
The New Welfare State

The John P Mackintosh Memorial Lecture 1986

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Prime Minister of New Zealand
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My subject is the welfare state and how it can be reinvented so that it takes place in fact and in belief as a central and fulfilling element in our lives.

The idea of the welfare state at its most significant is very simple. It is the idea that all of us are entitled to live decently and in dignity. It is the idea that money should not be what determines how an illness is treated or a child educated.

If the institutions of the welfare state are despised or taken for granted or are seen to be failing it is not that the idea of the welfare state is any less compelling. It is the expression of that idea which is wanting and which it is the responsibility of Labour politicians to remedy.

That of course brings us to the dilemmas of social democracy which so often preoccupied John Mackintosh. May I say in acknowledgement of him that Mackintosh's academic work is well known to scholars of politics and history in New Zealand and that distance does no more than time to dim the vigour of his intellect. He leaves the memory of a clever, moral, hardworking scholar and politician who was moved by a sense of obligation and who despised cant in politics as elsewhere.

John Mackintosh was I think by instinct and temperament a radical who left no assumption unquestioned and no interest unchallenged. He was passionate in his commitment to social equality. He had at the same time a sense of the complexity of society. He understood that if social theory did not correspond to social reality it was the theory which was deficient, not society.

John Mackintosh's sense of the complexity of society never led him to pragmatism, the refuge of the conservative. He rejected pragmatism as an alternative to motive and direction in government. Without principle there is no will to act and no standard by which to judge the action.

Mackintosh wanted to rethink social democracy so that its fundamental idea of human dignity and decency would again take hold of us.

Any rethinking of the welfare state must be capable of dealing with the real and apparent failings of its institutions. It must resolve the contradictions which seem to

arise when Labour governments, which by their nature should be critics of the economic and social system, find themselves the managers of it.

It must above all deal with the proposition that the social democratic approach to the welfare state depends on economic growth so that when the economy falters the welfare state falls into crisis. If that proposition holds, then the improvement in the living standards which marked the welfare state was no more than the by product of enormously wealthy and expanding economies and when the economy contracts the welfare state withers.

Those are the ideas that I want to discuss this evening. My point is this. If what we call the welfare state serves us only when the economy is growing and fails us when it is in decline then it is not worth the name.

I would like to tell you what happened when a Labour government came into office in a country which has been a welfare state for fifty years. It is a country where economic performance has stumbled and where the institutions of the welfare state have come under stress. I would like to tell you how we are attempting in New Zealand to reconstruct a welfare state actually deserving of the name, and what is happening as a result.

I say at the start that I have no simple answers to offer, for New Zealand or for anywhere else. New Zealand is a small country yet it is complex enough in its economic and social organisation. Many issues remain to be resolved. If I simplify what is happening in New Zealand for the sake of making a point in argument, it is not because I underestimate our difficulties.

I shall briefly describe how New Zealand's welfare state came into existence. It was at the beginning the creation of the Labour Party.

The New Zealand Labour Party was itself the creation of the trade union movement. The party was founded in 1916. Industrial labour had been heavily defeated by a farmers' government and the Liberal Party, to which moderate opinion in the labour movement had once looked, had formed a coalition with the conservatives.

The Labour Party of 1916 was socialist. Its difficulty was that New Zealand was not a highly industrialised society. There was no large-scale class-conscious labour movement.

Farming was the predominant activity and the small farm occupied by its owner was the characteristic unit of production. The Labour Party could not gain office unless it modified its programme. The nationalisation of land was removed from its platform. Its electoral appeal broadened.

When the party won office for the first time in the general election of 1935, it retained the socialisation of the means of production, distribution and exchange as an objective, but it was not an objective the party in office actively pursued. There

were extensions of public ownership, but when the government left office in 1949 New Zealand had been overtaken by many West European countries in the extent of direct public investment in the economy.

That is not to say that there was not government control of the economy. On the contrary, the New Zealand economy rapidly came to be characterised by a bewildering array of licences, subsidies and controls.

Where the Labour government did make a substantial investment was in public housing and construction works and in education and health. It was the public housing programme which gave strength to the economic recovery after the depression of the 1930s. The system of secondary education was reformed and extended. It has always been comprehensive. The government did not achieve a public health system as broad in its coverage as the National Health Service. Entrenched opposition from the medical profession ensured that some services were, and still are, paid for by the patient.

The central achievement of that first Labour government of 1935 was the Social Security Act of 1938. In a straightforward way it described the categories of people who were entitled to benefits. It established the levels of benefits and the means of funding them.

The New Zealand welfare state has not for most of its existence been identified with the insurance or contributory principle. It is for the most part funded out of general revenue. What distinguished it was its universality. It was assumed that there was an entitlement to a minimum standard of living and that there should be equality of access to the best that could be offered in health and education.

The Conservative government which defeated New Zealand's first Labour government in 1949 did not dismantle the structures of the welfare state or the economic controls which accompanied it. There have been changes in attitude and emphasis throughout the life of the welfare state, but its development has always been characterised by addition to the existing structure. It was not in fact a Labour government of New Zealand which made the largest single addition to the welfare state in the form of a universal old age pension on such a scale that last year the pension by itself was 14 per cent of all government expenditure.

I point out here that the Labour Party formed the government in New Zealand for only six years between 1949 and 1984. It had a three-year term in office at the end of the 1950s and another three years at the start of the 1970s.

It is the 1950s and 1960s which are fondly remembered in New Zealand as the heyday of the welfare state and what is called consensus politics. It is instructive to look at what was actually there.

The first point about New Zealand then is that we were extraordinarily rich. There was full employment. There was little absolute poverty or squalour. This, of course,

was in the days before the butter mountain and the common agricultural policy, when you people wore our wool and ate our lamb and beef.

New Zealand then was not a society in which matters of political principle were widely discussed. Politics were about the settling of comparatively minor sectoral differences. The elections of the period have been characterised as auctions in which new welfare provisions were regularly offered as an inducement to vote.

It is not in economic terms a notably egalitarian society. What information there is on the pattern of income distribution tends to show that by the start of the 1970s incomes were closer to an even distribution in the United Kingdom than they were in New Zealand. What perhaps has given New Zealand its egalitarian reputation is the fact that it is a less deferential society than the United Kingdom.

The standards of the prevailing economic order were never wholly defeated by the institutions of the welfare state. The distinction between deserving and undeserving poor still had a hold. Conservative governments found their administration of the welfare state entirely compatible with a belief that the redistribution of income is an afterthought and not a starting point.

The idea that the unemployed are shiftless and that receipt of a social welfare benefit is an indication of personal failing has persisted in New Zealand.

Small-scale capitalism characterised the economy. The predominant units of production were the family farm, the small business and light industry. The economic interventions of the state were wholly in accord with that reality. There were no substantial taxes on property or wealth. There was no capital gains tax. Company tax was low. The tax burden in New Zealand is still not high by international standards but a higher proportion of direct tax is raised from wage and salary earners than in any other country in the OECD.

The New Zealand economy at the height of the welfare state was bound up by controls. Some were imposed in an ad hoc response to recurring economic or financial difficulties. The objectives of many Labour-imposed controls were subverted. The controls perfectly served private economic interest. The economy was insulated so that uncompetitive small capital could be protected. The result was that most of the productive resources were privately owned but there were very few free markets. There were instead licensed and controlled monopolies and oligopolies which were protected from competition by an extraordinary variety of government interventions. One commentator has suggested that New Zealand combined private enterprise and public intervention to secure for itself the worst of all possible worlds. If New Zealand was a welfare state, it was a welfare state for capital first.

It was certainly not an economy which was in any sense well placed to respond to the difficulties it confronted in the 1970s. It was a dependent economy. Its great

wealth rested on its trade in a few pastoral products which it sold in a few markets. Its trade with Britain predominated. Its economic and social institutions had the rigidity characteristic of dependence. Its trade unions were the creatures of statute and functioned in the context of a formalised centralised system of wage bargaining. The prevalence of narrow legalism suited the temper of a social conservatism which closed the public houses at six in the evening.

It was Britain's entry to the Common Market which more than anything changed the course of New Zealand's economic history.

The economy had begun slowly to respond to the need to diversify its production and marketing when the oil shocks of the 1970s produced a shattering reversal in New Zealand's terms of trade.

The economy did not adjust to the new environment. Between 1975 and 1982 there was almost no growth while inflation averaged 15 per cent a year. The number of those unable to find regular work reached a peak of eight per cent of the labour force, a staggering proportion in a country used for many years to full employment. There was a crisis of confidence in the social services.

The political response to economic crisis was perhaps predictable. In 1975 New Zealand elected its first populist government. Its slogan was 'New Zealand the way you want it'.

Its policy appeared to be founded in the reasoning that if the structures of the 1950s and 1960s could be preserved the prosperity of those times must surely follow. On social issues it was intensely conservative and inevitably divisive. In the economy it reinforced the existing structures of privilege. New Zealand's derisory taxes on wealth were further reduced when the threshold for estate duties was raised to the point where hardly anybody paid them.

The government ruled through the corporate state. Vested interest prevailed. Farming, our largest export industry, was heavily subsidised to keep producing more and more of what the world wanted less and less. Farmers farmed for the capital gain.

The exchange rate was manipulated to support farm incomes. Farmers could accurately have been described as New Zealand's highest paid wage earners. The export sector of manufacturing was subsidised so that when innovation did appear, and it certainly did, it could immediately be swamped by subsidised competition. Monopolies improved their position. Trade unions were regulated out of work. Regulation and control proliferated, culminating in an attempt to legislate inflation out of existence.

New Zealand floated on a sea of foreign debt. The exchange rate was rigidly fixed too high and the internal deficit rose to nine per cent of gross domestic product.

By the middle of 1984 the government could no longer sustain this extraordinary performance. It became the first government in New Zealand's modern history to collapse without completing its term of office. It was succeeded by a Labour government whose task was to rebuild the welfare state in the middle of an economic swamp.

I should explain to you what kind of Labour Party took office in New Zealand in July 1984.

The improvements the first Labour government had made in housing, health and education, and the arrival of full employment, led many in the Labour Party to believe, in New Zealand as elsewhere, that the goals of the labour movement had been reached. Capitalism remained but it had been modified and ameliorated. Social democracy was vindicated.

At that point the Labour Party became intensely conservative. The object of its existence was not to change the existing order but to maintain it. In 1951 the New Zealand Labour Party formally removed the socialisation of the means of production, distribution and exchange from its platform.

Some of its socialist heritage remains. Its constitution still proclaims it to be a democratic socialist party but its statement of principles and objectives gives no indication as to how the state of democratic socialism is to be achieved. The constitution declares co-operation rather than competition to be the desirable governing factor in economic relations but in its context that is an expression of belief rather than a statement of purpose.

The party's statement of principles and objectives are those of a social democratic party. The emphasis is on equality of opportunity, not egalitarianism, and on fairness of distribution, not market equality. It assumes the continuance of an economy which generates inequality.

After its triumphs of the 1930s the party's membership went into a long period of decline. In the 1950s and to a lesser extent in the 1960s the parliamentary party was dominated by a conservative trade union connection. The oil shocks of the 1970s found the party unprepared to counter the onslaught of a populist on the right.

The party's crushing defeat in the general election of 1975 nonetheless gave impetus to its re-emergence as a progressive party. The combination of right-wing populism and rising unemployment encouraged the left of the labour movement in a critical appraisal of its political objectives.

Further encouragement came from a different source. The party has always attracted support from those who see themselves as liberal on moral and social issues. That attraction was enhanced by the reaction of liberal opinion to the conduct of a populist government which had scant respect for the rule of law, which thrived on division and was actively sexist and racist.

The Labour party re-established its mass membership. Its organisation was professionalised and its fundraising geared up to pay for it. The parliamentary party came to be dominated by members of the salaried and professional occupational classes. Only one of the members of the present New Zealand cabinet was an official in a blue-collar union before entering Parliament. What should be said about that is that most of the cabinet have been brought up in the Labour tradition and all are conscious of the extent to which they are the beneficiaries of the welfare state.

Trade union participation in the party is at the point where affiliated unions, which forty years ago had 75 per cent of the vote at the party's annual conference, now have about 35 per cent.

All of this has been to some extent reflected in the pattern of the party's support. At the beginning of the 1970s the party's support, as you might expect, was greatest among the lower socio-economic groups and steadily decreased towards the other end of the scale. The right-wing populism of the last government dismayed the liberal-minded while it attracted some Labour voters. It is moral and social issues like New Zealand's sporting contacts with South Africa which as much as anything else have lost Labour those voters. If I tell you that the most contentious moral issue in New Zealand this year is a private member's bill to decriminalise homosexual acts between consenting adult males you will have some idea of the climate which prevails.

The Labour Party won the general election of July 1984 in a four-party contest by attracting 43 per cent of the vote. At that time the traditional pattern of Labour's support had been modified by some increases in support from professional and salaried groups.

The basis of the party's appeal to the electorate, broadly expressed, was what it had always been in the past. It stood for improvements in the social services, for equality of opportunity and for intervention in the economy to modify the behaviour of capital in favour of those who were not capitalists. The test for the party would be whether or not it could reach its objectives in a society in which the means by which social democracy had once reached its objectives had ossified.

Social democracy has traditionally depended on the generation of economic growth which creates a surplus for distribution. It was easy enough, looking at the New Zealand economy as it was in 1984, to see how the conditions for growth might be created. The distortions and imbalances in the economy were obvious. Their removal, and the pursuit of a moderate and consistent policy of economic management, would allow the economy to adjust into a posture in which sustainable growth was achievable. Economists in New Zealand, both inside and outside the government, were in broad agreement in that analysis.

Social democrats must accept the existence of economic inequality because it is the engine which drives the economy.

Their goal is to reduce as much as possible the socially-damaging and disruptive effects of an economy which depends on self-interest without intervening to the point where the economy loses its motive force. When the Labour Party first took office in New Zealand in 1935 a growing prosperity, and popular expectations which were lower than they are today, allowed it to reduce the role played by competition in the economy without much reducing the return to the community. The engine of the economy was at idling speed. Wealth did service for efficiency.

To create growth in the modern New Zealand economy, the engine of the economy would have to be run at far greater speed.

You will understand the dilemmas which arise when a Labour government has formed the view that increasing competition in the economy is the only way in which it can create the conditions for sustainable economic growth. The idea of fellowship, the pre-eminence of co-operation over competition, is the only part of the New Zealand Labour Party's socialist past which has survived in its modern constitution. It has done so because it remains the compelling ideal of the labour movement. An economy characterised by greater competition might well improve in absolute terms the position of the poorest individual in it, but if it does so by widening the gap between poverty and privilege it has nothing to commend it. If the surplus generated by a competitive economy is distributed in accordance with the values of self-interest, the object of equality of opportunity which is the hallmark of social democracy will be defeated. If interventions in favour of capital are dismantled so that capital restructures, it is no comfort to labour if the new structure is still more oppressive.

The analysis which the Labour government which took office in New Zealand in July 1984 made of its responsibilities and the course of action open to it, I summarise as follows. In the first place, the government took office at a time of economic crisis. I described to you the extraordinary and unsustainable course of economic management followed by its predecessor. At the time of the election New Zealand was within a few days of default on its international financial obligations. The immediate devaluation of the currency was necessary.

Beyond that, the government accepted, as social democrats must accept, that the use of competition or the market mechanism was necessary to create the conditions for economic growth.

It intended to allow that mechanism to operate. Its operation must however be limited. Its costs must not be borne by those least likely to enjoy its benefits.

The hidebound and regulated economy the government inherited reflected the structure and interests of capital in New Zealand. Insofar as it was capital which was the beneficiary of the welfare state, it was capital which should be disturbed.

Those whose labour is their only asset have no reason to rejoice in the prospect of being tossed up and down on the free market. It was critical that their position be protected and critical that the costs of the period of adjustment in the economy should not be borne by those least well-off in the community.

At the heart of the new government's approach lay its commitment to equality of opportunity and the way in which that could be enhanced by changes in the pattern of public intervention in the economy. It is in the end the public sector which defines the limits of the welfare state. It was clear that if the economy was to be realigned, the public sector would have to have the capacity to respond in a way which would enhance its ability to meet the objective of equality of opportunity.

The issue was not simply the redistribution of income from rich to poor, however warranted that might have been. The community acts collectively not only to support incomes, to reduce disadvantage and create opportunity but also to provide the services which as a society we wish to provide collectively for reasons of efficiency or social justice.

The welfare state is not worthy of the name unless it derives from a fitting model of government and its role in our lives. It must allow for and encourage the exercise of individual and community responsibility. It must avoid paternalism and the creation of attitudes of dependence. It must, fundamentally, allow all the members of the community the means to live decently.

The reality the government found when it took office was that much of the public sector was as stultified as the rest of the economy. There were corporate empires as stifling as any in the private sector. Their objectives were unclear and their influence while great was often unmanageable. Some expenditure was inefficient and wasteful. Some of it was misdirected like the subsidies on power prices which gave electricity to multinationals at the cost the widow could afford and made us profligate with our resources of hydro-electricity.

The picture in the social services was confused. Expenditure on them had grown steadily in the years before the new government took office, the largest single item being the pension scheme which absorbed 60 per cent of the Social Welfare Department's budget.

That pension scheme is revealing in itself. It is a payment to the individual of an amount equivalent to 60 per cent of the average after-tax full-time wage. Married couples receive 80 per cent of the net average full-time wage. Payment is made at sixty years of age, whether the recipient is in employment or not and whether the recipient has other income or not. It is non-contributory, being funded out of current revenue. It is the cause of considerable resentment among taxpayers of the baby booms of the 1940s and 1960s who as yet see no way in which such generous provision will ever be available to them.

Where it is combined with other income the pension is taxable but in a country without taxes on wealth a universal scheme of this kind takes on the appearance of the welfare state gone mad. That has to some extent been addressed since the change of government by the recovery through the tax system of the equivalent of the whole amount of the pension where the pensioner has a reasonable level of other income.

Be that as it may, the achievement of the scheme is that old age in itself is no longer a cause of poverty in New Zealand. It is a fitting expression of community responsibility. Its universality ensures that the scheme does more than any European scheme I know of to ensure that the inequalities of working life are not perpetuated in retirement. Women and men have exactly the same entitlement and the entitlement of women does not derive from their relationship to men.

That combination of achievement, and uncertainty about the value of the achievement, was visible throughout the social services. There was substantial investment in public housing and considerable resources of capital and skill in public health and education. There are levels of attainment in public health and education of which I think we are rightly proud.

That there were and are problems in the provision of social services is equally obvious.

One of the foundations of a welfare state is a universal health service. It should ensure that all the money there is in the wealthiest suburbs cannot buy in New Zealand a better standard of health care than is freely available to the poorest of us in our public hospitals.

The reality in modern New Zealand is that there are marked differences in the quality of health care available in the richest and poorest areas.

Education is another service which ostensibly is provided universally but which is actually subject to rationing which works to the advantage of the better-off and articulate.

The interests of consumers of the social services are too often confused with the interests of those who provide the services. We have for instance worked ourselves into the position where the government subsidises the incomes of general practitioners by many thousands of dollars but is quite unable to set the terms on which those who receive the subsidy should charge the patients. Substantial public resources are entirely at the disposal of private management.

There is a system of income maintenance which is riddled with inconsistency and anomaly. There are perverse incentives and disincentives. Beneficiaries are stigmatised. The Maori people are concentrated in the lower income and occupational groups. They are over-represented among beneficiaries, the unemployed, the prison

population and the homeless. Equality of opportunity rings hollow when it demands that Maori people meet the standards set by Pakeha people and then holds them responsible when they fail, as often they fail, to meet those standards.

The Labour Party found when it came into office that too many social programmes lacked clear objectives and so lacked clear measures of performance or any means of measuring cost and benefit. Policy was fragmented and little was known about its impact.

If all of that showed in waiting lists in public hospitals and falling standards in the schools, that was plainly no reason to think that the welfare state could never meet the expectations the public reasonably had of it. It must be rebuilt.

In setting about the re-alignment of the economy and the rebuilding of the welfare state, the government was well aware of the difficulties it would face. Some of the sacred cows for the slaughter had once been fondly cherished by the labour movement. Some of the items of public expenditure which were to be reviewed had once been the staples of social democracy in New Zealand. The government has not, for instance, embarked on a programme of privatisation of public assets, but it sees no reason why the government's trading enterprises should not use the market mechanism as an incentive to efficiency.

It sees no reason why public trading enterprises should not be run on a business basis if the social service element in their make-up can be identified and provided for in other ways.

The tension which I think is inevitable in any broad-based party of the left between the parliamentary party and the party at large compounded misunderstanding of the government's intentions. The element in the party which tends more to the democratic socialist than the social democratic naturally balked at the prospect of using the market as the mechanism which would restore life to the economy. There has been extensive debate on the government's economic management at the party's conferences. What at the very least has come of it is that the party as a whole has had to define its objectives more coherently and its methods more precisely.

The critical challenge the Labour Party faced came from the fact that it intended to disturb privilege and vested interest. To create the conditions for economic growth the protections which capital had enjoyed would have to be reduced or removed. Vested interests, of course, are well organised to defend their position. They are entrenched in the centres of influence and tied into the communications media.

They have in their support the values which allowed the subsidisation of farming and business to be regarded as profoundly respectable, and indeed to be the subject of apparently serious economic argument in its justification, while the payment of benefits to the unemployed and single parents was regarded as a burden on the community.

Those values can be seen at work in New Zealand now in response to economic adjustment. Farming is our major export industry and in recent years was heavily subsidised. Now that the subsidies have been removed and land prices have fallen closer to market reality, many farmers find themselves overburdened with debt and with a capital structure which does not allow their businesses to be profitable. This has been greeted with an outrage which never greeted unemployment at its very height. Editorial writers who could never stomach the argument that economic and social inequality might have something to do with the causes of crime suddenly find words of understanding for farmers who break the law and turn to violence.

It must be said, moreover, that New Zealand's political system is not one which lends itself easily to a reforming approach in government. The life of the Parliament is three years. If there were to be substantial change in the economy its costs would appear before its benefits. The government calculated, for instance, that an element in the achievement of a sustainable reduction in the rate of inflation was a monetary posture which would inevitably send interest rates soaring, and that those rates would not reduce until the country as a whole had become accustomed to living within its means. That is a formidable electoral prospect in a country where purchase of the family home is the rule and not the exception. It was made all the more formidable by the fact that the departing government had held domestic mortgage interest rates, by regulation, at a rate several points below the real rate of inflation.

It was obvious that any government which embarked, in a three-year term of office, on a programme of economic management which would mean considerable structural change, and an end to a fool's paradise built on borrowed money, would be running serious electoral risks. The political danger was that populism would reassert itself in an appeal to the dispossessed and the disaffected.

The counter to that was two-fold. There was in the first place our enduring belief that if they were asked, the electors would accept a serious argument honestly put. Underpinning that was our commitment to the welfare state. Whatever shape the economy might take, standards in public health and education and the welfare services must be maintained or improved.

The guiding purpose of government intervention and public expenditure must be that of the welfare state at its most liberating.

I mentioned to you that the Labour Party was elected to office with 43 per cent of the vote in a four-way contest. Expectations of it were nonetheless high and widespread. This was perhaps accounted for by the fact that the defeated government had in its last years become increasingly shrill and its departure brought a sense of relief. It was inevitable in that context, but perhaps unfortunate, that the Labour Party had chosen to present itself as a party of consensus.

There was some confusion as to exactly what that meant. There may have been some who thought that once again the 1950s were to be reconstructed. Others perhaps assumed that the government could somehow give everybody all that they wanted. Others still may simply have thought that the government was going to be nicer than the last one.

At times when every vested interest in New Zealand has been at the government's throat, consensus is a word which has come back to haunt us. The reality of course is that a genuinely reforming government faces a constant test of its political nerve. Our Minister of Finance has his own demonology.

Our political capital lies in our sense of purpose. Our purpose since we entered office has been to demolish the protections the economy gave to business and restore the protections a decent society should give to individuals.

To that end, the new government dismantled much of the structure of regulation, licensing and control that it inherited. Controls on prices, wages and interest were removed. The public sector is being restructured so that it can be managed in accordance with clear objectives. New Zealand had its fair share of quangos; those perennial instruments by which vested interests maintain their privilege. Their number has been pruned and will continue to be reduced. Exchange controls were removed.

The currency was floated. Farm subsidies were mostly removed. Export subsidies were mostly removed. Import licensing is being phased out and import tariffs are reducing. Some industries have been entirely deregulated.

I should point out that regulatory control of mergers, and sanctions against uncompetitive trade practices, have been strengthened. A new statutory instrument which effectively reasserts the public interest in genuine competition among enterprises was recently passed in the face of opposition from business interests.

The government deficit as a proportion of gross domestic product has been reduced by half in two years without reductions in expenditure on health, education and the welfare services. A large part of the burden of taxation is being shifted from income to consumption. Fringe benefits have been made subject to taxation.

The result of all of this has been that the financial sector in New Zealand rapidly adjusted to become one of the most competitive in the world. The commodities sector is adjusting more slowly, greatly hindered in the case of agriculture by the recession in world prices for farm products.

The government is proceeding with great deliberation with the reform of the labour market. The structure of wage bargaining and trade union organisation was no more or less dynamic than any other part of the economy when the government took office. That in itself is no argument for throwing working people to the wolves of a

free market. On the contrary, in a competitive economy labour must be represented by effective bargaining units. That view has brought the government into conflict with the element of trade union opinion which would prefer to be an ineffective bargaining unit in an uncompetitive market. The result has been some distancing between the government and its trade union support.

The government has no abiding interest in the maintenance of the existing structure of union organisation. It does have an enduring interest in the welfare of those who are represented by trade unions and in ensuring that their representatives have the capacity to represent them.

There is no prices and incomes policy in New Zealand. Wage bargaining has proceeded freely within the existing structure without disturbance of the protections which existed for those on lower incomes. In whatever form, those protections will be maintained. Family incomes at the lower levels have been supported through the social welfare system and will be further supported this year through the tax system. A minimum income which reflects family responsibilities will be ensured to all who work. Where the wage does not reach the minimum level the tax system will deliver the supplement.

Critically, the government has not used unemployment as an instrument of economic policy. It accepts that some redundancy and relocation is inevitable as the economy adjusts but it does not accept that unemployment as such is either a permanent or necessary feature of the economy. Full employment remains our objective. Unemployment has fallen since the government took office, and although some increase is likely this year because a slump in agricultural commodity prices has been imposed on the process of economic restructuring, it will not come near to the levels of the recent past.

I sum up our economic management like this. In the beginning the response to economic crisis greatly limited our options. We created an environment in which capital could rapidly restructure and so generate economic growth. We sought to protect those who are not owners of capital by maintaining expenditure on the social services and by enhancing the quality of the government's interventions.

I think that we shall have an economic recovery in New Zealand, and that as the economy grows our management of it can reflect less the need to make money. We have a great deal yet to do to blur the distinction between our economic and our social policy.

It is only appropriate that I acknowledge here that we have made mistakes and errors of judgement. Experience has taught us some hard lessons. We have found that the protections the existing order gave to individuals are inadequate to deal with all the human costs of economic adjustment. We have moved painfully towards an understanding of those costs and how recompense may be made for them.

Some aspects of our policy are understandably and reasonably the subject of dispute. There is for instance the point that a consistent policy will always impact inconsistently in the different regions of New Zealand. There is a school of thought in the government which argues with rigorous logic that that is exactly what should happen. I am not so certain that it is exactly what we want to happen.

Where I am more certain is in the future of the social services which are at the heart of the welfare state. The government accepted when it took office that in some cases it would simply have to spend more to counter obvious deficiencies. It has done so in health, housing and education. A great deal has already been achieved. I think too that we have been able to enhance the access to resources of those outside the predominant culture. By devolving resources and responsibility we have given some recognition to the values of multi-culturalism.

What we have also done is to embark on a re-appraisal of the effectiveness of our social programmes. The process of examination and enquiry is continuing.

The most critical step in the reassertion of the values which are the hallmark of the welfare state and the Labour tradition will be taken with the appointment this year of a Royal Commission on Social Policy. Its terms of reference are broad. Its work must enable us to reaffirm our belief that society is collectively responsible for all its members. It will be asked to set the standards by which we can measure the performance of our social service and welfare agencies. It will examine the role of the agencies of government, the voluntary sector and the private sector in the distribution of income and the allocation of resources, including access to health, education and welfare services. It will be asked, having done that, to determine how the government should improve its interventions to enhance the role of the welfare state as a liberating element in our lives.

I have tried to convey to you this evening some of the doubts and dilemmas which confronted the New Zealand Labour Party and how we tried to resolve them. Much of what we have done is unconventional in terms of the history of the labour movement, although I hope that what I have said will satisfy you that if we are unconventional in our method we are at one with our tradition in our purpose.

In September 1987 there will be a general election in New Zealand and you will see whether or not the New Zealand electorate considers that the spirit of social democracy has successfully reasserted itself in the Labour Party. I do say this. I think that there is in ordinary people a sense of how right it is that no-one should ever have to worry about the cost of health care, about the education of a child or about being old or out of work. A Labour government which is doing all in its power to make the vision real is entitled to ask for their support.