Six years at full speed

New Zealand's 1984-1991 reforms - the float, the end of farm subsidies, the state-owned enterprises and the world's first legislated inflation target - and what speed bought and cost, measured

Country decision study | MacroLens Research | Independent desk research - not peer reviewed - not investment advice

Abstract

In July 1984 New Zealand's incoming Labour government inherited a frozen, subsidized economy and a currency under siege; within six years it had floated the dollar, abolished farm subsidies that had absorbed over a third of pastoral output, turned government trading departments into companies, halved the top income-tax rate, introduced a broad consumption tax and legislated the world's first central-bank inflation target. Both parties kept the core. The measured record is double-sided: inflation fell from nearly 19 percent in 1987 to about 2 percent by 1991, and the framework legislated from 1989 still binds policy in 2026 through successors, while unemployment rose from 3.6 percent in 1986 to about 11 percent by 1992 and the poorest households waited over a decade to recover. This case examines speed as a deliberate policy choice: what it bought, what it cost, who paid, and what Sri Lanka can now conditionally draw from it.

Why this case for Sri Lanka

Sri Lanka is four years past its own breaking point: the April 2022 external-debt default and Colombo CPI inflation of 69.8 percent in September 2022, followed by the IMF's roughly three-billion-dollar Extended Fund Facility approved on 20 March 2023. The program's fifth and sixth reviews were completed on 27 May 2026, and on 4 October 2026 staff announced agreement on the seventh review - about 345 million US dollars, subject to board approval and to a 2027 budget presented in line with program parameters. The institutional questions New Zealand answered between 1984 and 1991 are Sri Lanka's open file: the Central Bank of Sri Lanka Act No. 16 of 2023, certified on 14 September 2023, made price stability the bank's primary objective and was followed on 3 October 2023 by a public monetary-policy framework agreement with the finance minister - the same device New Zealand invented in 1990. And on 28 October 2026 the government outlined plans for a new SOE Act: a holding company, incorporation of state enterprises as limited-liability companies, divestment for some and mergers for others, with 527 entities tagged as state enterprises and parliamentary passage possibly slipping into 2027. New Zealand ran that entire sequence at maximum speed. Its record shows what the speed buys and what it bills.

The starting point: a fortress economy out of road

By the early 1980s New Zealand was among the most controlled economies in the OECD: fixed exchange rate, import licensing, interest-rate controls, farm subsidies and, from June 1982, a general freeze on wages and prices. Top personal income tax stood at 66 percent from the late 1970s. Annual CPI inflation ran in double digits every year from 1974 to 1982 - between 11.2 and 17.2 percent - before the freeze suppressed it to 7.3 percent in 1983. Support to pastoral farming had climbed from 12 percent of the value of output in 1979 to 35 percent in 1983. The 1984 budget deficit was a high 9 percent of GDP, by a later World Bank account. A country that had ranked sixth in the world for income per person in 1965 had slipped to nineteenth by 1980, on the official NZHistory account. When Prime Minister Muldoon called a snap election on 14 June 1984, markets read a Labour victory as devaluation; the run on the dollar forced the issue within days of the 14 July vote, and the outgoing government's initial refusal to devalue created a brief constitutional standoff before the 20 percent devaluation was announced on 18 July 1984.

The decisions: devalue, float, strip, corporatize, codify

The first decision was to end the fixed rate for good. After the July 1984 devaluation, the New Zealand dollar was floated on 4 March 1985, and the wage and price freeze was ended with the November 1984 budget.

The second decision was to strip the farm sector within a single budget cycle. The November 1984 budget removed tax concessions and subsidies to farming; within twelve months all production subsidies, including those on fertilizer and other inputs, had been removed. Farmers' support fell to levels that the OECD would later measure at 0.7 percent of gross farm receipts in 2020-22, among the lowest in that club.

The third decision was to corporatize before selling. The State-Owned Enterprises Act, assented on 18 December 1986, turned government trading departments into companies with commercial mandates; the first nine state corporations began operating on 1 April 1987. Asset sales followed from 1987 - the Bank of New Zealand, Petrocorp, New Zealand Steel, the Shipping Corporation, State Insurance and, in 1990, Telecom, sold for 4.25 billion New Zealand dollars to an Ameritech-Bell Atlantic consortium.

The fourth decision was to rebuild the tax base. GST was introduced on 1 October 1986 at 10 percent, replacing a patchwork of sales taxes; the top personal income-tax rate came down from 66 percent to 33 percent by 1988.

The fifth decision was to write the new rules into statute. The State Sector Act (1988) re-made the public service; the Public Finance Act (1989) put the government itself on accrual accounting; and the Reserve Bank of New Zealand Act, assented on 20 December 1989 and in force from February 1990, gave the bank operational independence with a single mandate - price stability. In March 1990 Finance Minister Caygill and Governor Brash signed the first Policy Targets Agreement: annual inflation of 0 to 2 percent by December 1992, a public, dated contract that the bank and parliamentary researchers record as the first arrangement of its kind anywhere.

The sixth decision belonged to the National government elected in October 1990: it kept the framework and pushed further, passing the Employment Contracts Act in 1991 and delivering the 1991 "mother of all budgets," which cut the unemployment benefit by 14 dollars a week, the sickness benefit by 27.04, abolished the universal family benefit and extended user-pays into hospitals and schools. The Fiscal Responsibility Act, assented on 27 June 1994, closed the loop by binding future budgets to principles of responsible fiscal management.

The decision chain: dates

When	What happened
14 June 1984	Muldoon calls a snap election for 14 July; markets anticipate devaluation and the run on the dollar begins
18 July 1984	20 percent devaluation announced after the outgoing government's initial refusal creates a constitutional standoff
November 1984	First Douglas budget: farm subsidies and tax concessions removed, wage-price freeze ended, tax review announced
4 March 1985	New Zealand dollar floated; the Reserve Bank stops posting official buy and sell rates
1 October 1986	GST introduced at 10 percent, replacing patchwork sales taxes
18 December 1986	State-Owned Enterprises Act assented; the first nine state corporations begin trading on 1 April 1987
June 1987	Asset-sales program announced; Labour re-elected in August; the October crash hits the world's most inflated market
1988	State Sector Act re-makes the public service; top personal income-tax rate reaches 33 percent
1989	Public Finance Act puts the Crown on accrual accounting; Reserve Bank Act assented 20 December, in force February 1990
March 1990	First Policy Targets Agreement: 0-2 percent annual inflation by December 1992, signed by Caygill and Brash
1991	Employment Contracts Act deregulates labour markets; the "mother of all budgets" cuts and re-targets welfare
27 June 1994	Fiscal Responsibility Act assented, binding budgets to published principles of prudent management

Measured outcomes I: what the speed bought

Inflation fell and stayed down. From double digits every year of 1974-82 and a rebound to nearly 17 percent by mid-1985 when the freeze came off, annual CPI inflation peaked near 19 percent in 1987, then fell to about 2 percent by 1991; the Reserve Bank records that the first target was met a year early. The framework still binds, through successors: the Reserve Bank of New Zealand Act 2021, in effect from 1 July 2022, replaced the 1989 Act; an employment objective added in between was removed again by an amendment assented on 19 December 2023, returning the bank to a single price-stability focus; and the 1-3 percent band still applies - annual inflation was 3.7 percent in the September 2026 quarter, above it. Farming survived its cold bath: with support at 0.7 percent of gross farm receipts in 2020-22, agriculture remained the export backbone, at among the lowest support levels the OECD measures. The state's books were rebuilt: from a deficit of about 9 percent of GDP in 1984, the 1993 pre-election update projected deficits narrowing from 1.44 billion New Zealand dollars in 1993/94 to near-balance by 1995/96, with net public debt declining from 47.9 percent of GDP. The institutions outlasted their makers: the 1989 Reserve Bank model informed central-bank legislation in many countries, accrual government accounting spread from Wellington, and successive governments of both parties have amended rather than abandoned the framework's core (attributed assessments).

Measured outcomes II: what the speed cost

The bill arrived as jobs and distribution. Unemployment rose from 3.6 percent in 1986 to a peak of about 11 percent in 1991-92; one historian's tally counts about 76,000 manufacturing jobs lost between 1987 and 1992, and at least 20,000 redundancies across just four of the new state corporations - New Zealand Post (8,000), Forestry (5,000), Coal (4,000) and Electricity (3,000) (attributed tallies). The sharemarket, up about 600 percent from 1982 against about 250 percent overseas, was the world's worst performer in the year after the October 1987 crash, still 50 percent below its peak when Sydney was down 32.7 percent and New York 21.6 percent; by February 1988 nearly 60 percent of its value had been destroyed (Te Ara; NZ Herald). Poverty estimates rose by at least 35 percent between 1989 and 1992; child-poverty estimates went from 14 percent in 1982 to 29 percent in 1994; the lowest 30 percent of households took roughly two decades to regain their 1980s living standards (attributed, contested estimates). Growth disappointed through the adjustment: critics record near-stagnation between 1985 and 1992 and two sovereign credit-rating downgrades across 1984-93 (attributed). And the political cost was real: the Lange-Douglas rift split the Labour government, which fell in October 1990; the 1991 benefit cuts, made without compensating measures, left consent for the program permanently damaged (desk interpretation).

Transfer limits: what New Zealand does not prove

First, New Zealand in 1984 was an extreme case - one of the OECD's most controlled economies - so its results do not measure what liberalization buys a moderately regulated one (desk interpretation). Second, the speed was constitutional, not just political: a unicameral parliament, a fused executive and two-party dominance let one cabinet legislate a revolution between elections; most democracies, Sri Lanka included, cannot (desk interpretation). Third, a clean float and an independent central bank presume deep domestic institutions and no binding external constraint; Sri Lanka's 2022 failure was a reserves-and-default crisis of a different kind (desk interpretation). Fourth, attribution is bounded: no counterfactual was run, and the gentlest critics note no demonstrated alternative path (ANU assessment); the poverty and job tallies above are contested estimates. Fifth, the 1980s were a global disinflation decade: part of New Zealand's inflation victory belongs to the era, not the statutes (desk interpretation).

Conditional lessons for Sri Lanka

These are design observations, not prescriptions.

1. Use the window, but decide the order first. New Zealand sequenced devaluation, float, subsidy removal, corporatization and then statute. Sri Lanka's 2022 window produced the Central Bank of Sri Lanka Act in September 2023 and an IMF-anchored fiscal program; the ordering question is now live for state enterprises, where a holding-company structure was announced as recently as 28 October 2026 with passage possibly slipping into 2027 (desk interpretation).

2. Corporatize before you sell. New Zealand separated ownership, policy and operations by statute in 1986 and sold later, from 1987; its own roughest experiences were the sales themselves. A Sri Lankan SOE act that first clarifies commercial mandates, incorporates enterprises as companies and publishes accounts would follow the sounder half of that sequence (desk interpretation).

3. Write the target down, publicly, with a date. The Policy Targets Agreement turned disinflation into a dated contract between minister and governor - and it was met a year early. Sri Lanka's monetary-policy framework agreement of 3 October 2023 under section 26 of the 2023 Act is the same device; its durability depends on targets staying published and dated (desk interpretation).

4. Compensation decides what survives. GST endured because losers were compensated at introduction; the uncompensated benefit cuts of 1991 damaged consent for decades. Sri Lanka's energy-pricing and subsidy reforms face the same design choice (desk interpretation).

5. Budget for the lag. New Zealand's unemployment peaked about seven years after the reforms began. Social costs arrive late and persist; the floor must be built before the shock, not after it (desk interpretation).

6. Frameworks outlast programs, carried by successor statutes. The framework legislated from 1989 to 1994 still frames New Zealand policy in 2026: the 2021 Reserve Bank Act replaced the 1989 Act, with an employment objective added and then removed again by December 2023, and the 1994 fiscal-responsibility principles were folded into the Public Finance Act in 2004. The 1-3 percent band endures - September-quarter 2026 inflation ran at 3.7 percent, above it. Sri Lanka's reforms will be judged by whether its own 2023-24 statutes still bind after the IMF program ends (desk interpretation).

Conclusion

New Zealand treated speed itself as a policy instrument: move in quantum leaps before interest groups mobilize, as its finance minister later wrote. The record forty years on is genuinely double-sided - durable institutions, low and stable inflation, a farm sector without subsidies, and a bill paid in jobs, asset destruction and distribution that fell hardest on the poorest. For Sri Lanka in October 2026, with a seventh IMF review agreed at staff level, a three-year-old central-bank act and an SOE statute still being drafted, the case argues neither for haste nor for delay: it argues that whatever is done in the window should be written into law, compensated where it hurts, and measured in public (desk interpretation).

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