



Interview with Michael Bassett

Michael Bassett, former Minister in the Labour Government talks about New Zealand's Economic Experience

Canadians usually have only one reference point, the USA, for economic success or failure. Yet other countries have and continue to experience difficult economic problems and their experience in dealing with such problems may be of interest to Canadians. One such country is New Zealand. Its recent economic history is the topic of the present interview with a former Minister in the New Zealand Government.

A native of Auckland, Mr. Bassett was educated at the University of Auckland and Duke University in the United States. He served in the New Zealand Parliament from 1972-75 and from 1984 until his retirement in 1990. Following the Labour Government victory in 1984 he was Minister of Health from 1984-1987 and Minister of Local Government from 1984-1990. A historian by training Mr. Bassett has served as a private consultant since 1990 and spent the last year in Canada as a visiting professor. He was interviewed by Gary Levy in April 1993.

How would you describe New Zealand's political and economic background to a Canadian audience?

New Zealand has a considerable welfare tradition that can be traced back to the Liberal Government of 1891-1912. Both the Labour Party, in office from 1935 to 1949, and the National (or Conservative) Party in office for twenty-nine of the next thirty-five years made their own contributions to further developing the welfare state. In many ways it can be said that New Zealanders had an appetite for welfare that out-

stripped their capacity to produce. I am not talking just about direct forms of welfare but of a whole raft of indirect measures including import controls and export subsidies. By the 1960s New Zealand began to feel the crunch and tried to adjust to market forces but without great success. By 1970 the OECD said New Zealand had the most regulated economy in the world aside from those of the communist bloc. Some described New Zealand as "Poland without the troops." The debt, which increased dramatically between 1974 and 1984 ran to about 35 billion dollars for a population of barely more than three million. Twenty cents on every dollar was going to pay the interest on the debt. We were literally borrowing to pay the grocer.

What happened in 1984?

Prime Minister Muldoon of the National Party had shown himself to be a master of economic manipulation. Under his administration New Zealand tried wage and price controls, more subsidies, artificially low interest rates and various other programs that proved unable to meet the economic crisis. He effectively lost his parliamentary majority and rather than present one final budget with a deficit in the five billion dollar range he decided to call an election. He was defeated and the new Labour Government was left with a considerable mess. There was an immediate run on foreign exchange. On the Monday after the election the Foreign Exchange Market closed

and the new cabinet, which in New Zealand is elected by the caucus, met. We asked the outgoing Prime Minister to order an immediate 20% devaluation of the currency. We then began to strip away the vast support mechanism built up over many years. Government departments such as those responsible for Forestry, Railways, and Coal Mining were corporatized, which meant they had to begin operating like private enterprises with no government subsidies. This led to tremendous reductions in staff. The railways, for example, employed 22,000 persons in 1984. Four years later this had been cut to 8,500 without any great reduction in either passenger or freight service. As a result of these and other measures we were able to produce a budget with a 1.5 billion deficit (compared to the five billion predicted when we took office). In 1985 we floated the exchange rate and allowed interest rates to rise.

What was the situation in your area of health care?

State medicine was introduced in New Zealand slowly over a number of years. From 1938-1946 we adopted access to public hospitals, access to maternity hospitals, free pharmaceuticals, free x-rays and pathological work, free out-patient services, free district nursing and free dental care for children up to 16 years old. One thing that was not free, however, was a visit to a general physician. The state originally paid 75 cents toward a visit which

cost about \$1.00 in the 1930s. By the 1960s a number of problems had developed in the health care area. Private hospitals were not illegal so a parallel private hospital system had developed. There were long waiting lists for free access to public hospitals. In 1990 a private insurance plan, Southern Cross, introduced insurance that covered 80% of General Practitioners fees so a parallel system of medicine also developed. Meanwhile the gap between the amount the state paid for visits to GPs grew and everytime the amount was increased the doctors simply raised their fees. Medical care became more and more difficult for the poorest in society.

What policies did you pursue as Minister of Health?

We had a government department where expenditures could not be sustained so we took the obvious step of cutting some expenditures such as health subsidies to public hospitals. We also set up a commission to look into the health system but by the time it reported I had assumed other duties. Subsequent Ministers both Labour and, following the 1990 election, National have had to make further cuts. Partial charges for pharmaceuticals have been introduced and the administration of health services has been streamlined. Following the change in government in 1990 I think it is fair to say that universal access has ceased to be a principle of New Zealand's medical system. We now have user fees even for public hospitals. Fees are means tested based on health cards which are issued based on income. In other words if you have income under \$16,000 you are entitled to free services. If you earn between \$16,000 and \$33,000 you must pay part of the cost. Individuals earning over \$33,000 pay full cost for most medical services with certain limiting provisions.

Could we be looking at this scenario in Canada?

I do not know the Canadian health system in detail but it seems to me you have certain advantages. For example, I think Canada is the only country where doctors have surrendered their capacity to set their own fees and accepted to negotiate them with the government. In New Zealand doctors retained the full right to decide on their fee for consultation. They take the position that what the government chooses to reimburse people is the government's business. Thus the right to extra bill is firmly entrenched in New Zealand. Nor can it be argued that this benefits either patients or taxpayers since whenever the government increases its portion of the fee the doctors raise the fee so that benefits to the consumer evaporate. They might as well be poured down the drain.

Do you see any parallels with Canadian politics?

In 1987 New Zealand introduced a 10% Goods and Service Tax. While it engendered some opposition my impression is that there was much less hostility than one finds in Canada. This is perhaps because in New Zealand we did things slightly differently. When the GST was introduced we also reduced income taxes and tried to explain that this represented a new approach to taxation. We wanted to put more emphasis on the taxation of spending rather than earning. Furthermore our GST covers everything. There are no exemptions for food or anything else and I think this is very important. Once you provide exemptions for some you open the door to special interest groups. Of course this creates hardships for the least wealthy and to compensate we increased all social allowances. One final point, we made it illegal to quote prices without the GST so one

never arrives at the cashier and discovers that everything is 10% more than expected. As a result of these policies I think we reduced hostility to the GST and its acceptance by the population is now quite high.

What was the highlight of your life in politics?

That is a difficult question because politics has always been part of my life. I do not mean just the years I was in Parliament. I had a wonderful opportunity to study in the United States in the late 1960s during the political ferment of the anti-Vietnam movement. I observed at close hand the struggle for racial integration in the American South. On returning to New Zealand I was elected to the Auckland City Council, I taught political history at the University of Auckland from 1964-72 and 1976-78. I have done consulting work for New Zealand at Seville Spain in connection with the 1992 Expo. I am working on several projects including a book on a former Prime Minister of New Zealand. However, I suppose the highlight of my ministerial career was as Minister Responsible for Local Government from 1987-1990. When the Labour Government came to office there were over 800 local authorities for counties, municipalities, rivers, everything imaginable. By 1989 this had been reduced to 93 elected Regional and District Councils. Every previous government had talked about the need to consolidate local government but all backed off as a result of pressure from various interests. Our government and my ministry finally managed to push it through and that is probably what I will be most remembered for in terms of New Zealand politics.

