus Documents 1983.'

45. Moore. Untitled report of the Caucus Committee on Wages and Prices, 2/1983.

46. Jeffries. Untitled paper on incomes policy, 7/1983, Box 129, File 'Policy Papers 1983.'

Consensus ... is the recognition of legitimate factors of power in the geo-political life of a nation which are capable of honest brokering, negotiation, and harmonisation.

The representative institutions of the working people of New Zealand are not acknowledged for what they are and what they could be.⁴⁷

A new era of corporatism was to be inaugurated by recognising a right of trade unions to share power with governments.

Within the Caucus Economic Committee the social contract idea was advocated most strongly by Peter Neilson and Ann Hercus. For the Caucus Economic Committee policy seminar in February 1983 Neilson wrote a paper titled 'Labour's Economic Priorities: The First Hundred Days'.⁴⁸ His proposal for a social contract was unusual in that it did not envisage an incomes policy having the primary purpose of controlling inflation. He believed that a voluntary and negotiated agreement with the trade union movement could not in any case work to this end as unionists could not enter into any agreement that did not promise fairly immediate gains for their members. Neilson criticised the 'stop inflation first' philosophy and argued that inflation was not much of a problem so long as it was predictable and anticipated. He advocated extensive indexing of incomes to the rate of inflation.

For Neilson, the social contract was not a means to lower inflation but a way of ensuring that renewed economic growth under a Labour government led to higher levels of employment and not just higher wages for those already employed. 'Any consensus should include support for the view that any increase in the community's wealth should be used to employ those currently unemployed rather than to increase the wage rates of those already employed'.⁴⁹ Like Moore and Jeffries, Neilson held that an incomes policy could not be based on a narrow field of negotiation but required a broad agreement on economic and social policies.⁵⁰

Ann Hercus' ideas on the subject were, in contrast to Nielson, very much concerned with restraining inflation and this was seen as involving 'sacrifice' in living standards. 'Where the policy requires sacrifice in the incomes of any sector of the community, the level of that sacrifice, and the specific purpose of that sacrifice will be spelled out and discussed with the

47. *ibid.*

48. Neilson. 'Labour's Economic Priorities: The First Hundred Days, 2/1983, Box 118, File 'Caucus Economic Committee 1983.'

49. Neilson. Untitled section from draft employment policy, 1983, Box 129 File 'Policy Papers 1983'.

50 Neilson. 'Labour's Economic Priorities: The first hundred days, 2/1983.

sector concerned.' Despite this preoccupation Hercus still proposed a wide ranging consensual agreement with the trade union movement. 'The policy will involve wide discussions on economic and social policy - for example, priorities for public expenditure, taxation reform, investment programmes.' She proposed also that a 'conference of sector and interest groups' be called immediately upon Labour winning power. The conference would establish a Price Justification Tribunal and agree on new wage fixing guidelines.⁵¹

The corporatist tendency was central to caucus debates after 1981. It further gained credibility from the successful example of the Australian Federal Labor government and its 'Accord' with the Australian Council of Trade Unions. It is possible to speculate that had the corporatist model retained its dominance New Zealand might well have seen a fourth Labour government so concerned to preserve consensus and national unity that its economic policies were constrained by this need to maintain agreement. Whether for better or worse a more limited economic reform at a slower pace would have been the likely outcome. This was not to be for the corporatist approach, while continuing to exercise a powerful attraction, lost credibility as serious questions were raised concerning its political practicability. The eventual beneficiary of this corporatist decline was the economic policy programme being formulated by Douglas and his advisors Swier and Andrew.

The corporatist approach was subject to attack by those who considered it politically unfeasible. Within the Caucus Economic Committee Stan Rodger was an outspoken opponent. The Caucus Economic Committee policy seminar in February 1983 heard a paper by Rodger which considered the notion of a social contract.⁵² Though otherwise sympathetic to the idea of democratised control of the economy he made four major points against the corporatist proposal. One, the decentralised structure of the trade union movement in New Zealand, and the consequent weakness of the peak body, the Federation of Labour, precluded effective enforcement of agreements entered into at the peak level. Second, any agreement on wage restraint would rapidly collapse in the face of conflicts over traditional relativities and differentials in pay rates between occupations. Third, workers could not be compensated for wage restraint by means of 'social wage' transfers via the tax and welfare systems because unionists' experience of wage/tax tradeoff proposals under the National government had left them highly suspicious of such notions. Fourth, Rodger held that any power sharing agreement between the government and the Federation of Labour would be massively unpopular with the

51. Hercus. 'Draft Prices and Incomes Policy', 11/1983, Box 132, File 'Economic Material 1983.'

52. Stan Rodger. 'Labour's Social Contract: What are the components?', 2/1983, Box 118, File 'Caucus Economic Committee 1983.'

voting public. He concluded: 'Having regard to the difficulty in arriving at such an agreement and the perils associated with its likely long-term survival, I have come to the conclusion that such a formal agreement between the Labour Party and the Trade Union Movement is not worth pursuing.'

At the policy seminar there was considerable debate over this paper with Colin Moyle most strongly arguing in favour of retaining the social contract idea. Moyle's point was that in a society as small as New Zealand it ought to be possible to create a national consensus around an economic programme for survival in the international environment. But his was the losing side. 'The Committee was happy to give away the social contract concept and decided to narrow the ambition to a tripartite agreement which focuses on broadly defined parameters for wage fixing and government fiscal policies.' The committee thus abandoned the notion of allowing a broadening of the range of participants in government economic and social policies. Stan Rodger's paper was sent to the Policy Council as the Caucus Economic Committee's recommendation on party policy.⁵³

However the corporatist tendency was by no means dead from this point on. At a weekend caucus retreat in March 1983, Moore presented a paper on incomes policy for the consideration of the caucus as a whole. Moore was chairman of the Caucus Committee on Wages and Prices which had been considering the issue. The caucus agreed to continue work on an incomes policy despite the reservations of certain senior caucus members.⁵⁴

Though the activity continued it is evident that even the proponents of the social contract idea had doubts about its political viability in practice. Jeffries described the whole area as 'a political minefield' and under the preconditions for its success numbered 'centralised union and employer organisations capable of negotiating and delivering.'⁵⁵ These clearly did not exist.

A solution to the problem of compliance with centrally negotiated agreements on wage growth can be found in the writings of Moore on the subject.

The union movement is diverse and decentralised and only 45% of the workforce is unionised. Decisionmaking is decentralised, and it would be difficult for central bodies to keep their constituents in line, without strong coercive pressures and policing of non-compliance.

⁵³ Caucus Economic Committee. Minutes of policy seminar held 8-9/2/83, Box 118, File 'Caucus Economic Committee 1983.'

⁵⁴ Jeffries. Untitled paper on incomes policy, 7/1983.

⁵⁵ Ibid.

Because it is difficult to keep constituent parts in line with centrally determined prescriptions, central bodies need to support coercive pressures.⁵⁶

The political difficulties associated with weak central organisations of labour and capital would be overcome by the use of the power of the state to compel individual unions and businesses to comply with agreements entered into by their nominal national leaderships. 'Consensus' was to apply to peak bodies but not to their constituent organisations whose compliance could be compelled if necessary. Clearly the potential for conflict under such a regime was enormous. The difference from 'Muldoonism' was also less than obvious. The idea aroused little enthusiasm it would seem.

The Contradiction of Corporatism and Restructuring

The debate over economic policy in the period was dominated by these two ideas; restructuring and corporatism. As has been shown, some in the caucus adhered to both simultaneously regarding restructuring as an important part of the desirable economic policy and corporatism as the desirable means of putting the policy into effect. They thought that restructuring should be implemented by consensus and in that way could acquire democratic legitimacy as the will of the whole nation. For some this was the only way it could be implemented; these people believed that the policy of restructuring would be so costly in social terms as to be impossible to implement without a broad social consensus in support of the policy.

Michael Bassett was one who, as early as 1979, had adopted the notion of 'consensus' as the necessary concomitant for restructuring. On economic policy and restructuring he wrote:

The real failure has been the lack of awareness of the problem in the community at large, and the lack of willingness to co-operate to bring about a solution. And this all relates back to a deplorable lack of community spirit, and the decline in neighbourliness that are such obvious features of our society.

There is a sacrifice to be made: it must be a shared one. New Zealanders may well rediscover in themselves that sense of belonging to a community in the process.⁵⁷

However, despite this perceived (for some) complementarity between restructuring and corporatism it is not hard to see that the two ideas were in fact contradictory. The fragility of tripartite agreements, especially those based on voluntary and revocable adherence, was

56. Moore. Untitled paper on incomes policy, 7/1983.

57. Michael Bassett. Getting Together Again, 1979, pp. 9 and 11.

realised and became a powerful argument against corporatism. The construction of an 'accord' in support of restructuring would have been impossible. The trade union movement remained, and remains, suspicious of the idea that opening the domestic economy to competition from foreign imports will have long term benefits. Even if the union leaderships had been converted to the idea it is doubtful that their memberships, who would have to face the disruption and suffering of restructuring, would have entertained for long the idea that they should restrain their demands for higher incomes.

'Rogernomics' required no corporatist 'accord' as the centrepiece of its programme. As has already been shown in the preceding chapter Douglas was suspicious of broad 'popular' participation in economic policy formation and corporatism would have allowed into the economic policy arena exactly those interests that he was most concerned to exclude. At the centre of 'Rogernomics' was the policy instrument of devaluation which unlike a negotiated incomes policy could be employed by a government without prior agreement, without consensus, or constraint. It was a programme that could be implemented by an elite of civil servants and Ministers standing at a remove from the pressures of social interests as represented by such organisations as trade unions. Such elitism was far more appropriate as a means of implementing a reorganisation of production that would incur high social costs.

Conclusion

This chapter has given an account of several factors that aided the rise of 'Rogernomics' in the Labour caucus. The first of these was the new electoral strategy associated initially with Douglas. It was shown that the new electoral strategy was widely accepted in the caucus after the 1981 election. It was accepted that a deep cynicism and disillusionment with political parties had set in amongst the electorate at large and that the traditional promises of political parties, like full employment, material security, welfare provision etc, were no longer taken seriously by the electorate at election time. Such promises were in fact counter-productive; they served only to discredit the party making them. This interpretation of the 1981 defeat assisted Douglas' intention to narrow the range of influences on economic policy.

It is likely that Douglas' economic arguments in favour of his policies would not have been sufficient without this political argument to back them up. As is indicated by Offe's theory, in order to be accepted as a viable alternative an accumulation strategy needs not only to be (at least arguably) technically adequate to the task of maintaining a capitalist economy but must also be capable of legitimisation in a formally democratic political system. All accumulation

strategies need accompanying legitimisation strategies. The wide acceptance of this electoral strategy within the caucus after the 1981 defeat lent credibility to Douglas and his kind of economic policy.

Similarly, the wide commitment to restructuring in the caucus must be seen as a major factor supporting the eventual dominance of 'Rogernomics' in the fourth Labour government. Restructuring was so much part of the caucus mainstream that it is impossible to see Douglas as lying outside the majority tendency in economic policy even before the end of Rowling's leadership of the party. Douglas definitely was outside the corporatist stream of opinion which was very strong in the caucus. The inherent weaknesses of liberal corporatism have been outlined and it is concluded that these also strengthened Douglas' chances of eventual dominance. Finally it was pointed out that corporatism and restructuring are highly contradictory policies despite the fact that they were supported in the caucus often by the same people. These people eventually faced a choice between corporatism and restructuring and it is this choice, and the consequent formation of antagonistic factions, that forms the subject of the next chapter.

In theoretical terms the debates covered in this chapter can be regarded as confirmation of the contradiction of capitalism and democracy given current economic circumstances. It has been shown that there was, in the Labour caucus, a widespread desire to make economic policy subject to wide participation by the organisations of labour and capital. However the idea went into decline when it was realised that such corporatist arrangements would contradict the aim of reorganising production so as to restore the growth of the capitalist economy. Proposals for corporatism were undermined by the realisation that the weakness of the peak bodies of labour and capital in New Zealand precluded the construction of an elitist form of corporatism that could have implemented an economic programme of restructuring. Only if the peak bodies had been strong, and able to both operate without the consent of their members and enforce the compliance of their members with decisions reached at the elite level, could corporatist arrangements have functioned to formulate and implement an accumulation strategy involving high social costs. Thus the rise of 'Rogernomics' in the Labour Party can be explained by observing that only Douglas' proposals were of a sufficiently elitist character to be compatible with the restructuring of the system of capitalist production that even the advocates of liberal corporatism believed necessary.

By the end of 1983 the Douglas/Swier/Andrew 'Economic Policy Package' had been accepted by the Caucus Economic Committee and sent on to the Policy Council. Three members of the Caucus Economic Committee maintained overt opposition to 'Rogernomics'.

Bill Rowling and Ann Hercus were later involved in the attempt to put up another alternative in economic policy for the consideration of the Policy Council. This will be traced in detail in the next chapter. Stan Rodger made a strong protest against 'Rogernomics' in a memo to Caucus Economic Committee members in February 1984.

I have now read the draft economic policy that was handed to us just prior to the last meeting of the Committee on Thursday 9 February 1984.

I am appalled at the content of the document. While I have recognised that I have, since joining the Caucus, been slightly to the left of the mainstream economic opinion, that has not until now caused me any embarrassment or concern.

However, the draft document represents what I regard as a quite unacceptable leap to the right. I predict that Party opinion will generally be hostile to the contents of the document. If comprehended by the electorate I feel the measures would be unacceptable to the electorate and would probably lead to our defeat at the next General Election. However, if they were implemented, I consider that their impact on the domestic political scene would be such as to lead to the defeat of the Labour Government.⁵⁸

His substantive objections were that devaluation would lead to massive rises in the cost of living and raise inflation to 'Third Labour Government proportions', that the export orientation of the policy would probably not lead to export development, and that the 'blind faith' in the market evident in the document would not necessarily lead to economic growth.

58. Rodger. Memo to members of the Caucus Economic Committee and G. Palmer, Bob Tizard, D. Butcher, D. Andrew, 14/2/84, Box 121, File 'Economic Policy 1983.'

CHAPTER FOUR

Introduction

So far this account of economic policy making in the Labour Party has proceeded without uncovering firm factions or irreconcilable differences of opinion. It was shown in the preceding chapter that there was an underlying incompatibility between the ideas of corporatism and restructuring but that they were nevertheless adhered to often by the same group of people. The dichotomy of restructuring and corporatism does not appear to have been a point of division around which antagonisms formed. The Labour caucus had its differences of opinion but there was not the battle between traditionalists and innovators that is now commonly assumed to have taken place.

This chapter deals with the transition to a very different situation, one in which the debate was extremely polarised and in which factions formed around antagonistic positions. Two sets of documents are of central importance: Douglas' 'Economic Policy Package' (two versions of which were prepared) and what became known as the Harris/Rowling/Hercus papers. The emergence of factionalism can most obviously be seen in the fact that such documents no longer represent merely the personal positions of their authors but have become expressive of the positions of groups in the Policy Council.

It will be argued that this emergence of factions is the result of the process described in the preceding chapter. There it was argued that the tension between corporatism and restructuring had to be resolved through the abandonment of one or other element. This would leave two distinct political and economic programmes. One would be based on restructuring and elitism which, as has been shown in previous chapters, is the general form of 'Rogernomics'. The other would retain corporatism and would have to attempt the formulation of some economic programme distinct from Douglasite restructuring. This chapter examines this latter process in the formation of an anti-Douglas grouping which retained and further elaborated the idea of corporatism while moving away from restructuring. For some members of the group, notably Hercus and Rowling, this implied an abandonment of a previous commitment to market-led restructuring.

The remaining advocates of corporatism replaced restructuring with a programme based on state-led development without high social costs. They were influential enough to cause considerable difficulties for the ratification of the economic policies of the party leadership in the party's Policy Council prior to the 1984 election.

This body, composed of representatives of the caucus and of the extra-parliamentary party, has, at least formally, the final say on what becomes official policy at the election. As such it became a virtual court of appeal against Douglas' 'Economic Policy Package'. A detailed discussion of the Policy Council is included below. It is argued that the institutional form of the Policy Council both allows the expression of severe differences of opinion and makes their consensual resolution imperative in the interests of party unity. It is also argued that the policy of the parliamentary leadership and relevant policy spokesperson is likely to carry the most weight in the Policy Council. In any serious clash with the parliamentary party the Policy Council's power is therefore more of a constitutional nicety than a practical reality. This helps explain why the conflict over economic policy in 1984 ended with a vague compromise document seemingly written substantially on Douglas' terms.

The Policy Council

In the Labour Party there are two schools of thought on who should have ultimate power to set the party's policy. Activists in the party organisation often tend to the view that the party conference represents the party as a whole and is therefore the rightful authority on matters of policy. The argument is often made that the conference should have the right to direct the parliamentary party on policy matters. The constitution of the party actually declares the conference to be the 'supreme governing body' of the entire party so some official sanction for the view can be found there.

Others, either in the caucus or sympathetic to it, can come up with a range of arguments against this position. It can be argued that the delegates to the party conference do not in fact represent the party's membership¹ as most of these latter see the parliamentary party as their representatives and for this or other reasons are fairly apathetic when it comes to attending branch meetings and electing officers. Another argument is that the Labour-voting public is not synonymous with the party membership and that it is the interests and demands of the former that the parliamentary party ought to represent. Therefore there can be a legitimate divergence between the policies of the conference and the policies adopted by the caucus. A more fundamental argument is that parliamentarians must represent some overall public interest, that the resolutions of the party conference are beside this general interest narrow and sectional, and that the policy of the parliamentary party has therefore a rightful autonomy from that declared by the conference.²

1. Richard Northey. 'The Annual Conferences of the New Zealand Labour Party', unpublished M.A. thesis, 1973, p. 67.

2. Austin Mitchell. Government by Party, 1966, p. 50.

In reality it is hard to see how the conference could ever gain control of the policymaking process. It has often been pointed out that with the decline of the mass party form, and with the rise of alternative avenues of communication between the government and the people (the media and pressure groups), the political party apparatus is now far less important for the electoral chances of the parliamentary candidates.³ Given the high public profile of the parliamentary party, and their ready access to the means of communication with the electorate, the party's policy in the public mind is likely to be whatever the representatives of the caucus say it is. The party organisation is in any case unlikely to try and saddle parliamentary spokespeople with policies they cannot agree with, and if it tried the likelihood of being ignored would surely be high. Of course once in government it is the parliamentary party that wins executive power and can do what it likes within the limits of law and accepted procedure.

It is therefore unlikely that the party conference has been more than a junior partner in the formation of policy and at some times it has not even had this status though it would seem that the extra-parliamentary party gains in influence when the party is out of government.⁴ It has been argued that the conference was supreme prior to 1935 but this is debatable. Mitchell⁵ argues that it was but Northey⁶ takes issue with this and argues that stage-managing of the conference by the party executive was already well developed by this date.

But to approach the question in this way, in terms of the power possessed by the caucus to advance its own preference where it is vigorously opposed, is an inadequate way to look at it since matters would only rarely reach such a state of polarisation. Instead of examining the question of policymaking in terms of power it is usually more appropriate to look at it in terms of the possession of influence and it is significant that the influence of the extra-parliamentary party has varied widely over the history of the party. It seems that when the conference, or its elected officers, has cared to demand a role in policymaking, it has been allowed some influence. The parliamentary party is not concerned to exclude the rest of the party from all influence, indeed it may encourage it as a means of promoting involvement in the

3. Barry Gustafson. Social Change and Party Reorganisation: The New Zealand Labour Party since 1945, 1976, pp. 17-18.

Northey. 'Conferences of the Labour Party', p. 65.

4. Milne. Political Parties in New Zealand, 1969, p. 243.

5. Mitchell. Government by Party, p.51.

6. Northey. 'Conferences of the Labour Party', p. 31.

party and the bringing forward of good policy ideas, even though in the event of a serious clash the parliamentary party retains the final say simply by virtue of the nature of the parliamentary system which gives real power to parliamentarians and not their party organisations.

For much of its history the control of the party's policy by the caucus went unchallenged. During the first Labour government, the Cabinet insisted that policymaking was its prerogative and this was accepted by the conference.⁷ Conference loyalty to the leadership was strong enough to even be used to strengthen the hand of the Cabinet in disputes with caucus backbenchers. In 1938 a Policy Committee was set up with equal representation from the caucus and party executive. This, however, only met prior to an election; the rest of the time the caucus alone decided the party's response to particular issues. Conference resolutions, as to this day, had only the status of recommendations to the committee. In 1961 the Policy Committee was made into a standing committee but, as the National Executive itself declared, its role was consultative only as 'the MPs elected by the people cannot be subjected to any extra-parliamentary fetter.'⁸

In fact the extra-parliamentary organisation of the party would not have presented a threat to caucus control of policy in any case as the two bodies were by now significantly composed of the same people. The party organisation was no longer run by a group separate from the caucus and this was an outcome of the party's somewhat turbulent history to that time. The history of the Labour Party in government is marked by successive crises which led to considerable membership losses; over the expulsion of Lee in 1940, in reaction to post-war austerity from 1945, as a result of the introduction of peacetime conscription in 1949, and in reaction to the second Labour government's 'black budget' of 1958. The first three of these episodes were followed by periods of membership recovery but the losses of the late 1950s and early 1960s were not followed by the recovery of Labour's formerly strong manual working class membership.⁹ From this time, through the 1960s and into the next decade, party branch membership remained comparatively small.¹⁰ The activist core was tiny for much of this time and there were few left besides the MPs to run the party. It became established practice for the party president to come from the ranks of caucus, MPs ran the party central organisation and its conferences.¹¹

7. Milne. Political Parties in N.Z., p.223.

8. National Executive of the N.Z.L.P. Report, quoted in Gustafson. Social Change and Party Reorganisation, p.46.

9. Gustafson. Social Change and Party Reorganisation, p.20.

10. *ibid.* p.22.

11. *ibid.* p.14.

The only other potential power centre in the party besides the caucus were the trade unions who, despite many disaffiliations from the party over the years, remained a powerful force. These however were not interested, at that time, in a particularly active role in the party. Though in 1965 they could still cast 57% of the total votes at the conference, participation remained a low priority for most.¹² The party was a secondary field for unionists at a time of general prosperity when they could further their interests by more direct means. They maintained a passive and largely defensive presence in the party, made no attempt to involve their members as party members, and voted for the status quo especially on constitutional matters.¹³

In this they were defending what Gustafson calls the traditional conception of the Labour Party as the party of the industrial working class.¹⁴ This led them to oppose attempts at reform to make the party more organisationally appropriate to its new form as a labour party without a mass working class membership. Such attempts at reform first came to the fore in the mid-1960s and their eventual success was contemporary with an influx of new middle class and educated members.¹⁵ These two developments were to disrupt the homogeneity of the Labour Party elites. From this time women's, youth, and university branches were more likely to be represented at conferences than other branches.¹⁶ In relation to their size university branches originated far more remits to conferences with Auckland's Princes Street Branch being the most prolific of the lot.¹⁷ During the 1960s the reports of the Maori, Farmers', and Youth sections to the conference became more substantial and generated substantial discussion.¹⁸ It is also since this time that issues like apartheid, abortion, and homosexuality have gained prominence in conference discussions.¹⁹ The active party membership was becoming less likely to accept without discussion the policy decisions of the parliamentary leadership.²⁰

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- 12. Douglas Webber. 'Trade Unions, the Labour Party, and the Death of Working Class Politics in New Zealand', unpublished M.A. thesis, 1976, p. 24.
 - 13. David Strachan. 'Organisational Change in the New Zealand Labour Party 1974-1981', unpublished M.A. thesis, 1982, p.12.
 - 14. Gustafson. Social Change and Party Reorganisation, p.25.
 - 15. Strachan. 'Organisational Change', p.1.
 - 16. Northey. 'Conferences of the Labour Party', p.18.
 - 17. Gustafson. Social Change and Party Reorganisation, p.18.
 - 18. Northey. 'Conferences of the Labour Party', p.33.
 - 19. *ibid.* p.35.
 - 20. *ibid.* p.241.

Eventually two factors operated to make this new assertiveness into a force to be reckoned with in the party. These were the constitutional reforms approved by the 1974 conference and the post-1975 revival of branch level membership and activity.

With the constitutional reform the party acquired a regional structure so that the limited resources and personnel of the party could be coordinated on a larger basis than the branch or electorate.²¹ This was a major shift away from the traditional conception of the party for the central executive had in the past been suspicious of any regional organisation emerging between it and the local Labour Representation Committees. A previous attempt at establishing Divisional Councils was ended by the executive in 1951 when it was felt that they were becoming too powerful.²²

A very significant element of the 1974 constitutional reform was the institution of a Policy Council to replace the old Policy Committee. The Policy Council was to consist of the party President, equal numbers of representatives of the Parliamentary Labour Party and the Conference, plus one representative each of the Maori, Women's, and Youth divisions.²³ The institution of direct conference elections to the policymaking body weakened the previous homogeneity of those responsible for policymaking. The addition of the president and sectional representatives gave the extra-parliamentary side of the party a formal majority over the caucus representatives. The potential was thus created for much greater conflict over policy and there are indications that the early Policy Council was in fact riven by disputes between its parliamentary and non-parliamentary members.²⁴

The 1974 conference also approved a weighting of conference representation in favour of the branches. Previously there had been a single scale for representation giving a branch or affiliated union one vote for up to 200 members, 2 for 201 to 500, 3 for 501 to 1000, 4 for 1000 to 1500, and thereafter one additional vote for each 500 additional members. The constitutional reform left this scale intact for affiliated bodies but introduced a new scale for branches. Branches would henceforth acquire one vote for up to 75 members, 2 for 76 to 125, and three for over 125 members.²⁵ Any future increase in branch membership would therefore lead to a rapid growth in branch voting strength vis-a-vis trade unions at conference.

21. Gustafson. Social Change and Party Reorganisation, p.44.

22. Milne. Political Parties in N.Z., p.199.

23. New Zealand Labour Party. Constitution and Rules, 1975.

24. Strachan. Organisational Change in the N.Z.L.P., p.84.

25. New Zealand Labour Party. Constitution and Rules, 1970.
New Zealand Labour Party. Constitution and Rules, 1975.

The years after the 1975 election defeat saw a determined effort made to increase Labour's membership which resulted in a dramatic revival of branch level activity.²⁶ This, in addition to the constitutional reforms, led to a decline in the strength of affiliated trade unions in the organisation which had acted as a conservative force in the party. By 1978 the forces of reform were strong enough to begin removing Members of Parliament from their position of dominance on the party executive. At the 1978 conference Jim Anderton and Helen Clark (neither at that time Members of Parliament) were elected to the executive and at the conference the following year Anderton beat Joe Walding for the presidency.²⁷ His election has been described as the party's declaration of independence from its parliamentary wing.²⁸ Among Members of Parliament Anderton was supported only by Michael Bassett and Roger Douglas.²⁹

Where once a single and unified group dominated both the parliamentary and extra-parliamentary organisations of the party there now exists a situation where the dominant group on each side is largely composed of different people. This fact, plus the creation of the Policy Council and the direct conference elections to it, has greatly increased the potential for overt conflict over policy. This potential is further increased by the more active interest that trade unionists have taken in the party over recent years. This factor is discussed in more detail in the next section.

Therefore the Policy Council, by virtue of the relatively disparate groups it brings together, encourages conflict over policy. But it is also necessary that it become a forum for the conciliation of such disputes. It is imperative that party unity be maintained to avoid prolonged or public conflict over policy that may paralyse the organisation, fragment its efforts, or damage its public image. It has therefore become a bargaining forum where compromises are worked out between conflicting forces. There is, in consequence a reluctance in the council to settle disputes by straight majoritarian means; votes have been held on some issues but they are unusual³⁰ and the preferred course is to find some formula on which unanimity can be pronounced.

26. Strachan. Organisational Change in the N.Z.L.P., p.4.

27. *ibid* pp. 6-7.

28. Colin James. National Business Review, special supplement, 26/11/84, p.53.

29. Strachan. Organisational Change in the N.Z.L.P., p.113.

30. Interview with Margaret Wilson, 10/1/87

The Harris/Rowling/Hercus Papers

At its December 1983 meeting the Policy Council endorsed Douglas' 'Economic Policy Package' 'in principle' but this was far from the end of the matter and was followed by a strong desire among some members of the council to find alternative proposals. This was not restricted to people who were necessarily against Douglas' proposals; Geoffrey Palmer, for example, seems to have been concerned that the council actually choose between alternatives rather than accepting the first comprehensive proposal placed before it.³¹

Already a group had formed to provide an alternative and had produced a paper on investment policy for the December meeting.³² The central figure in this effort was Peter Harris, an economist with the Public Service Association. Harris gives the original composition of this group as definitely including Fran Wilde, Helen Clark, and Rob Campbell.³³ None of these individuals were at the time members of the Policy Council and so an effort was made to involve council members and thus secure a means of access for the group's proposals. Eventually at least three Policy Council members were closely involved. These were Jim Anderton, Margaret Wilson, and Ann Hercus. Bill Rowling was also approached and became involved.³⁴ The two papers produced for submission to the Policy Council (one in December 1983 and one late in February 1984) were variously referred to as the 'Harris papers', the 'Harris/Hercus papers', or the 'Harris/Rowling/Hercus papers'.

The actual writing of the proposals involved fewer people. Anderton says he is sure Rowling never wrote any of it and that Hercus probably did not either.³⁵ Harris describes the papers as being 'cobbled together' with various people writing different pieces. The only individual he mentioned specifically was Rob Campbell for writing material on prices and incomes policy.³⁶

Looking beyond the individuals involved, the proposals can be seen as representing broad currents of opinion in the trade union movement and Labour Party. They clearly bear a close relationship to trade union thinking on economic policy matters and to trade union political action vis-a-vis the Labour Party. They can be seen historically as a continuation of the established pattern of relationship between the Labour Party and trade unions.

31. *ibid.*

32. Policy Council. Minutes of meeting held 4-6/11/1983, Box 131, File 'New Zealand Economy, Restructuring 1983.'

33. Interview with Peter Harris, 15/9/86.

34. *ibid.*

35. Interview with Jim Anderton, 6/11/86.

36. Interview with Peter Harris, 15/9/86.

This relationship has varied considerably over time. Unions have found numerous reasons for leaving, or remaining aloof from, the Labour Party yet on other occasions have sought a close connection with their 'political wing'. Instances of disaffiliation have been more frequent during periods of Labour government. The 'black budget' episode of the second Labour government is particularly notable in this respect but the tenures of the third and fourth Labour governments have also produced considerable trade union disaffection. More generally, the entire post-war period saw a long decline in union involvement in the Labour Party caused more by a loss of interest rather than a deliberate policy of exclusion.³⁷ It would seem that the union movement came to conceive of itself more as an interest group within the existing society than as part of a social movement out to change the society either fundamentally or superficially. It therefore tended to try to maintain a working relationship with the government regardless of which party was in power³⁸ and so did not wish to maintain exclusive links with either major party. The 1951 waterfront dispute was the occasion for a move away from the Labour Party on the part of the Federation of Labour and led to the construction of cordial relations with the National government of the time.³⁹ Unions maintained a watching brief in the Labour Party and adopted an essentially passive role.

However there have been periodic shifts in this stance when the union movement has mobilised extensively in support of the Labour Party. This has occurred where Labour was in opposition and the union movement felt itself threatened by a hostile National administration. The end of the long period of post-war prosperity and full employment brought a shift in this direction. The breakdown of arbitration in the late 1960s led unions to give all possible support to Labour in the 1972 election.⁴⁰ Prior to the 1984 election the union movement, threatened by voluntary unionism and talk on the part of the government of American style collective bargaining and plant unionism, gave unprecedented support to Labour's campaign.⁴¹ This seems to be a recurring pattern throughout the history of the Labour movement in New Zealand. Earlier examples are provided by the recourse to 'politics' after the failure of the general strike of 1913 and the later reconciliation of the militant Alliance of Labour to the arbitration system and the Labour Party after the onset of depression had created high levels of unemployment and weakened the bargaining power of militant unions.⁴²

37. Webber. 'Trade Unions and the Labour Party', p.61.

38. *ibid.* p.49.

39. *ibid.* p.137.

40. *ibid.* p.142.

41. James. *N.B.R.*, special supplement, 26/11/84, p.53.

42. Brown. *The Rise of New Zealand Labour*, 1962, pp.18 and 52.

In 1984 this move to support was accompanied by a desire to influence the Labour Party on the formulation of economic policy. The Federation of Labour and the Combined State Unions had prior to this recognised a need to formulate an alternative to the restructuring moves of the National government.⁴³ The previous few years had seen a number of industries restructured by means of the removal of import protection on the basis of industry reports prepared by the Industries Development Commission. The Closer Economic Relations agreement with Australia was also cause for alarm in the trade unions especially those in the manufacturing sector. It was generally accepted that some form of economic change was necessary to deal with a situation of severe economic decline but the method of restructuring was viewed with great scepticism.

It was realised that opposition to restructuring could not be effective if it was based solely on its negative results for one section of society, i.e., union members. What was needed was a comprehensive alternative economic programme which could be argued for as in the common interests of the entire society. What this was to mean in practical policy terms was a hard question to answer and official Federation of Labour pronouncements tended to skirt around the serious issues involved.

One proposal that did not was Alf Kirk and Rob Campbell's After the Freeze.⁴⁴ Here it was argued that the Federation of Labour had responded to the situation in a conservative and defensive manner. It had resorted to merely 'holding the line' on wages, i.e., restricted itself to defending the sectional interests of workers rather than producing an alternative economic programme for the society as a whole. Implicit in Campbell and Kirk's argument was the belief that the union movement could not hope to defeat the policies of the National government unless it could present a comprehensive alternative economic programme that could attract support from broader sections of society.

According to Campbell and Kirk the situation required a radical rethinking of trade union strategies. They argued that the economic situation was such that no government could allow anything more than minor wage adjustments and they argued that the union movement would have to recognise and accept this fact.

One of the lines of our argument is that the underlying economic and political conditions have now changed so much that a change in the wage bargaining system may now be necessary to safeguard the basic democratic rights of workers. If economic conditions

43. Federation of Labour. Annual Report, 1983, pp.132-136.

44. After the Freeze: New Zealand Unions in the Economy, 1983.

are such that government influence on the level and form of wage settlements is inevitable, then that fact may need to be formally recognised in order to prevent further erosion of the bargaining power of workers. If we have moved into an era in which economic management requires community or social control over major economic variables, then trade union organisation itself may have to adapt in order to work effectively in the new situation.⁴⁵

The government was said to be in the position of having to fight for a degree of control over wage levels. This it would obtain by means of a negotiated settlement if one was possible, and by legal coercion if one was not. The government would prefer a negotiated settlement because ultimately it would find that mandatory controls on wage growth would be relatively ineffective. Therefore unions were in quite a strong position to demand concessions in return for accepting central determination of wages. Campbell and Kirk outlined two prerequisites for union cooperation.

The first of these was virtually a planned economy. If wages were to be regulated for the general good then so should all forms of income including returns to investment. Further, the uses to which profits were put should be open to central influence. 'If unions are to take into account the profits and investment of the company when they sit across the bargaining table, then it is clear that unions will need to have some influence on the investment flowing from the profit.'⁴⁶ This capacity to influence investment was necessary so that union officials and their rank and file memberships could be sure that sacrifices made on the wage front would lead to real economic growth and higher employment and wage growth in the future.

The institutional means of such regulation were the second necessary prerequisite. The demand here was for a corporatist arrangement within which unions would be given a degree of influence over government decisions and also over business decisions on investment and resource use. Tripartite negotiations would have to be held which dealt with wider issues than mere wage determination. Campbell and Kirk recognised two obstacles to this. Firstly, that the existing National party administration would not implement such a scheme. Secondly, there were the traditional powers of capital: 'For employers to accept some influence from workers about the direction of investment, they have to give up some of their "management prerogatives", their sole right to make decisions.'⁴⁷

45. *ibid.* p.52.

46. *ibid.* p.79.

47. *ibid.* p.79.

Therefore the alternative formulated by Campbell and Kirk to restructuring was a combination of corporatism and socialism, that is, a system of administration that integrated trade unions into government processes and involved a real erosion of the power of capitalists.

It is also what might be described as a hegemonic project. The concept of hegemony refers to the way in which particular groups in society (either capital or labour in Marxist theory but the principle can be applied to all political movements) elaborate their own interests as synonymous with the interests of society as a whole. Thus it can be argued that the interests of capitalists, in higher profits and the freedom to use them as they like, are synonymous with the common interests of society because through profit making and reinvestment employment is created for workers and the government's tax base is extended thus making possible extensions to the welfare system. Conversely the opposite can also be argued. It can be argued that workers have an intrinsic common interest in gaining greater control over the business administration and investment decisions that so effect their lives. It may further be argued that this working class interest is in fact synonymous with the general interest of society as a whole because capitalism has arguably failed in recent years to perform the administration of the economy in a way that enhances the life of the society. Therefore the general societal interest is best served by finding a new way to administer investment characterised by state planning and the intervention of the people to ensure that such planning is oriented toward the attainment of 'fair' social objectives. In Campbell and Kirk's schema this intervention of the people was to be via the involvement of the trade union movement in the processes of government economic policy formulation and implementation.

This 'universalising' of the interests of a particular class requires a complex strategy. A bloc of social forces, wider in composition than the aspiring hegemonic class, must be enlisted in support. This will typically require compromises on the part of the aspiring hegemonic group. For example, capitalists may need to compromise in order to retain their political and ideological leadership of the nation. They may have to accept trade unions with an officially sanctioned right to bargain, they may have to accept the welfare state. These are compromises on distributional issues which have the effect of preserving the dominance of capitalism over the society as a whole.

Campbell and Kirk applied this logic to construct a putative working class hegemony. They proposed that the union movement accept sacrifices on distributional matters, i.e., wages, in return for the right and opportunity to gain some control at the level of investment decisions and the organisation of the productive process.

Campbell and Kirk recognised the impossibility of concluding such an agreement with the existing government and so the obvious thing for trade unionists interested in some corporatist and planned alternative to restructuring was to form links with those members of the Labour caucus who were also interested in the notion. The group described above were essentially the outcome of this convergence and the Harris/Rowling/Hercus papers were very similar to the pattern of After the Freeze.

The first Harris/Rowling/Hercus paper was concerned with outlining a public investment programme and, as Hercus put it in a covering letter to members of the Policy Council, developed an 'argument for adopting a most purposeful investment programme as the centrepiece of Labour's economic policy...' This was to be done 'by building the investment projects up into a full programme, capable of meeting defined job targets in each region and industry.'⁴⁸ The capital base for such a programme was to be raised by levying an additional and specific tax on the population.

This first attempt at producing an alternative to 'Rogernomics' was attacked heavily for not constituting an economic policy. At best, its critics claimed, it was a part of one.⁴⁹ Therefore a second and broader version was written. This came out in favour of a Keynesian use of monetary and fiscal policy as an instrument to expand the economy. Inflation, it argued, was not the central problem and monetary policy therefore ought not to be used to control inflation at the expense of economic growth objectives. The paper advocated planned export development; a simple devaluation, it was argued, would not work. Import protection was viewed favourably especially for infant industries and industries that created jobs even if they would not be competitive internationally. Price control was promoted as the answer to those critics who saw import protection as the cause of monopoly ownership and monopoly pricing.⁵⁰

Therefore those who supported this approach had abandoned the central predicate of restructuring; namely, that economic development required restraint, or sacrifice, in the interests of restored economic growth and eventual social improvements. The only remaining hint of this perspective was the belief that economic development could not be financed by state borrowing but would require the levying of an additional tax on the populace.

48. Hercus. Note to Policy Council as covering letter with first version of the Harris/Rowling/Hercus paper, 24/11/83, Box 132, File 'Policy Council Papers 1984.'

49. Interview with Peter Harris, 15/9/86.

50. Harris et al. 'A Programme for Economic Recovery', 2/1984, Box 121, File 'Economic Policy 1983.'

The role of private capital was to be ancillary to that of the state. 'The role of private firms within the industry and regional plans would be explicitly recognised. However they would fit in with the needs of the community rather than the community adjusting its own patterns of tax, government spending, wage rates, power prices and so on to fit in with the needs of private enterprise.'⁵¹

The papers reflected considerable, though mainly implicit, disillusionment with the capacity of a capitalist system to produce economic growth. As Hercus put it: 'we can't afford to wait in hope for someone else to do something with our resources that may be of benefit to us as well.'⁵² Later on the paper stated: 'We have gone beyond the stage of waiting and hoping for better things internationally and of waiting and hoping for other private interests to do something in their interests that will coincidentally be in our interests.'⁵³

The likely prognosis for capitalism in New Zealand, according to this point of view, was one of a system surviving only by continuing to impose greater social costs on the nation. The paper pointed to the current situation of high unemployment and low investment and claimed that 'insofar as firms are investing, they are investing in labour displacing technologies rather than in an effort to increase their output capacities.'⁵⁴ The 'more market' solution was attacked for attributing economic problems to import protection and state regulation 'on a slim factual base.' The paper implied that the problem was in reality the capitalist system itself which now required even greater state intervention if it was to produce any further benefits for the nation as a whole.

The Harris/Rowling/Hercus proposals needed, in the context of the time, to distinguish themselves from the Think Big programme. This had also involved a public sector investment programme as a central component of the National government's economic programme. The Harris/Rowling/Hercus proposals tried to avoid being tarred with this brush by proposing a system of decentralised decision making for the investment programme.

The centre is too distant from the knowledge of the potential and limitations of different regions and industries. It is too vulnerable to risks of making bad decisions (picking losers). The more broadly based the participation, the higher the community and local input, the less is the chance that any one particular idea will prove to be a project that brings down the whole programme.⁵⁵

51. *ibid.* p.27.

52. Hercus. Note to Policy Council, 24/11/83.

53. Harris et al. 'A programme for economic recovery', 2/1984, p.21.

54. *ibid.* p.1.

55. *ibid.* p.25.

Corporatism was here elaborated fully as a means of explicitly democratising the determination of state policies.

The deal that it was proposed to offer the electorate was the same as that of After the Freeze. In return for their financial input (in terms of paying higher taxes to fund the development programme) they would acquire the right to influence and participate in economic policy implementation and thus ensure that it proceeded in accord with their social interests, primarily employment creation. Central government would provide the funding and expert advice. 'The investment strategy requires a blend between funding and coordination from the centre and participation and involvement from a wider community base.'⁵⁶

Reconciling the Differences in the Policy Council

The clash in the Policy Council between the proponents of Douglas' 'Economic Policy Package' and those of the Harris/Rowling/Hercus papers led to a deadlock over economic policy. Eventually the economic policy was the last outstanding to be settled and the situation became urgent as an early election was anticipated.⁵⁷ Knowledge of the difficulties in the Policy Council leaked out and became a topic of discussion in the media and wider party circles. This was embarrassing and potentially damaging to the party's election chances. The deadlock was eventually broken by a compromise proposal put up by Geoffrey Palmer which, due to the urgency of external pressures and the sufficiently vague provisions of the document, was able to receive the approval of the Policy Council as a whole and be released as part of the Policy Document for the election.⁵⁸

An alternative explanation for the production of the Palmer document is that given by Douglas. He argues that since the 'Economic Policy Package' was of necessity an internal party document all Palmer did was to produce a counterpart document that was suitable for public release.⁵⁹ This ignores the evidence of considerable conflict within the Policy Council which came to an end with unanimous acceptance of Palmer's compromise. It also fails to explain why the content of the eventual Policy Document takes the form of an implicit compromise between the 'Economic Policy Package' and the Harris/Rowling/Hercus papers. Therefore the approach taken here is to see Palmer's intervention as a means of resolving difficulties internal to the Policy Council and, by extension, internal to the Labour Party itself.

56. *ibid.*

57. Interview with Margaret Wilson, 10/1/87.

58. Interviews with Peter Harris, Margaret Wilson.

59. Interview with Roger Douglas, 20/1/87.

It will be argued here that the result of Palmer's efforts was to write the economic policy for the election in a manner congenial to Douglas. It is therefore concluded that this episode represents an example of the traditional dominance of the parliamentary party in policy making. One possible objection to this argument is that other sections of the Policy Document, on other areas of policy, were seemingly not written to accord with the logic of Douglas' economic policy. An example is the regional development policy which envisaged an enormous structure of state funding and coordination to counterbalance the economic growth of the cities. However this does not alter the fact of the dominance of the parliamentary leadership for, as was argued in Chapter Two, a new conception of the policy making process had taken hold in the party after 1981. Economic policy was, by 1984, seen as of paramount importance over other areas of policy. Economic policy was regarded as the framework within which other policies should fit. This meant that control of economic policy was the key to controlling the actions of the next Labour government.

Already by the time the 'Economic Policy Package' reached the Policy Council there had been changes made. These had been made by the Caucus Economic Committee to the original Douglas/Andrew/Swier⁶⁰ version and were significant in terms of the way in which the policy was presented. The original version was in the form of a series of 'policy steps' which were set out in the chronological order in which they were to be implemented. The first was a devaluation of the currency. The inflationary flow-on effects of a major devaluation were then identified as the key problem which, if not dealt with by other policies, could render the exchange rate policy 'counter-productive'. Therefore a series of further policy steps were set out with the aim of solving the problem. These measures were: a prices and incomes policy oriented toward securing wage restraint, a tight monetary policy, a lower government deficit and lower levels of trade protection. The result was an economic policy in which devaluation played a pre-eminent role and in which other policy elements were defined primarily in relation to the exchange rate policy.

The Caucus Economic Committee reordered the policy steps for the version sent to the Policy Council. The most significant change here was the relegation of devaluation to fourth place and the promotion of prices and incomes policy, which had been fourth, to first place. Whether intentionally or not, this change had the effect of obscuring the pre-eminence of

60. Douglas et al. 'Economic Policy Package'(1st version), 1983, Box 121, File 'Economic Policy 1983.'
 Douglas et al. 'Economic Policy Package'(2nd version), 11/1983, Box 121, File 'Economic Policy 1983.'

devaluation in the Douglas economic programme. The various policy steps now appeared as equally significant elements of the programme. This was not an unimportant change as it allowed devaluation to be removed from the programme without the entire document becoming meaningless. If, as subsequently did happen, the Policy Council were to declare devaluation to be unacceptable as Labour Party policy, it would have been hard to argue that the rest of Douglas' proposals remained relevant if it had been the original version that was submitted to the Policy Council.

A policy of devaluation was clearly going to be unacceptable and Douglas then proceeded to remove it from his proposed policy. By mid-February 1984 he had decided to remove it from the proposed policy then before the Policy Council⁶¹ and a draft dating from early March is the first version to contain no specific mention of exchange rate policy.⁶²

Superficially it might seem that the final Policy Document⁶³ was very much contrary to Douglas' proposals. This is because the document is full of references to a corporatist style of decision making in economic policy. There were a myriad promises to consult, discuss, or negotiate key areas of policy with 'the community'. In Palmer's early drafts consultation with unions and employers in more typically corporatist style was used in place of consultation with 'the community'. Investment policy too was very prominent and significantly there was a promise of tripartite participation in the formulation of a public investment programme. Therefore some major features of the Policy Document can be said to be those of the Harris/Rowling/Hercus papers: a preoccupation with a corporatist style of economic policy formation and implementation, an emphasis on direct state involvement in funding and guiding economic development, and a connection drawn between these two by making investment policy a negotiable item with trade unions.

However on closer examination it appears that Douglas cannot have been too unhappy with the final result as the investment policy was in fact framed more or less as had been his own proposals in the area. The investment policy was to apply only to areas of the economy where some 'market impediment' existed to prevent private capital investing there. This could occur because of high development costs or extreme risks involved in these particular areas. The inclusion of this concept of localised market failure left no doubt that the leading role in

61. Douglas et al. 'Labour's Economic Policy, draft 2', 17/2/84, Box 121, File 'Labour's Economic Policy 1983.'

62. Douglas et al. 'Labour's Economic Policy, amended draft, 2/3/84, Box 121, File 'Economic Policy 1983.'

63 New Zealand Labour Party. 26/6/84.

investment was to belong to private capital with the state participating only in unusual cases. There is no trace of the belief, which informed the Harris/Rowling/Hercus papers, that capitalists in general had failed to perform the investment function in the common interests of society as a whole and so the state ought to take up the direction of investment.

There are signs of an adjustment between the two sides of the conflict on exactly this issue as Palmer's early drafts did not contain the concept of localised market failure which brought the Policy Document more into line with Douglas' views.⁶⁴ Another aspect of the investment policy which would have made it acceptable to Douglas was that the attainment of social control of investment patterns was not linked to union acceptance of wage restraint as it was in the Harris/Rowling/Hercus papers or in Campbell and Kirk's book. In Douglas' schema the trade union movement was to accept wage restraint simply in return for social wage benefits to protect the low paid and the establishment of a price surveillance authority.⁶⁵

Therefore the investment policy was unlikely to have caused any great problems for Douglas in government even if he or the Cabinet had decided to try and implement it. The only part of the election policy that was likely to cause problems was the plethora of promises to consult and negotiate on economic policy. It was even stated in the Policy Document that the aim of the policy was to democratise economic life and 'give New Zealanders greater control of their economy'.⁶⁶ This remnant of the corporatist tendency resulted eventually in the Economic Summit Conference of September 1984.

On the actual content of the intended economic policy the Policy Document was vague to the point of offering almost no information about it. The only policy advocated by either Douglas or his advisors to be explicitly ruled out was the privatisation of state owned commercial enterprises. There was no mention of exchange rate policy and devaluation was publicly repudiated during the election campaign.⁶⁷ A shift to indirect taxation was not among the measures approved by the Policy Council but then it was not explicitly forbidden either. The Policy Document promised to adopt measures to encourage efficient economic management but did not say much about what this might mean. A firm monetary policy, a reduced government deficit, and a review of financial controls with a view to removing as many

64. This occurs between what appear to be the first and second Palmer drafts. Papers received from Peter Harris.

65. Douglas et al. 'Economic Policy Package', 2nd version, p.9.

66. NZLP. Policy Document, p.14.

67. 'This option was rejected last year by the Policy Council and as David Lange said yesterday, is not part of our policy.' Douglas. Press Statement, 19/6/84, Box 121, File 'Economic Policy 1983.'

as possible, were endorsed as policy. A reorganisation of the system of import protection was endorsed. This was to be done through a shift from import licensing to uniform tariffs but over Palmer's several drafts this was increasingly hedged about with promises of gradual and planned implementation, along with an undertaking to maintain protection indefinitely in industries where the effect on employment of doing otherwise would be too drastic.

Therefore the major concessions made by Douglas to secure unanimity in the Policy Council would seem to have been his formal abandonment of the policy on devaluation and his agreement to the inclusion of assurances that change would be gradual, planned, and done after securing agreement through negotiation. When the resulting restructuring was implemented initially through a devaluation and continued in a manner that was neither gradual nor consensual some of those party to the Policy Council debates felt betrayed. Thus this episode comes to provide the major rationale for the claim that the Labour Party was 'hijacked' by a minority who abused its policymaking procedures.⁶⁸ Others say that only the very naive would have seen Douglas' adherence to the Palmer formula as entailing any real commitment.⁶⁹ It was, rather, a form of words forced on both sides by the pressure of external events.

Whatever the truth of this, the course of events in the Policy Council can be seen as a consequence of the kind of institution that the Policy Council, and the Labour Party as a whole, is. It was argued earlier that the Policy Council is of necessity a forum for the conciliation of disputes over policy; compromise rather than voting thus tends to be its mode of operation. This was certainly true in this case. It seems that the opposing sides in the Policy Council were fairly even numerically though one former Policy Council member has estimated that there would have been a one vote majority for Douglas had a vote ever been taken. Douglas himself is said to be a 'take it or leave it' negotiator⁷⁰ and may have personally preferred this course of action but was instead obliged to go through Palmer's rather tortuous process of constructing unanimity on a compromise formula.

Neither of the two opposing sides in the Policy Council were devoid of Members of Parliament but those Members opposed to Douglas and the parliamentary leadership were part of a faction that had its centre elsewhere than in the caucus. For this reason it can be argued that the dominant position of the parliamentary party with regard to other sections of

68. Interview with Peter Harris, 15/9/86.

69. Interviews with Margaret Wilson and confidential source.

70. James. The Quiet Revolution, p.162.

the party is illustrated by the course of events in the Policy Council. Margaret Wilson has said that the alternatives to endorsing Palmer's proposed policy were consciously weighed up by those who opposed Douglas. Apart from the adoption of a non-consensus majority policy these consisted of having either no policy or two policies.⁷¹ These seem to this writer to amount to much the same thing. Having no economic policy approved by the Policy Council would simply have left Douglas, as finance spokesman, to campaign on whatever policy he chose. His close connection with the Leader would have ensured that most of the caucus would have followed suit. The latter option would have led to much the same situation with the dominant grouping in the caucus campaigning on its preferred economic policy and leaving others to create an impression of party disunity if they chose. The importance of preserving at least the appearance of party unity prior to an election, and the inevitable dominance of the parliamentary leadership over the rest of the party, led necessarily to the construction of a compromise document written substantially on the terms of the parliamentary leadership.

Conclusion

This chapter has included a considerable amount on the structure and history of the Labour Party. This is because the events to be explained are only explicable in terms of the imperatives that the institution imposes on those who operate within it. The first of these is that party unity, or at least the public facade of it, must in the end be preserved whatever the conflicts gone through along the way. The second is that in any serious clash with the parliamentary party over policy it will be the parliamentary leadership that wins either sooner, that is, prior to an election, or later once it accedes to governmental power.

This explanation of events in terms of the structure of the institution differs from the explanation given for the events described in earlier chapters. There the explanation was in terms of ideas and the perceived intellectual or ideological strengths and weaknesses of those ideas. The ideas of restructuring and corporatism were both widely popular within the Labour caucus after the 1981 election. They were popular for a number of reasons: restructuring could be seen as a good accumulation strategy, corporatism as a good legitimisation strategy, both as electorally saleable. Then it came to be realised that corporatism and restructuring could not actually coexist within the same political programme for the reason that it was very hard to see how a prior democratic consensus could be built up in support of a policy that involved retrenchment of living standards and the creation of pronounced social insecurity. This tension between corporatism and restructuring eventually forced the emergence of two camps in the

71. Interview with Margaret Wilson, 10/1/87.

debate over economic policy. One retained restructuring while abandoning corporatism. The other retained corporatism, elaborated it as a democratic alternative to Think Big, and abandoned restructuring. In alliance with a group of trade union intellectuals this latter group opposed Douglas in the Policy Council.

From this point on the conflict was between two static factions who could no longer sway each other by debate or criticism. From this point on the only thing left to do was try and prevail through the use of the power inherent in particular institutional positions. In this respect Douglas' institutional position of finance spokesman for the dominant grouping in the caucus was immeasurably more powerful than any other.

Thus restructuring rather than corporatism had emerged as the dominant principle of the policies of the fourth Labour government. The major elements of the government's economic programme were to be implemented without a process of broad consultation and without allowing a broad range of influences on the formulation of government policy. The devaluation immediately after the election, the subsequent deregulation of the finance sector, the floating of the exchange rate, the abolition of many protectionist measures, the introduction of the goods and services tax and the programme of corporatisation, were all implemented without the promised consensus.

However the first few months of the fourth Labour government were marked by one significant corporatist initiative, the Economic Summit Conference of September 1984. This is of interest for the summit demonstrated in practice the contradiction of corporatism and restructuring. The immediate origins of the Economic Summit Conference lay in the rhetoric of consensus employed by the Labour Party during the 1984 election campaign to distinguish itself from the allegedly dictatorial style of the Muldoon administration. The fact that this consensus was actually sought through a corporatist style conference, at which the major participants were representatives of government, employers and unions, indicates a link with the formerly strong corporatist tendency.

At the summit conference the government's restructuring policies met with general support from the representatives of capital (though this was completely unreserved approval only in the case of the finance sector) and absolute rejection from the trade union movement. In a joint submission to the conference the Federation of Labour and Combined State Unions argued against opening the New Zealand economy to foreign imports and argued in favour of a general economic stimulation by means of monetary policy, government spending, and wage

growth.⁷² The conference was in general a failure as it provided no consensus and gave rise to no continuing institutionalised activity similar to the Economic Policy Advisory Council set up in the wake of the Australian National Economic Summit Conference.

The one area of tripartite consensus achieved at the time of the summit was the agreement on consultative mechanisms for the wage round. Under the new system government, employers and unions representatives would meet prior to the wage round and these consultation might, depending on circumstances, lead to agreement on a wage growth norm for the coming round.⁷³ Such a guideline was set for the 1984/85 round but the government found this a time consuming and frustrating exercise⁷⁴ and no guideline has resulted from the annual consultations since then. The 1984/85 wage round is the last example of anything approaching a corporatist element in the policies of the fourth Labour government.

72. Economic Summit Conference. Proceedings and Conference Papers, vol.2., 1984.

73. *ibid.* vol.1. p.132.

74. Easton, in The Fourth Labour Government, p.144.

CONCLUSION

The aim of this thesis has been to account for the rise of 'Rogernomics' in the New Zealand Labour Party. In Chapter One a general theoretical framework for accounting for the phenomenon was set out. This involved an examination of the consequences for a society of maintaining both a capitalist form of economic organisation and, simultaneously, a democratic political system. It was argued that in such societies general popular consent for the social order, and consequent harmonious political integration of the society, is dependent upon the capacity of the capitalist economy to provide real material rewards in return for mass loyalty. It was further argued that in times of economic recession or depression this capacity is lessened and the political integration of capitalist society may be placed in jeopardy. Economic crisis therefore becomes a crisis of the entire social formation. This is the situation in democratic capitalist societies since the end of the long period of post-war economic growth.

It is the task of political elites to find ways of managing this situation. This is accomplished by means of accumulation strategies consisting of state initiatives whose aim is to restore the necessary conditions for the expanded reproduction of capitalism. It was argued that the implementation of an accumulation strategy requires a reorganisation of the system of legitimation. The two major contemporary accumulation strategies, recommodification and liberal corporatism, were examined and an attempt was made to identify the necessary concomitant reforms in the system of legitimation. In particular it was noted that the reorganisation of production involves social costs for the public at large and is therefore unlikely to be able to be implemented if there exists a system of legitimation that allows economic policies to be influenced by public opinion or participation.

It was argued that political parties play a central role in legitimation for they exist as the major link between citizen and state. They are the means by which popular demands are articulated and find expression in party policies. Throughout the post-war Keynesian period this popular influence on the accumulation strategies of the state was benign, from the point of view of the reproduction of capitalism, for the growth of the economy was seen under Keynesianism as requiring high levels of consumer demand. Therefore democratic pressures for higher standards of living and expanded provision of social services were allowed to penetrate decision making and influence the direction of economic policy. When politicians acted to respond positively to public demands this was seen not only as socially progressive and politically expedient but as economically prudent as well. In Chapter One it was argued

that this situation no longer obtains, that viable accumulation strategies currently require restraint on public demands for greater consumption spending and require a reorganisation of production which will result in considerable disruption to existing patterns of employment and residence. Therefore the concomitant reorganisation of the system of legitimation is now likely to involve action to exclude democratic pressures from the formulation and implementation of economic policy, to make political elites and governments less responsive to popular demands, and restrict the determination of policy to a narrow elite.

In the following chapters this theoretical framework was tested against empirical material derived from a study of economic policy making in the New Zealand Labour Party between 1981 and 1984. Chapter Two traced the development of Roger Douglas' economic policy proposals and it was concluded that these do indeed manifest a concern to reorganise the system of legitimation so as to exclude or marginalise democratic pressures on the formation and implementation of economic policy. This was seen by Douglas as vital to the successful implementation of his desired accumulation strategy. Using Jessop's concepts Douglas' proposals could be seen as an attempt to secure the greater 'decisional autonomy' for a future Labour government that would be necessary for its economic policy.

In Chapter Three the degree of convergence between Douglas and general caucus opinion on economic policy was examined. It was argued that until the latter half of 1983 there was a general consensus in caucus on the need for 'restructuring' the economy, by means of a greater opening to international market forces and competition, and that this was accompanied by an acceptance of the social costs involved. But it was also found that the majority preference, and this included Douglas, was for a programme of gradual and planned economic change within which the state would act to aid adjustment and ameliorate social disruption.

Therefore the issue to be addressed became that of finding out why a programme of rapid market-led restructuring without state assistance or ameliorative measures eventually came to dominate the policies of the fourth Labour government. This is explained with reference to the other caucus preoccupation, one for which Douglas shared no enthusiasm, that of commitment to the idea of liberal corporatism. Consensual tripartite agreements were seen as the major institutional means through which a programme of planned and gradual restructuring could be implemented. Corporatism was also seen as the means of involving the nation as a whole in the determination and implementation of economic policies so as to gain broad democratic consent for economic restructuring.

However, corporatism as a strategy was fatally flawed. In a situation where the accumulation strategy required the exclusion of democratic pressures and an elitist form of policy determination the advocates of liberal corporatism were proposing a strategy that would open up economic policy as a site of broad social contestation. The peak bodies of both labour and capital are, in New Zealand, simply not powerful enough vis-a-vis their memberships to enforce compliance with centrally determined agreements. Therefore any system of corporatist decision making that was implemented would have been unable to control or marginalise the demands of rank and file workers or even individual capitalists. Caucus members eventually came to realise this and the result was a collapse of the corporatist tendency. Proposals for planned, gradual, and state based economic reform also lapsed at this point within caucus discussions for the reason that they had been so closely associated with the idea of corporatism.

If the debate over economic policy and corporatism had been settled in the caucus this was by no means so in the rest of the Labour Party. The focus of debate merely shifted to the Policy Council where the same disputes took place again but with greater intensity and factionalism. Chapter Four described the emergence of an anti-Douglas faction in the Policy Council consisting of a group of trade union intellectuals, Labour Party functionaries, and some MPs. These argued in favour of a mix of state led economic development, traditional Keynesian economic policies, and the establishment of corporatist institutions. It is argued that they failed primarily not because of the inherent weaknesses of their argument concerning corporatism as a strategy but primarily because the established oligarchical structure of the political party made it impossible for them to succeed against the policies of the parliamentary leadership.

The idea of corporatism, the powerful attraction that it had, its faults and eventual abandonment because of them, were decisive elements in the rise of 'Rogernomics'. The weaknesses of corporatism as a strategy were the major obstacle to the formulation of a coherent anti-Douglas alternative, and the major strategic opportunity for Douglas. Douglas himself was never attracted to the corporatist ideal for it would have permitted economic policy to be influenced by exactly those social forces and interests that he was most concerned to exclude. Corporatism was the only institutional form that Labour caucus members had been able to propose as a means of planning and directing economic change so the weaknesses of the idea were crucial in shifting Douglas in the direction of market liberalism and in later pulling other caucus members in that direction.

Ever since Philippe Schmitter's article in 1974 'Still the Century of Corporatism'¹ there has been considerable interest in the notion that western capitalist societies were moving toward corporatism as the logical response to a situation of economic stagnation and incipient legitimisation crisis. Some, in particular J.T. Winkler, have gone so far as to argue that corporatism represents the emergence of a new mode of production distinct from both capitalism and socialism.² In the case of Australia the notion of corporatism has been useful in analysing the Hawke government.³ However its usefulness in relation to the New Zealand Labour government is slight. As this thesis has shown the idea of corporatism was a powerful influence in the Labour caucus after 1981 but did not survive to inspire its policies in government. The decline of proposals for a corporatist type of policy seems to indicate that corporatism will not become a serious alternative for this society unless the institutional preconditions for corporatism, highly centralised organisations of labour and capital whose members will comply with centrally negotiated agreements, have been created. As Jessop has commented, on the 'social contract' notions of the British Labour Party, corporatism is impossible without corporatist institutions.⁴

If the corporatist tendency in the Labour Party was right in thinking that a centrally planned approach to economic development absolutely required a harmonious working relationship between the state, capital, and labour, then corporatism may again become an issue during the Labour government's second term. Recent indications of greater government interest in state planning and assistance to development, in particular the interest shown in the example of Sweden's active labour market policy,⁵ may lead to a re-emergence of 'consensus'.

If this does occur then the problem of participation will once again loom large in Labour Party thinking as the government will have to try to secure the cooperation of capital and labour without compromising its desire to retain exclusive control over the determination of economic policy. It may be that the price of trade union cooperation will turn out to be the readmission of 'social' objectives, like the immediate large scale creation of employment, to the

1. *Review of Politics*, no.36, pp.85-131.

2. 'Corporatism', *European Journal of Sociology*, no.17, 1976, pp.100-136.

3. see, for examples, West *The Revolution in Australian Politics*, and Ballard and Stewart, 'The Summit as Simulated Politics: Staging corporatist legitimisation in Australia.'

4. Bob Jessop. 'The Political Economy of Thatcherism', unpublished seminar paper, Massey University, 3/9/1987.

5. see Denis Welch. 'State Expectations', an interview with David Lange, *New Zealand Listener*, vol.118, no.2490, Nov 7-13 1987, pp.16-19.

field of economic policy. If this is indeed the price then a return to a planned approach to economic development will either be foregone by the government or will have to involve the reversal of the elitist guiding principle of 'Rogernomics'.

METHODOLOGICAL APPENDIX

Particular theoretical stances involve a commitment to corresponding methodological principles including a general prescription for what kinds of issues are to be enquired into and a general set of rules for the construction of theoretical arguments. The methodology of this thesis is discussed below. The appendix concludes with a description of data bases and empirical research design.

The most general methodological principle in this thesis stems from a theoretical commitment to Marxism as a sociological approach and thus from an interest in Marxist theories of the state. Marxist state theory differs from other types of political sociology in that it is, as Przeworski has pointed out, not strictly speaking a theory of the state at all but a 'state theory of capitalist reproduction'.¹ As Jessop says: 'state power is capitalist to the extent that it creates, maintains, or restores the conditions required for capitalist accumulation...and it is non-capitalist to the extent that these conditions are not realised.'² To put it crudely, Marxist theorists of the state are interested in the functionality, and potential or actual dysfunctionality, of the state for the capitalist mode of production. Consequently in this thesis 'Rogernomics' is seen as a theoretically significant object of enquiry because it is viewed from a Marxist perspective as an attempt to use state power to create, maintain, or restore the conditions required for capitalist accumulation. The particular variety of Marxist state theory that this writer finds most plausible involves a commitment to some more specific methodological principles.

The major cleavage in Marxist theories of the state is between instrumentalism, the belief that the state acts to reproduce capitalism because it is itself dominated by personnel drawn from the capitalist class, and structuralism which is theoretically committed to seeing the actions of the state as determined by the structure of the state, and by its structured relations with other 'regions' of society, rather than by the conscious activity of individual members of political elites. It seems to this writer that the structuralist theoretical commitment to a relatively autonomous state is a necessary part of an adequate state theory of capitalist reproduction for the following reasons.

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1. Adam Przeworski. Capitalism and Social Democracy, p.224.
 2. Bob Jessop. The Capitalist State, 1982, p.221.

There are two senses in which the state can be said to be capitalist. The first is when the state responds to the expressed interests of the capitalist class itself or alternatively to the demands of the dominant fraction of the capitalist class. This equates with instrumentalism because the motivation for state activity is seen as lying in the consciously expressed strategic calculation of capitalists. The second sense in which the state can be said to be capitalist is when it is seen to act to preserve the capitalist system as a whole. It must be recognised that these two usages are not equivalent for there is a possibility that in acting to preserve the system as a whole the state may have to act in ways contrary to the political will of the capitalist class. Marx recognised this possibility in his analysis of Bonapartism³ where he depicted a state driven to defending capitalism through a strategy of political repression which deprived the bourgeoisie of political power and vested it in a state elite supported by a peasant base.

In analysing the capitalist state in the late twentieth century Poulantzas took the view that the Bonapartist state of Marx, which had in the nineteenth century been an exceptional form of the state, had now become the norm.⁴ Poulantzas saw the state as relatively autonomous from the capitalist class, i.e., it had a certain freedom of manoeuvre to maintain the capitalist system as a whole because it was not bound to the immediate and particular interests of the bourgeoisie. This explains how it is that the state has been able to maintain the political integration of capitalist society by making concessions to the working class in the form of such things as: guaranteeing the right to form unions and bargain with employers, providing welfare state transfers to ameliorate the insecurity of an unprotected existence on the labour market, and providing via the education system limited opportunities for upward social mobility. In so far as all these measures impose costs on capitalists in the form of higher taxation and greater difficulty in disciplining the labour force then it seems unlikely that they would have been implemented if the bourgeoisie did in fact directly control the state. It seems that the idea of a relatively autonomous state is necessary to the theory of the state in advanced capitalist societies.

To say that it is necessary does not constitute an adequate formulation of the idea. In order to define 'relative autonomy' two things must be done. First, it must be explained how it comes to be that the state can act autonomously of the capitalist class. Second, it must be explained why it is that this autonomy is 'relative' or limited and why it is that the state

3. Marx. 'The Eighteenth Brumaire of Louis Bonaparte, in Marx, Engels: Selected Works, 1968, pp. 69-179.

4. Bob Jessop. Nicos Poulantzas: Marxist theory and political strategy, 1985, p. 69.

nevertheless acts to reproduce the capitalist system. The most significant Marxist theorist of the relatively autonomous capitalist state is Nicos Poulantzas. Jessop has shown that Poulantzas' formulation of relative autonomy is inadequate on the above criteria. According to Jessop:

Poulantzas introduced the notion of relative autonomy to perform a precise function in his analysis of the capitalist state. It refers to that form and degree of institutional autonomy relative to the dominant classes and fractions necessary to organise their hegemony.⁵

But Poulantzas offered no sufficient argument as to how this relative autonomy had come to be or how it continued to be maintained. On the one hand, in his work Political Power and Social Classes, he argued, from Althusserian structuralist premises, that relative autonomy was a result of 'the particular place of the political region in the structural matrix of the Capitalist Mode of Production.' As Przeworski has argued this kind of explanation is tautologous and untenable. 'Clearly the answer to the question cannot be that the state reproduces capitalist relations because this "is" its function.'⁶ On the other hand, says Jessop, Poulantzas came to hold that the 'specific forms and degree of relative autonomy' depend upon the political supremacy of the capitalist class or leading fractions. But he provided no compelling reason why this contingent and conjuncturally specific process should unvaryingly produce the outcome of state policies that aided the reproduction of capitalism.

The attraction of the work of Claus Offe for the present writer lies in the way Offe produces a viable theoretical formulation of relative autonomy. Offe rejects what he calls 'influence theories', otherwise known as instrumentalism. He argues that the state has a real autonomy vis-a-vis the capitalist class and that this is maintained by the legitimating activities of the state. The state 'is constantly in danger of succumbing to the competitively-regulated movement of individual capital units. Consequently it must procure for itself a basis for overall legitimation.'⁷ The state is able to establish itself as an autonomous force because it is able to recruit the support of the population at large for its policies.

However this autonomy is bounded to such an extent that it becomes highly unlikely that the state will seek to implement policies that undermine capitalism. Offe demonstrates this by noting two characteristics of the capitalist state: firstly, the state is excluded from directly controlling or organising the production of wealth and, secondly, the state is dependent on this

5. Jessop. The Capitalist State, 1982, p.182.

6. Przeworski. Capitalism and Social Democracy, 1985, p.202.

7. Claus Offe. Contradictions of the Welfare State, 1984, p.50.

same economic process in so far as taxation of the economic surplus is the material foundation of the state's existence. Therefore the 'institutional self-interest' of state personnel lies in taking action to maintain capitalism.⁸

This theoretical position has certain implications for appropriate methodology. Above all it implies that the outcomes that are to be explained, i.e., state policies that aid the reproduction of capitalism, must be seen as the result of multiple determinations of various types. This is so because the theory recognises the importance of both structural causality and human agency. Structural imperatives may endow the state with an 'institutional self interest' in the perpetuation of capitalism but the extent to which it performs this role well, with appropriate and successful policies, depends upon its own personnel and their capacity for formulating policies and engineering public support for, or at least acquiescence in, the implementation of these policies.

Therefore the theory requires a methodological framework that can distinguish different types and levels of determinations and which can explore the relationships between them. Jessop in The Capitalist State, following an exhaustive review of Marxist state theory, provides such a methodological schema for future work. According to Jessop 'we must engage in an analysis of the many determinations that are combined in a concrete conjuncture and show how they are interrelated as necessary and/or sufficient conditions in a contingent structure of causation.'⁹

Jessop works from a realist philosophy of science. Realism posits that the task of science is to uncover the causal mechanisms which exist 'below', or apart from, the level of empirical appearances. It is therefore radically opposed to positivism which is uncompromisingly empiricist in its insistence that the objects of scientific enquiry be accessible to direct empirical verification.¹⁰ This allows Jessop to elaborate two types of causality distinguished by their degree of abstraction from the empirical level of appearances.

The two major classes of determination are termed structural and conjunctural.¹¹ Structural determination is defined as a circumstance which limits, constrains, or conditions the actions of a particular agent (or particular set of agents) and which cannot be altered by that

8. 'Theses on the Theory of the State', *ibid.* pp.119-129.

9. Jessop. The Capitalist State, 1982, p.213.

10. Russell Keat and John Urry. Social Theory as Science, chap.2.

11. Jessop. The Capitalist State, p.253.

agent within a particular period of time. Conjunctural determination concerns the effects of human agency and is therefore composed of all elements in a situation that can potentially be immediately transformed by particular agents.

Structural determinations are expressed theoretically as abstract propositions about causal mechanisms that cannot be understood from direct empirical observation. Structural determinations are seen as placing limits on the range of possible outcomes at the level of the conjuncture. 'In general the greater is the degree of abstraction the more indeterminate is the "real" mechanism with reference to the "actual".'¹² Therefore, according to Jessop, in order to account for particular outcomes it is necessary not only to know about structural determinations but about conjunctural determination as well. Thus:

levels of abstraction will be reflected in the retroductive specification of a hierarchy of conditions of possibility - the more abstract levels being compatible with more possible outcomes at the same time as being indeterminate with reference to the actual result, the more concrete levels defining progressively more restrictive limits on the actual result as they overdetermine the more abstract conditions of possibility.¹³

At the concrete level two things must be examined in order to account for the specific outcome that emerges from the range defined by abstract structural determinations. Firstly, the structural situation that agents face must be defined. This is not the same for all agents as the same set of abstract structural determinations may facilitate or constrain the realisation of the objectives of different agents. Structure may appear as either opportunity or barrier for different agents or sets of agents.¹⁴ Therefore structural determination gives to agents differential power to effect a desired outcome.

Power can be defined as the production of effects within the limits set by the 'structural constraints' confronting different agents.

In this context we could compare the potential power of different agents in terms of the relative importance of 'structural constraints' and 'conjunctural opportunities' in specific situations.¹⁵

The second step in accounting for outcomes at the level of conjunctural determination is to consider the strategies and tactics of agents. Jessop states that an adequate explanation of any social phenomena must eventually refer to the discourses of the agents involved.¹⁶

12. *ibid*, p. 215.

13. *ibid*, p. 218.

14. *ibid*, p. 253.

15. *ibid*, p.253.

16. *ibid*, p. 214.

It is ... necessary to investigate how the attributes, capacities, and modes of calculation of the agents further limit the possibilities of action and thereby help to determine the resulting power relation.¹⁷

The argument in this thesis is organised according to these methodological principles. In the theoretical chapter an attempt was made to define broad structural determinations which set a general limit on the range of economic policy options available to the Labour Party prior to the 1984 election. These structural causes were expressed as abstract theoretical propositions in the following manner.

It was proposed that in periods of low growth rates in the surplus product there will be intensified social struggle for shares of this static or declining economic surplus. From the point of view of the state reproduction of capitalist social relations this struggle for rewards can be analytically understood as a struggle between capital and non-capitalist classes and groups. It is this struggle that defines the structural situation of the state in this conjuncture. It was argued that declining rates of economic growth reveal structural contradictions within the state. This is so because in such a situation the two basic activities of the state, characterised as its accumulation and legitimation functions, are much harder to perform simultaneously given the shrinking tax base of a depressed economy and the continuing escalation of demands whose satisfaction is the source of mass loyalty to the state.

In this situation political elites must eventually take some action to relieve the pressure upon the state. Since the state is primarily dependent upon the accumulation system (for even legitimation is now largely dependent upon the production of a growing economic surplus) it must ultimately attempt to reorganise the system of production so as to solve the fiscal crisis. This must occur even at the risk of undermining the legitimacy of the state and potentially of the capitalist social order.

The dangers to legitimacy lie in two areas. Firstly, the accumulation strategy may involve an attempt to lower consumption expenditure through measures to suppress wage growth and cutbacks in welfare spending. Secondly, the reorganisation of the system of production will involve great disruption to the lives of a large section of the population, to their existing patterns of employment and residence. But the most important danger for the state lies not in the increased levels of social discontent likely to arise from the implementation of the accumulation strategy but in the possibility that the existing system of legitimation may obstruct the accumulation strategy.

17. *ibid*, p. 255.

It was argued that the existing system of legitimation, that evolved under the Keynesian Welfare State, treated economic and social policy objectives as largely synonymous. Since legitimating measures, e.g., improved and better funded social services, were fully compatible with central economic policy objectives, i.e., the expanded reproduction of the system of accumulation by maintaining high levels of consumer demand, there was no need to prevent democratic pressures for higher consumption expenditure from influencing the content or implementation of economic policies.

In the present situation this is no longer so for low rates of economic growth and the need to restructure production require 'restraint' on the part of the people; the requirements of the accumulation system are no longer easily compatible with legitimation. The immediate policy requirement is that democratic pressures for higher material standards of living and improved social services be no longer allowed to influence the conduct of economic policy.

This situation formed the structural context for economic policy making within the Labour Party prior to 1984. The structural context dictated that the outcome of the policy making process would have to fall within certain parameters. These parameters were that the policy be oriented to reorganising the system of production, rather than maintaining the status quo, and that it be designed to suppress or marginalise democratic pressures on the formulation and implementation of the accumulation strategy of the state.

From examining these structural determinations in Chapter One the thesis moved in the three empirical chapters to an account of conjunctural determination and of the discourses, strategies, and tactics of agents involved in the process of economic policy formulation. Chapter Two looked at the development of Douglas' economic policy positions. For Douglas the structural context provided an opportunity rather than a constraint; he had argued consistently that democratic pressures were inimical to the proper conduct of economic policy. This conviction eventually led him to espouse free market policies, abandoning previous commitments to planned economic development because he believed that planning would inevitably be 'polluted' by 'political' influence.

To Douglas' opponents the structural context appeared as a constraint. This is investigated in Chapter Three. It is argued that a large grouping of caucus members were committed to establishing a broad consensual base of support for the actions of a future Labour government. This commitment was manifested in proposals for liberal corporatist forms of policy development and implementation. The aim was to ameliorate social divisions and to

unite the nation behind a common purpose and goal. The problem with this intention was that if implemented in practice it would have expanded rather than narrowed the range of influences on the formulation and implementation of the accumulation strategy of the state and was thus contrary to the imperatives of the structural context. It is argued that this problem eventually led to the collapse of the corporatist tendency in the caucus as its proponents realised that they could not combine an economic policy that would impose considerable social costs with a commitment to what was in effect a democratisation of decision making. With the collapse of corporatism there was also a collapse of proposals in the caucus for planned economic change for these had become closely associated with the corporatist tendency.

In Chapter Four the empirical argument concluded with an examination of the later attempt to block Douglas' proposed economic policy in the Policy Council of the Labour Party. It was argued that here a different set of structural determinations came into play, i.e., those associated with the traditional dominance of the caucus and parliamentary leadership over the Labour Party. It was concluded that this formed a structure of opportunity for Douglas while once again constraining his opponents.

Research Design

The initial problem in doing the research was identifying significant sources of information on Labour Party economic policy making between 1981 and 1984. Two sources of primary material were considered: interviews and document collections. It was decided not to try and base the study largely on interviews. It was felt that in mid-1986 the usefulness of oral testimony might be limited because the events were both recent and controversial. The economic policies of the fourth Labour government were by this time an issue on which members of the Labour Party, particularly those in high positions, had had to take sides. It was thought that recollection of pre-1984 policy making would be biased either for or against the government and in accord with present desires to reinforce or undermine the legitimacy of the fourth Labour government as the heir to traditional Labour commitments and procedures.

Documentary sources were felt to be the best source. The Labour Party, like all institutions of its size, produces a tremendous amount of documentation in the course of its activities. The Labour Party Head Office, Wellington, keeps little archival material. The major documentary sources are in the hands of individual current or former officials and Members of Parliament. This makes access difficult. For this study access was obtained to three sources: the Labour Party's Head Office series of annual conference reports and successive versions of

the party's constitution and rules, the collection of Roger Douglas' papers held at the Alexander Turnbull Library, Wellington, and papers privately held by Peter Harris of the Public Service Association. The large Douglas collection in the Turnbull Library became the major source for this thesis.

In approaching documentary research it was borne in mind that documents do not simply 'reflect' the circumstances in which they are produced but are actively constructed through particular practices that define what is to be written about and the ways in which this is to be done. In the course of research the documentation used was found to be of a particular kind. The day to day life of the party administration and caucus seems not to be written down. Meetings of the Policy Council, for example, or of the Caucus Economic Committee, record only the briefest of minutes. Matters tend to be written down once proposals for policy in a particular area reach a certain degree of elaboration and detail. Documentary research therefore became a good way of studying general themes and trends in economic policy debate rather than producing much detail on the day to day minutiae of debate and decision making.

This undoubtedly leads to the thesis presenting an incomplete account. There is little documentary record of conflicts that have little to do with substantive policy issues. It is entirely possible that conflicts between individuals and groups which were rooted largely in personal antagonisms and jealousies had in the end a considerable bearing on the relative success and failure of different policy agendas. The thesis neglects this level and locates the causes of success or failure for different policy proposals mainly in their strengths and weaknesses as policy ideas. Documentary sources preserve the traces of these latter determinations but not of the former.

Another weakness of the documentary method is that it only reveals information about those parliamentarians and other party figures who were interested enough in economic policy to become involved to the extent of writing fairly detailed policy proposals. It has been assumed in the thesis that these few were the opinion leaders of caucus and carried the others along with them. Therefore the consensus among those closely associated with economic policy has been taken to indicate the implicit consensus of the caucus as a whole.

The problem of bias in documentation was considered. In the individual documents it was their bias, towards one or other side of a particular debate, that was their major interest. Hence the major sources for the thesis are documents in which protagonists record their own

policy preferences and argue in support of them. A few of the documents claimed to describe or analyse the policy positions of opponents and care was taken to compare these with the actually expressed positions of antagonists.

Bias, whether intended or unintended, in the composition of the Douglas papers is a significant issue. Unintended bias is a matter on which it is hard to come to any conclusion. The Douglas collection in the Turnbull Library is a chaotic accumulation of papers, many duplicates, and fairly randomly arranged. They appear to be simply the result of a periodic cleaning out of Douglas' filing cabinets. No attempt was made in the course of researching the thesis to check what particular practices, on the part of either Douglas or his staff, might have unintentionally biased the types of documents preserved.

More can be said on the subject of deliberate bias. The one interesting omission in the Douglas papers is the absence of the series of drafts written by Geoffrey Palmer with the intention of reaching unanimity on economic policy in the Policy Council. Copies for the thesis were obtained from other sources. Their absence from the Turnbull papers is probably an instance of bias in the collection because Douglas seeks to portray Palmer's efforts as merely the formulation of a version of Douglas' 'Economic Policy Package' that would be suitable for public release.¹⁸ This is contrary to the impression, given by Palmer's series of drafts, that their formulation was far more to do with the reconciling of opposing factions in the Policy Council. Others party to the discussions in the Policy Council were in possession of Palmer's successive drafts and it seems certain that they were submitted to Douglas for comment and alteration also. Therefore their absence from the collection does seem to indicate that there has been some selectivity in the preservation of documents in order to obscure instances of severe party disunity. How extensive this selection has been is unknown though the preservation of Rodger's memo protesting against the 'Economic Policy Package' seems to indicate that it is not particularly systematic. Nor does it appear to threaten the comprehensiveness of the material used in the thesis for the focus has been on general themes of policy debate that did not until quite late become the foci for the formation of antagonistic factions.

Documentary research was supplemented by a series of interviews with key informants. The people approached were selected on the basis of the period of documentary research. The major aim of the interviews was to check impressions formed in the course of research up to that point. The most important aim in this respect was to enquire as to whether particular

18. See Douglas and Louise Callan, Towards Prosperity, 1987.

documents, which seemed crucial to certain debates, were in fact important in the actual discussions of the time. Therefore the major purpose of the interviews was to confirm conclusions reached from documentary research by a method of triangulation. This worked best regarding the Policy Council discussions of late 1983 and early 1984 and confirmed the importance of Douglas' 'Economic Policy Package' and of the 'Harris/Rowling/Hercus' papers.

Interviews were conducted with Roger Douglas, his advisor Geoff Swier, with Jim Anderton MP, Peter Harris, the party president Margaret Wilson, and with one other member of the 1984 Policy Council. Ann Hercus and Rob Campbell were not available to be interviewed. No standardised questionnaire was used for two reasons. First, often the relevant matters for different interviews varied. Second, Hammersley and Atkinson's¹⁹ injunction, that high status members of elites do not like directive interviewing, was borne in mind. The point here is that when sociologists 'study up' and attempt to interview members of social elites the interview situation is markedly different from the more usual practice of 'studying down'. In the latter context respondents are more likely to identify as social inferiors in the interview situation and sociologists, by virtue of the higher status thus accorded them, are able to direct the interaction by asking for particular pieces of information and yes/no answers. However members of social elites are far more likely to identify as social superiors in relation to the callow research student posing as sociologist and a less directive interviewing strategy was considered appropriate. The questions asked thus tended to be of an open ended nature and allowed the respondent to choose how they answered and at what length.

For each interview a schedule of questions was derived from previous documentary research but the degree to which the discussion kept to this, and the areas on which it proved possible to ask further questions, was largely determined by the subject's willingness to elaborate on a particular area. Some closed questions were asked, particularly regarding the relevance of particular documents to internal party discussions, but this technique was used sparingly. The appropriateness of the non-directive strategy was confirmed by the fact that subjects did indeed seem to become irritated by closed questions but seemed to appreciate the opportunity to tell the interviewer at length what they thought he should know. Interviews were taperecorded and significant passages were later transcribed.

The data was analysed using initially the concepts of corporatism and restructuring. These had emerged from an earlier comparative examination of the Labour governments in Australia and New Zealand in late 1984. There were some interesting similarities between the

19. Martin Hammersley and Paul Atkinson. Ethnography: Principles in Practice, 1983, pp.119-120.

two governments in that both had, soon after attaining office, organised corporatist-style forums. However, here the similarities ended for the corporatist Accord in Australia had become central to the consolidation of Labor rule there while in New Zealand the Summit of September 1984 had produced no consensus and no continuing institutional activity. Furthermore the economic policies of the two governments were very different. An examination of the proceedings of the New Zealand summit revealed an enthusiasm for 'restructuring' on the part of government and business that was not shared by trade union representatives. It was this that seemed to impede consensus and corporatism in New Zealand just as its absence in the Australian context made corporatism a viable arrangement. Therefore the data for the thesis was analysed with these observations in mind and the aim became to find out why it was that the New Zealand Labour government had, soon after coming to office, expended so much energy in organising a form of corporatism which was obviously incompatible with its economic policy direction. The writing of the thesis became a matter of writing the recent history of the themes of consensus and restructuring within the policy making process of the New Zealand Labour Party.

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