v2

1989
Accrual accounting introduced to Govt

McKinnon, 2012c

Story: Treasury

Page 3 – Economic management since 1980

Changing definitions of economic management

In the 1960s Treasury took on the task of what was called econom
alongside its longer-established role of financial management. In t
idea of economic management changed dramatically as confidenc
of government to 'manage' the economy faltered. To varying degrees, economists, officials and politicians returned to the idea that economic decision-making should be left to the individuals, firms and state-owned businesses that made up the economy rather than 'second guessed' by government.

Ministers and officials

81–84

In 1981 election briefing papers Treasury had argued more forcefully than before that the price system had not been allowed 'to reflect sufficiently the true worth to the country of the resources employed in many areas.'[1] However, Prime Minister Robert Muldoon imposed a wage-price freeze as an anti-inflationary measure. The 1984 election campaign and result (a Labour Party victory) precipitated a run on the dollar, which was then devalued.

Roger Douglas reading the budget, 1984

Thatcher, Reagan and anti-nukes

Treasury's economic strategy in the 1980s is often identified as 'Thatcherite' or 'Reaganite' – influenced by the economic-liberalisation policies pursued in the United Kingdom and the United States respectively. However, in contrast to British Prime Minister Margaret Thatcher and US President Ronald Reagan, Treasury's stance was little influenced by social conservatism and patriotism. It co-existed quite happily with the fourth Labour government's anti-nuclear weapons stance – despite the difficulties this created with traditional allies.

Ruth Richardson visiting Treasury, 1990

1984–87

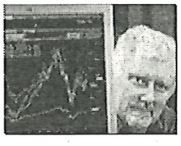
The new minister of finance, Roger Douglas, disliked economic privilege, whether exercised by governments, businesses or workers. This overlapped with Treasury's support for liberalisation.

John Whitehead and Peter Bushnell

Between 1984 and 1986 Treasury officials drove dramatic reductions in industry protection and assistance. The price of the New Zealand dollar was left to the market ('floating'). Taxes were lowered (leading to less tax avoidance) and made more consistent, including a universal goods and services tax – GST – initially set at 10%.

1987–90

Labour's re-election in September 1987 gave Treasury an opportunity to advance both economic liberalisation and the reform of government, but many Labour supporters were unconvinced.



Debt Management Office, 2011

Stormy weather

Forecasting was one area where Treasury got into trouble on a number of occasions, for instance when its forecast budget deficit for 1988–89 ballooned from an estimated $1.8 billion. Minister of Finance Roger Douglas commented, 'We'd done all this work and we felt we'd got on top of the position when all of a sudden we were faced with this deficit of $3.2 billion.'[2] After he'd made the blowout public, Prime

> Minister David Lange was asked, 'If a manager in a private enterprise made an error in his forecasting of that scale, he'd either be down the road or in receivership so quickly you wouldn't be able to see him. Why shouldn't that apply to Mr Scott [Treasury secretary Graham Scott] at the Treasury?'[3]

A further tax (and benefit) reform package was worked out, in part within Treasury, but Prime Minister David Lange announced in January 1988 that the changes would not proceed. With other differences mounting up, Douglas resigned 11 months later.

Treasury supported the Reserve Bank Act 1989, which gave the bank independence from government policy. It shared in the unpopularity fostered by the bank's anti-inflationary monetary policy and consequent high unemployment.

1990–93

The National government elected in October 1990 passed the Employment Contracts Act, which deregulated the labour market on lines that Treasury wanted, but the law was mostly devised and implemented by the Labour Department, with Bill Birch now its minister.

> **More brickbats**
>
> Treasury's involvement in, and its association in the public mind with, the 1990–91 cuts in public spending and in benefit rates deepened its unpopularity. It was attacked for what was seen as inappropriately lavish spending on the Treasury secretary's office and a too-generous pay package for economic analysts – which was subsequently withdrawn.

Minister of Finance Ruth Richardson wanted to both cut government spending and 'redesign' the welfare state. The former involved Treasury in two main phases – the announcement in December 1990 of the 'economic and social initiative' and the 1991 budget in May. In the six weeks leading up to the December announcements Treasury produced 39 substantial 'budget' reports.

1993–99

The Fiscal Responsibility Act 1994 attempted to bind governments to fiscal balance, in the same way that the Reserve Bank Act 1989 had embedded a 'sound money' policy.

Bill Birch followed Richardson as minister of finance at the end of 1993. He was sympathetic to the 'Treasury line' promoting international linkages, a more productive labour force and a competitive and entrepreneurial economy. Birch, a key ally of Prime Minister Jim Bolger, remained minister until the defeat of the National-led government in the 1999 election.

1999–2008

The Labour-led government elected at the end of 1999 emphasised 'inclusive' growth. Both Finance Minister Michael Cullen and Prime Minister Helen Clark kept Treasury at arm's length. A variety of measures were pursued despite Treasury scepticism, for example the Working for Families tax and benefit package.

The economic climate was relatively benign and there was stability at the top in the staff of both the department and of the minister and his office. The Treasury briefing for the incoming government after the 2008 election saw productivity primarily in micro-economic and regulatory terms, much as it had in the 1990s.

2008–11

The election of a National government in October 2008 coincided with the global financial crisis – although New Zealand's economy had in fact suffered a downturn earlier in the year. Through the crisis Treasury managed the retail deposit guarantee scheme, introduced late in 2008 to protect the bank deposits of ordinary New Zealanders, and organised a short-term credit guarantee for exporters through the New Zealand export credit office.

In its first ever statement on the long-term fiscal position, at the end of 2006, Treasury expected government budget surpluses to last 25 years – but by 2008–9 the government's accounts were $5.9 billion in deficit.

Treasury managed a borrowing programme to fund the deficit.

Micro-economic strategy was longer-term. The tax working group, which sought to rebalance tax policy, though at arm's length from Treasury, was strongly supported by it. Treasury managed the establishment of a Productivity Commission which started operations in April 2011.

Footnotes:

1. Quoted in Malcolm McKinnon, *Treasury: the New Zealand Treasury, 1840-2000*. Auckland: Auckland University Press in association with the Ministry for Culture and Heritage, 2003, p. 303.
2. Quoted in *Treasury*, p. 338.
3. Quoted in *Treasury*, p. 343.

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