# THE NEW ZEALAND ECONOMIC REFORMS

**An analysis prepared by**
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**New Zealand's Minister of Finance**
**1990 - 1993**

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### NEW ZEALAND PRIOR TO 1984

By 1984, New Zealand was without question the worst performing economy in the OECD. Our poor performance had been especially apparent over the ten years since the first oil shock in the mid-seventies. But in reality New Zealand's poor relative performance had been apparent for much longer. Productivity growth had been slower in New Zealand than in most other OECD countries ever since the second world war. Over the quarter century to 1984, New Zealand had the lowest rate of productivity growth of any country in the OECD. Over the same period, New Zealand had the lowest growth rate of output per head, and the lowest growth rate of exports. We had also achieved the highest rate of debt build-up, in both government and external debt, and by 1984 were running the biggest current account deficit of any country in the OECD. Inflation in New Zealand had also been higher, on average, than inflation elsewhere in the OECD.

From having the fifth highest living standard in the OECD in the early 1950's, New Zealand by 1984 had slipped to 25th place. Even unemployment - long the favourite indicator of those who argued that the New Zealand economy "worked" - had started in the mid-seventies to trend upwards from its historically very low level.

The most fundamental causes of New Zealand's failure were micro-economic. New Zealand was an economy that used resources very poorly. We were internationally competitive only in a limited range of products, most of which were bulk export commodities. The remainder of the economy was very inefficient by international standards - an inefficiency that stemmed from misconceived policies of regulation and protection. In no other OECD country were market forces allowed such limited scope, and economic decisions so distorted by government intervention.

One of the worst examples of interventionist economic policies was New Zealand's industrial relations system. This system involved occupation-based national awards covering wages and conditions. Each award was negotiated centrally, and constituted minimum conditions binding on all workers of that occupation throughout the country. There was hardly any ability for individual employers or workers to opt out of the conditions struck in the national award. Along with Australia (which still suffers from essentially the same industrial relations model), New Zealand had perhaps the most inflexible labour market regime in the western world.