

# THATCHER'S HEIR IN THE ANTIPODES: INTERVIEW WITH DR DONALD T. BRASH

**Don Brash** discusses his intellectual influences, monetary policy and reforms, and his return to politics with CIS New Zealand Policy Analyst **Luke Malpass**

**L**ike most children growing up in 1990s New Zealand, I knew Dr Donald T. Brash as the man whose name was on the money.

No one has quite dominated the public policy and political space in New Zealand in so many different roles as Dr Brash has over the past three decades. Formerly a World Bank official, Dr Brash spent a remarkable 14 years (1988–2002) as Governor of the Reserve Bank of New Zealand (RBNZ), during which time he helped tame the inflation beast and introduce the *Reserve Bank of New Zealand act 1989*, creating a unique relationship between central bank and government, a relationship subsequently copied by Australia, Canada and the United Kingdom. Unlike in Australia, for the duration of his term as RBNZ governor, Dr Brash was personally responsible for the conduct of monetary policy—no opaque RBA board meeting minutes here.

In 2002, Dr Brash retired from RBNZ and entered politics for the conservative National Party. A year later, he became party leader and lifted the National Party primary vote from 20% to 40%. In 2005, he narrowly lost the election to Helen Clark's Labour Party, gaining 39% of the vote to Labour's 41%. He retired from politics shortly after.

Since 2006, Dr Brash has primarily pursued business interests, occasionally commenting on public policy issues. In 2009, he was appointed chair of the newly formed 2025 Taskforce—a government appointed body whose explicit

job was to recommend policies to lift New Zealand's living standards to those of Australia by 2025. Other members included former Labour Minister of Finance David Caygill; economist Dr Bryce Wilkinson; and former member of the Productivity Commission of Australia and *Policy* contributor, Professor Judith Sloan.

In April this year, having had his policy recommendations ignored by the Key government, Dr Brash effectively mounted a hostile takeover of the nominally free-market ACT Party—a party currently in a parliamentary supply and confidence agreement with John Key's National-led government.

ACT was founded as the Association of Consumers and Taxpayers in 1993 by Sir Roger Douglas, former Minister of Finance, and Derek Quigley, an MP with the Muldoon government. The political party was formed in 1994 and won 8 out of 120 parliamentary seats in the 1996 election, standing on a largely libertarian platform. From 1999–2005, ACT held nine seats in Parliament. However, in recent times the ACT Party has been criticised for drifting away from its core liberal principles. In particular, it has been rightly criticised for focusing on conservative social issues rather than liberal economic ones. As part of government, ACT has consistently polled at 1.5% popularity. This, and the frustration with the current government's lack of policy direction, prompted Dr Brash to take over the leadership from incumbent Rodney Hide.

It is a situation similar to Campbell Newman's extra-parliamentary leadership of the Liberal National Party in Queensland; however, at the time of writing (five months before the 26 November election), Dr Brash's leadership is yet to yield a substantial result.

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**LM:** Dr Brash, where to start? Son of the manse, former socialist, classical liberal, World Bank official, RBNZ Governor, Leader of the Opposition, and kiwifruit grower, among many other things. You have had a wonderfully diverse and full career. Could you give us a quick rundown of your upbringing and career?

**DB:** I was brought up in a Presbyterian manse, the son of a milliner who had had only one year of high school education and a clergyman who was a Christian pacifist during World War II. Though my parents never discussed who they voted for, I was in no doubt they voted Labour—and I always assumed as a young adult that being Christian meant being socialist. It wasn't until I learned more economics that I realised that government decrees often produce results that are the very reverse of those intended. An obvious example was decreeing an increase in the minimum wage—to most on the left, that sounds a good thing because it raises the incomes of those at the bottom of the heap. But, of course, if it also puts a lot of people out of work, that is quite destructive for the well-being of those on low incomes.

I studied under a neo-Marxist at Canterbury University, and did a Master's thesis on New Zealand's debt servicing capacity. I concluded that New Zealand should reduce its dependence on foreign capital because of the cost of servicing it. To the extent that foreign capital was needed, I argued that it should be procured through government borrowing rather than foreign direct investment. That way, 'foreign control' could be avoided, and the cost of servicing the foreign capital kept to a minimum.

I went to the Australian National University to do a PhD, and spent more than three years studying the impact of American investment in Australian manufacturing. I started the study being totally antagonistic to foreign investment, convinced that US corporates were exploiting their position in Australia to make excessive profits, while avoiding paying their fair share of taxes, being restricted from exporting out of Australia by their foreign parents, and refusing to share ownership with Australian investors. Over three years of looking at 100 US-affiliated companies in Australia, I discovered I had been totally wrong—both on the facts of the situation and on the theory of what impact foreign investment has on the host country. It was a real 'road to Damascus' experience for me.

My conversion was completed when I worked for the World Bank in Washington. For a time, I worked on Peru and found a great example of good intentions by an aid-giving country and the Peruvian government resulting in disastrous outcomes for the Peruvian people. Good intentions are clearly not (nearly) enough!

**LM:** A recent cover story I wrote for the *Spectator Australia* ('Go get em Don!') about your political comeback was accompanied by a cartoon of you as Margaret Thatcher's bulldog in the antipodes! This prompts me to ask: which politicians/economists/philosophers/leaders have inspired you?

**DB:** Internationally, Margaret Thatcher, and perhaps surprisingly, Nelson Mandela. And, of course, Milton Friedman, whom I had the privilege of knowing. Within New Zealand, Roger Douglas and Ruth Richardson, for their unflinching courage and commitment to pursue policies that were in New Zealand's interest, even if not in their own political interest.

**LM:** Would it be fair to say you became a classical liberal convinced by the evidence rather than ideological preference?

**DB:** Absolutely true. I didn't read Milton Friedman until about 1980, long after my 'conversion.' When asked to give the Hayek

Memorial Lecture by the Institute of Economic Affairs in 1996, I was embarrassed to admit that I hadn't read any of Hayek at that stage.

**LM:** But you went on to describe the distinctively Hayekian characteristics in the New Zealand reform process in that address, particularly flows of information crucial to the process of entrepreneurial discovery. With benefit of hindsight, would you still agree that New Zealand's reform process had those Hayekian characteristics?

**DB:** I'm not sure how to answer that question. The reform process at least had the advantage of removing the subsidies and distortions which previously meant that market prices were a poor reflection of net social benefits.

**LM:** Let's talk about your time as RBNZ Governor and monetary policy in New Zealand and around the world. Many people in New Zealand, particularly those in their 20s, don't know about your considerable experience as a central banker of international repute.

In recent times, there appears a shift in the perception of the RBNZ governor not only being independent but also *seen* to be independent. For example, Bill English and John Key explicitly stated this year what they wanted the RBNZ Governor, Dr Alan Bollard, to do with the interest rates. Coupled with what seems to be a breakdown in cross-party consensus on the role and operation of monetary policy, are you concerned about this?

**DB:** Yes, I think that comments by the Prime Minister and Minister of Finance about what they expect the Governor to do with interest rates are particularly unhelpful, and almost dare the Governor to ignore those comments. I don't ever recall public comments by either the Prime Minister or Minister of Finance about the conduct of monetary policy during the almost 14 years I was Governor. Even in private, they never complained that monetary policy was too tight—and could hardly have done so since inflation was never below the floor of the inflation target, and was rarely even in the bottom half of the target range.

I think the breakdown in the cross-party consensus on the role and operation of monetary policy is worrying—more so because shortly after coming to office in 1999, the last Labour government commissioned a thorough study of the framework within which the RBNZ operates. This study was conducted by Lars Svensson, then a leading monetary policy academic and now the Deputy Governor of the Swedish central bank, and concluded that the monetary policy framework in New Zealand was world's best practice. Before the 1999 election, which brought Labour to office, there were similar rumblings within the Labour Party, so perhaps this is a ritual we have to live through from time to time. But it is certainly unhelpful.

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**LM:** In your Hayek Lecture in 1996, you said that although support for the RBNZ was relatively high, if asked slightly different questions, people would say that monetary policy should support full employment, growth, controlled exchange rates, etc. Do you still think this to be true, and if so, how do you think this bodes for the long-term future of price stability through inflation targeting?

**DB:** I think there is a very widespread view, in New Zealand and in other countries, that monetary policy has an enduring effect on employment, economic growth, and so on. Possibly because in most countries (though not in New Zealand since 1989), the legislative mandate within which central banks operate still requires them to deliver high levels of employment and growth. This is a reflection of the fact that in most countries, those mandates were developed when economic theory actually thought that monetary policy *could* have an enduring effect on those variables. We now know, of course, that monetary policy does not have an enduring effect on employment—though it's sometimes hard

for the general public to understand that, considering so much commentary links monetary policy decisions to employment and economic growth. That's presumably because, once price stability or low inflation has been achieved, and inflation expectations have been adjusted downwards to reflect that new reality, there is often a link in the short-term between changes in employment and growth on the one hand and changes in inflation on the other, so that monetary policy geared only to inflation may give an appearance of being geared to employment and growth.

I recall discussing this issue with Alan Greenspan at the annual meeting of central bankers in Jackson Hole, Wyoming, on one occasion, and telling him that the mandate under which the RBNZ operated required us simply to 'achieve and maintain stability in the general level of prices.' He envied me.

Central bankers have an ongoing responsibility to explain to the public the limits of their power.

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**LM:** So to play a constructive role in a suite of policy settings, monetary policy needs some mates?

**DB:** There's no doubt in my mind that if fiscal policy and employment law are working 'with' rather than 'against' monetary policy, the social costs of maintaining price stability are greatly reduced. In the second half of the last decade, for example, with a very strong increase in government spending, monetary policy in New Zealand had to be kept a good deal tighter than would have been necessary with a less expansionary fiscal policy—and that was almost certainly a significant factor in an uncomfortably high real exchange rate with the resultant squeeze on the tradables sector.

**LM:** You spoke about potential ANZAC currency unions while at the Reserve Bank, not with

a position but pointing out the advantages and pitfalls of each. What are your views on that now?

**DB:** On balance, I don't favour a currency union, and in a sense the present situation illustrates the problems with such a union. At the moment, Australia needs markedly tighter monetary conditions than New Zealand. Milton Friedman once said that small countries should adopt the currency of their largest trading partner. I asked him whether he thought that New Zealand should adopt the Australian dollar. He said 'absolutely not': he said he had only made that recommendation for small countries that did not have their own robust central banking institutions. He could see no advantage in New Zealand adopting the Australian dollar.

**LM:** The 2025 Taskforce, which was charged with recommending policies to close the income gap with Australia, generated a lot of interest not just in Australia but across the Anglosphere for being so explicit in its goal. Criticisms, particularly from commentators like Rod Oram, include 'Why does it matter?' and 'Why not compare ourselves to Singapore or the US or another country?' Why do you think it matters?

**DB:** In one sense, the relevant issue is how New Zealand is performing vis-à-vis other developed countries. The Labour government's pledge in 1999 was to return New Zealand to the top half of the OECD within a decade. That was a sensible goal. But both when I was leader of the National Party (2003–06) and after John Key assumed that role, the emphasis was on 'catching Australia.' That was partly to capitalise on the traditional friendly rivalry between the two countries, partly to recognise that 'Australia' is a more tangible goal than 'the top half of the OECD,' and partly because Australia is the country to which New Zealanders aspiring to a better life can most readily move—same language, similar culture, same sports, no visa requirements. Over the last decade, a net 280,000 New Zealanders have moved to Australia, and on present trends 400,000 more

are expected to move there between now and 2025. That's a very large number for a country with about 4 million people in total, and movement of that size has quite profound implications for New Zealand's own growth.

**LM:** What were the most important policy changes recommended in the last report of the 2025 Taskforce, and why were they rejected so roundly?

**DB:** Both the first and second reports of the taskforce were about 150 pages in length, so they're hard to summarise briefly. But both provided essentially orthodox economic advice consistent with what the NZ Treasury and the OECD are telling the government—get spending under control (and reduced relative to GDP), reduce the regulatory morass with which industry has to cope, be more open to foreign investment, move state-owned commercial enterprises into the private sector, and so on—all orthodox recommendations. Why were they rejected (or more accurately 'ignored')? Because they would have required the government to explain to the public why some of the myths that the Labour government had spread ('the reforms of the eighties and early nineties were a disaster, and privatisation was a terrible failure') were totally incorrect, and would have required the government to expend some of its political capital.

**LM:** Why do you think 'economic orthodoxy' elsewhere in the world is considered extreme 'right wing' in New Zealand?

**DB:** I'm not sure I know the answer to that question. It's particularly puzzling because Helen Clark—who did so much to propagate the myth that the reforms had 'failed'—was a minister in the reforming government of the late 1980s, and was actually Deputy Prime Minister when the largest single privatisation (Telecom) took place in 1990. The reforms did, of course, cause some transitional pain—to employees in state-owned enterprises who lost their jobs, to employees in highly protected manufacturing industries, to farmers who suddenly lost their subsidies, to a great

many people as inflation was reduced from double-digit levels to under 2%—and of course it coincided with the trauma of the collapse of the 1987 share market and commercial property bubble. So perhaps it wasn't too hard for Helen Clark and her ministers to spread the idea that all that pain was caused by the 'reforms,' and we should not go back there. Ironically, of course, her government reversed very few of the reforms, except those related to the labour market.

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**LM:** That's a very interesting observation and one of the modern mysteries of NZ political culture. What prompted you to return to politics as leader of the ACT Party?

**DB:** I've already mentioned my extreme disappointment that the National-led government has done so little either to deal with the immediate fiscal mess or to accelerate our growth rate. I've been disappointed too by the fact that, after arguing that New Zealand should be a 'fast follower' rather than a world leader in attempts to reduce greenhouse gas emissions, the government has gone ahead with an all-gasses, all-sectors emissions trading system despite the fact that none of our major trading partners yet has anything similar.

I have also been deeply disappointed at National continuing to give a preference in law to Maori New Zealanders, despite the party being firmly committed to 'one law for all' since at least 2002 (when Bill English was leader of the National Party). For example, when seven local governments were merged into one 'super Auckland' last year, the statute creating the new city provided for a Maori Advisory Board with non-elected members having voting rights on most Auckland Council committees. When the Environmental Protection Authority was established by statute earlier this year, provision was made for a separate Maori advisory committee. There has been no move to abolish separate Maori electorates, even though the

National Party has been committed to that end for more than a decade—and despite the number of Maori in Parliament significantly exceeding the number of Maori electorates (demonstrating that separate racially based electorates are simply no longer required to ensure that the Maori voice is heard in the New Zealand Parliament).

I'm hoping that after the election, ACT will be in a position to push the National Party towards forming a government that tackles New Zealand's problems in a more robust manner.

**LM:** You have expressed concern with race issues in New Zealand since your Nationhood speech in 2004. The majority of New Zealanders agree with your stance, according to polling and survey data leading up to the 2005 election. And yet you are denounced as an extremist and racist in the media and by the political class for standing on a 'one law for all' platform. Does this frustrate you, and how do you explain this disconnect?

**DB:** It certainly concerns me: I don't see myself as racist at all, and I can't see how somebody who strongly believes in equal rights for people of all ethnicities can be regarded as racist. That term used to be used for those who wanted some kind of preference for one ethnicity as compared with others—not for those who argued for equal rights and a complete absence of preference! When studying for my PhD in Canberra in the '60s,

I refused to join the Australian Labor Party (I was still on the left of the political spectrum in those days!) because of its White Australia policy. My wife is Chinese. So yes, being called racist irritates and frustrates me. Why does it happen? I'm not sure I know the answer, though what you term 'the media and the political class' have to a large extent bought the nonsense that the Treaty of Waitangi provided for a 'partnership' between Maori and other New Zealanders. In fact, the plain words of the treaty provide for no such thing. On the contrary, Article III provides that all New Zealanders should have the rights and responsibilities of British subjects—no more and no less. That was an extraordinary statement for the British Crown to make in 1840 in relation to people they no doubt regarded as coming from a significantly inferior civilisation, but it is a great basis for a modern democracy.

**LM:** So what are your political aspirations for ACT at the November election? What will be a good result for you?

**DB:** I'm clearly hoping that after the election, ACT will be in a position to push the National Party towards forming a government that tackles New Zealand's problems in a more robust manner—in fact, in line with the commitments National made before the 2008 election! Of course, we will only be able to do that if ACT is the only party with which National could plausibly form a majority government.

**LM:** Don Brash, thank you kindly, it's been a pleasure.

**DB:** Thank you.