CHAPTER 22

THE NEW ZEALAND ECONOMY, 1900–2000

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Open economies are shaped by the interplay between forces sweeping in from outside and evolving domestic structures and policies. Throughout both the nineteenth and twentieth centuries, New Zealand's indigenous population and European settlers were continuously engaged in negotiating and fine-tuning their places in the world economy, as well as their economic relationship with each other. Locating New Zealand as a particular case of the wider phenomenon of settler capitalism in a 'world system' framework usefully highlights several key dimensions of its twentieth-century economic history.[1] The European colonial expansion that began around 1500 had two faces. First, in tropical regions of the globe small expatriate elites established control over large indigenous populations (supplementing those transplanted as slaves) and mobilised them to produce export staples, often under exploitative conditions in plantation-style production systems. Alternatively, in temperate latitudes with smaller pre-European populations and more benign disease environments, white settlers came to predominate numerically, and small-capitalist production systems emerged with indigenous peoples relegated to the fringes of economy and society. By the beginning of the twentieth century, tropical colonies occupied the lower part of the world distribution of income and wealth—a dramatic reversal from their relative position five centuries earlier.[2] By contrast, temperate-latitude settler colonies such as New Zealand tended to be nearer the top.

One explanation for this differentiation is that the interaction of geography with European colonisation determined modern institutions, and therefore incomes.[3] Disease, for example, predominantly culled European settlers in the tropics, but affected indigenes in the temperate latitudes.[4] Better health and abundant land attracted migrant settlers from Europe to the latter, to establish what Maddison has described as 'neo-Europes'.[5] From the outset, white settlers in these regions exhibited a strong attachment to individual private property rights and the rule of law, and this institutional matrix, once established, provided a positive environment for rapid capitalist development.

By 1900 successful settler-capitalist societies exhibited the highest material living standards in the world, when measured by the per capita income and wealth of the resident settler populations.[6] Maddison shows Britain's four 'Western offshoots'—Australia, New Zealand, Canada and the USA—with per capita income 23 per cent above that of Western Europe in 1870, 51 per cent in 1913 and 100 per cent by 1950.[7] By contrast, incomes in Argentina and Uruguay were comparable with Western Europe in 1870 and remained so in 1950, while Chile was 24 per cent below Western Europe in 1913 but had cut the gap to 17 per cent by 1950.[8] Typically, the indigenous populations of settler colonies were not enslaved; once dispossessed of land, they were relegated to increasingly marginal economic status as the twentieth century began. The economic history of the twentieth century is, therefore, dominated by the experience of the white settler communities, with the indigenous population's economic evolution running in tandem as a parallel subtext.

As James Belich has noted, the growth rates of population and aggregate output in New Zealand from 1840 to 1886 (what he calls the 'age of progressive colonisation') were explosive.[9] Maddison identifies this as a key feature of his four Western offshoots.[10] These four countries, he argued, experienced much more rapid growth after 1820 than Western Europe or indeed the rest of the world. For example, between 1820 and 2001, the combined population of the offshoots increased thirty-five-fold, compared with less than threefold in Western Europe. Their GDP (Gross Domestic Product) increased 678-fold compared with forty-nine-fold in Western Europe. In addition, the average per capita GDP (in terms of 1990 international dollars) rose from \$1202[11] to \$26,943; while Western Europe's rose from \$1204 to \$19,256. The disparity illustrated here was due partly to huge differences in natural resource endowment. In 1820, land per head of population in France, Germany and the United Kingdom averaged 1.5 hectares, compared with 240 hectares in the so-called Western offshoots. Their growth was facilitated by large-scale immigration, foreign investment and their long distance from the sites of foreign wars. Moreover, according to Maddison's account they inherited institutional arrangements and traditions that gave them political stability, a fair degree of social mobility, relatively high levels of education, secure property rights and a willingness to use market forces, which were more favourable to growth than was the case of economies in Latin America.

The gap between Maddison's two groups of white-settler offshoots considerably opened in the twentieth, rather than the nineteenth century. All the pastoral export economies received a massive boost at the end of the nineteenth century from a strong overseas market for staple export commodities, combined with rapid technological progress in their production and transportation. This was, in many respects, a golden age for both the British and the southern settler colonies. For instance, in terms of per capita income, economic structure and social policies, Uruguay and Argentina remained comparable with New Zealand, Australia and Canada up to the Great Depression of the 1930s. Figure 22.1 shows a spread of only 20 per cent across the per capita GDP levels of these five economies at 1930. Chile, without a strong pastoral export sector, lagged behind, while the USA, already industrialising and ceasing to be an agricultural staple economy, had forged ahead. Interestingly, South Africa, the outlier, was never fully a settler colony, because of the numerical predominance of the non-white population and the increasingly heavy-handed institutional arrangements developed to maintain white supremacy.

Convergence among these settler economies ended with the Depression, with the 1932 Ottawa Conference marking the watershed. At Ottawa, the British Dominions secured a defensive victory for their pastoral exports at the expense of the Latin Americans, on the back of which they were able to successfully diversify their economies under strong democratic institutions over the following three decades. Having held their market access, the three British Dominions fought alongside Britain in the Second World War, adapted successfully to the Bretton Woods era of macroeconomic policy and then pulled away to double their per capita income by 1960. The 'Southern Cone'

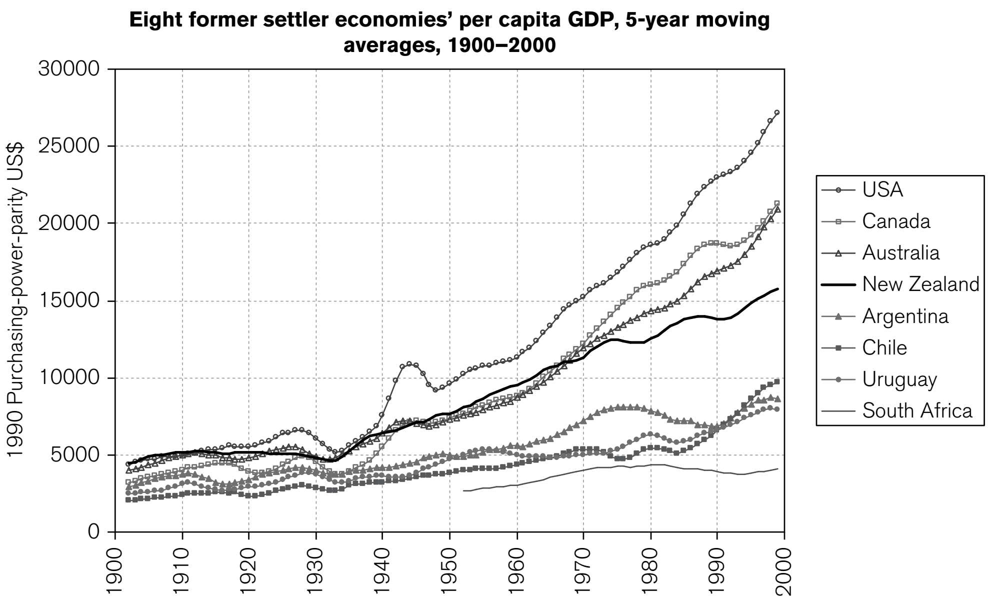


FIGURE 22.1:

EIGHT FORMER SETTLER ECONOMIES' PER CAPITA GDP, FIVE-YEAR MOVING AVERAGES, 1900–2000.

Source: A. Maddison, *The World Economy: Historical Statistics*, OECD, Paris, 2003, Tables 2c, 4c, 6c.

countries (Argentina, Uruguay and Chile, located in the southern tip of South America) faced export market closure in the 1930s, few gains from the Second World War and its aftermath, and growing political stresses as economic growth lagged. All three had fallen prey to military coups by the mid 1970s. Only at the end of the 'lost decade' of the 1980s did they return to sustained growth under democratic institutions. In the interim, the Second World War had driven a deep wedge between the British Dominions and the USA, which had by that time become the global economy's industrial superpower. The three dominions therefore shared a similar trajectory, parallel with the USA, until the late 1960s. Thereafter, Canada and Australia pulled away from New Zealand.

This pattern of income divergence across white settler economies, which had begun the century in a tightly grouped bunch, is explicable only partly in terms of their different sizes and positions within the global economy. Common origins, in other words, did not fully predetermine twentieth-century trajectories or outcomes. Maddison's data shows New Zealand as the highest-income economy at 1900, and in second place through the 1950s and early 1960s; but this position was not sustained through the final third of the twentieth century. The two sudden stops in New Zealand's growth in that period—in the second half of the 1970s and in the second half of the 1980s—were sharper and more damaging than the contemporaneous slowdowns in Australia, Canada and the USA. In this respect, economic policymaking in New Zealand bears a good deal of the blame.[12]

THREE ERAS

Coming off its remarkable head start in 1900, the economic history of New Zealand in the twentieth century can be thought of in terms of three development eras, in each of which the dominant white settler society, economy and state made a transition through a cycle of challenge and response, largely in the context of the evolving global conjuncture. Each challenge involved a perceived crisis of economic sustainability. Further, each response was emphatic, radical and consolidated within a generation into a new strategic policy consensus. Economic policy after each strategic transition reflected the interests of a new constellation of vested interests, and was aimed at maintaining consensus support for them, or at least limiting opposition. At each of the turning points, policy swung—in the course of a decade or so of vigorous elite competition and economic debate—to a ruthlessly focused, forward-looking new stance that established the core of the successor political economy configuration and sought to build a new political legitimacy around that core.

As shorthand for the 'three eras' outlined here, they will be labelled 'grass monoculture' (from the 1890s through to the 1930s), 'insulation and industrialisation' (from around 1935 to the 1970s) and 'swing to services and the arrival of neo-liberalism' (the 1980s to 2000).[13] In the first era, beginning in the 1890s and ending with the Great Depression of the 1930s, the growth dynamic of the entire economy hinged upon expanding pastoral production of livestock-derived commodities, which required industrial transformation and technologically advanced transportation to the British market. Settler capitalism established a distinctive mode of production, combining individualist and collectivist institutional forms across much of rural/provincial New Zealand. The settler state focused above all on ensuring that this productive system was tightly articulated with the British economy, to the virtual exclusion of other economic relationships.

The first big regime change of the century came with economic collapse in the first half of the 1930s. This did not eliminate pastoral products as the mainstay of export earnings.[14] But it did trigger a policy-led transition to the more inward-focused economy of the insulationist era, in which the state provided protection and support for growing manufacturing and construction sectors, and oversaw a set of income-redistributing mechanisms that, in effect, taxed pastoral farming for the benefit of the remainder of the community, and in the process sustained a strong internal market. This system was sustainable for several decades, first because of its success in maintaining full employment, and second because of the high levels of wealth and income in farming created by the postwar 'Korean boom' and by new technologies such as aerial topdressing. In the longer run it may well have remained sustainable had the rapid export diversification that was underway by the 1970s been able to run its course, but New Zealand was not another Asian tiger.

Falling wool prices in 1966–67, the breakdown of the full-employment policy consensus at the end of that decade, and the oil shocks of the 1970s removed both full employment and the prop of pastoral prosperity, though the export economy was rapidly diversifying in the 1970s away from pastoral products and the United Kingdom market. A decade of policy debate and experiment followed, culminating after 1984 in a radical state-led reorientation of the economy away from the tradeable commodity products that had been the mainstay of the previous two eras, opening the way for the rise of a business and political elite based in the service sectors, particularly finance. The rising power of finance was only one facet of the new era; another was the swing away from reliance upon commodity exports towards the export of services such as tourism and education as a vital source of foreign exchange income. The ideologically driven regime shift of the mid 1980s halted in its tracks the economy's recovery from the sudden stop of the 1970s, and eliminated many jobs and enterprises in the growing tradeable-goods sectors. Heading into the twenty-first century New Zealand was again de-industrialised, as it had been at the beginning of the twentieth century.

STATISTICAL TRENDS

Economic history typically draws on quantitative evidence. The increasing availability of reasonably consistent long-run data, a major bonus for historical research, is the culmination of a new focus on quantitative historical research over the past two decades.[15] Accordingly, this section uses statistical data series to track the evolution of the New Zealand economy over the twentieth century. Many of the charts reproduced here utilise the *New Zealand Long Run Data Series* resource developed by New Zealand Treasury researchers and posted (with disclaimers) on the website of Statistics New Zealand.[16]

The proportion of the labour force in so-called 'industrial' employment (defined as mining, manufacturing and construction) captures in simple and unqualified fashion the big political economy swings of the century. Figure 22.2 takes its cue from W. B. Sutch, who identified the economy's post-1890 deindustrialisation by tracing the share in total employment of these three sectors, which he noted had accounted for over 30 per cent of employment in the 1880s; it, fell below 25 per cent in the 1920s and then bounced back to nearly 40 per cent by the 1960s as

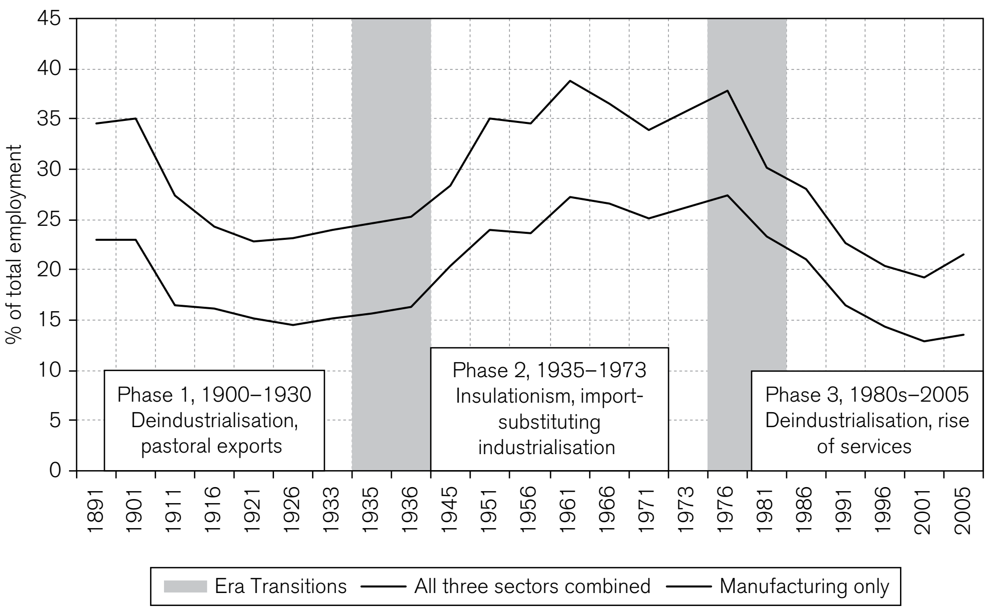


FIGURE 22.2:

SHARE IN TOTAL EMPLOYMENT OF MINING AND QUARRYING, MANUFACTURING AND CONSTRUCTION, 1891–2005.

Sources: Census data from G. T. Bloomfield, *New Zealand: A Handbook of Historical Statistics*, G. K. Hall, Boston MA, 1984, pp. 133–43l; Department of Statistics (now Statistics New Zealand) census tables for 1986, 1991, 1996 and 2001; December 2005 data from *Household Labour Force Survey.*

industrialisation and public works advanced.[17] Figure 22.2 also confirms a 35 per cent 'industrial' share around 1900, followed by a steep fall to a trough of around 23 per cent in the 1920s, then a major positive shift during the 1930s, 1940s and 1950s to reach a 35–40 per cent share in the 1960s and 1970s. Following another turning point in the mid 1970s, the data show a renewed de-industrialisation phase in which the 'industrial' share collapsed to below 20 per cent by 2000.

The mid-century surge in 'industrial' employment was driven by construction as well as manufacturing. This was a period not only of rapid expansion of manufacturing for both local and export markets, but also of state-led expansion of the housing stock and massive public works construction projects in hydroelectricity, highways and airports. The post-1980 downturn in Figure 22.2 reflects the winding down of public works as well as a relative price squeeze on manufacturing.

Figure 22.3 illustrates the close relationship between export performance and GDP per capita in the first and third eras, contrasting with the relative delinking of the two series between the 1930s and the 1970s. The two series have been drawn as indices based at 1951 during the height of the 'Korean boom' in wool prices. The rapid expansion of incomes in the years of the first Labour government and the Second World War was driven by internal sources of economic dynamism, not export

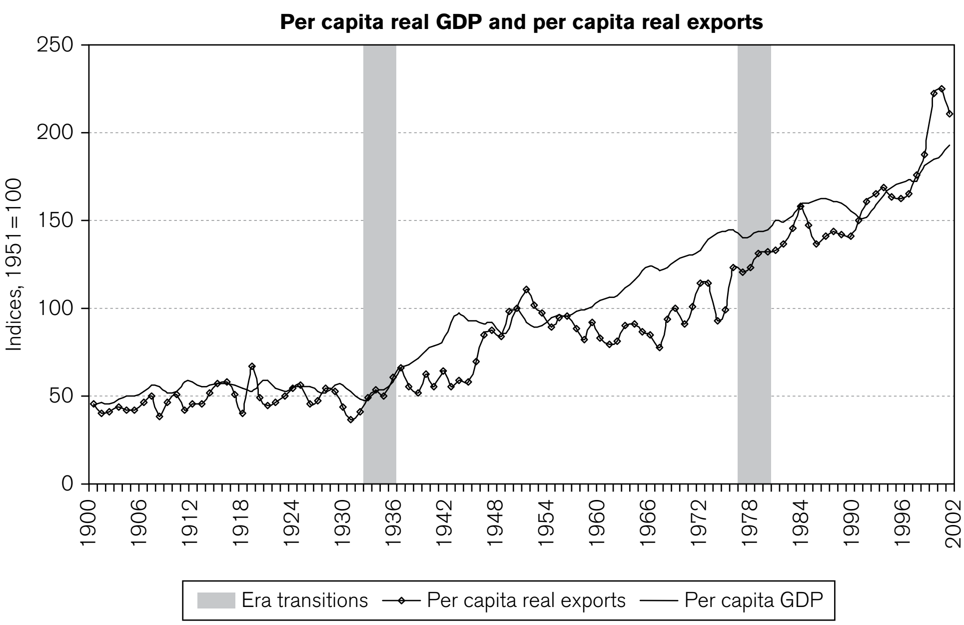


FIGURE 22.3:

PER CAPITA REAL GDP AND PER CAPITA REAL EXPORTS.

Sources: Calculated from *New Zealand Long-Term Data Series,* Table E1.2, Columns AH (GDP), AJ (population) and AK (per capita GDP); Table H3.6, Data worksheet, Columns U, V and W.

growth. Again, from the mid 1950s through to the 1960s incomes rose steadily while real per capita export earnings stagnated.

Rising incomes led naturally to rising demand for imports, and import and/or exchange controls were in place throughout the period from 1938 to the 1970s, turning rising demand back towards local producers of import substitutes. In the long run the ongoing growth of incomes would be sustainable only if export performance could be revived, given the limitations of import-substituting industrialisation in a small local market. The architects of the industrialisation process (led by Sutch) looked to export diversification away from pastoral monoculture to fill the gap; the upward trend of exports relative to income in the 1970s in Figure 22.3 is attributable to the considerable success of efforts in that direction. This evidence makes clear, however, the enormous significance of the export boom that followed the Second World War in fortuitously rendering sustainable the new high level of per capita income established under first Labour. Figure 22.4 then traces the shares of Australia and the United Kingdom in overseas trade. Figure 22.4(a) depicts the story of the progressive disconnection of the New Zealand economy from the United Kingdom during the second of the three eras, a process that took the United Kingdom share of New Zealand's external trade down from 80 per cent at 1930 to 10 per cent by 1980, falling thereafter to 5 per cent by the end of the century.

Looking over Figures 22.4(a) and 22.4(b), it is evident that at 1900 New Zealand was trading almost exclusively with Britain and Australia. Over 90 per cent of exports, and nearly 80 per cent of imports, were accounted for by these two trading partners. While UK dominance of New Zealand's external trade was sustained until the 1950s, Australia dropped rapidly out of the picture during the grass-monoculture era. New Zealand decided against participation in the Australian Federation in 1901, and between 1920 and 1960 less than 5 per cent of exports were destined for Australia, a reflection of the similarity of the two countries' pastoral exports during that period. Imports from Australia had also fallen to around 5 per cent of the total by 1920. Meanwhile, New Zealand became increasingly uneasy with its monetary linkage to Australia, culminating in monetary separation in 1933–34.[18] The 1920s also saw the start of one of New Zealand's most acrimonious and long-running trade disputes, over the Australian ban on apple imports to block fire blight.[19]

The insulationist era brought a marked revival in Australia's share of imports. Australian final-goods manufacturers were largely kept out of the New Zealand consumer market by import controls, but inputs for some of New Zealand's developing new manufacturing ventures were sourced from Australia, and by the late 1960s the Australian share of New Zealand imports had reached 20 per cent. The Comalco Aluminium Smelter for example, established at Bluff in the 1960s with production starting in 1971, imported all its alumina inputs from the parent company's mining

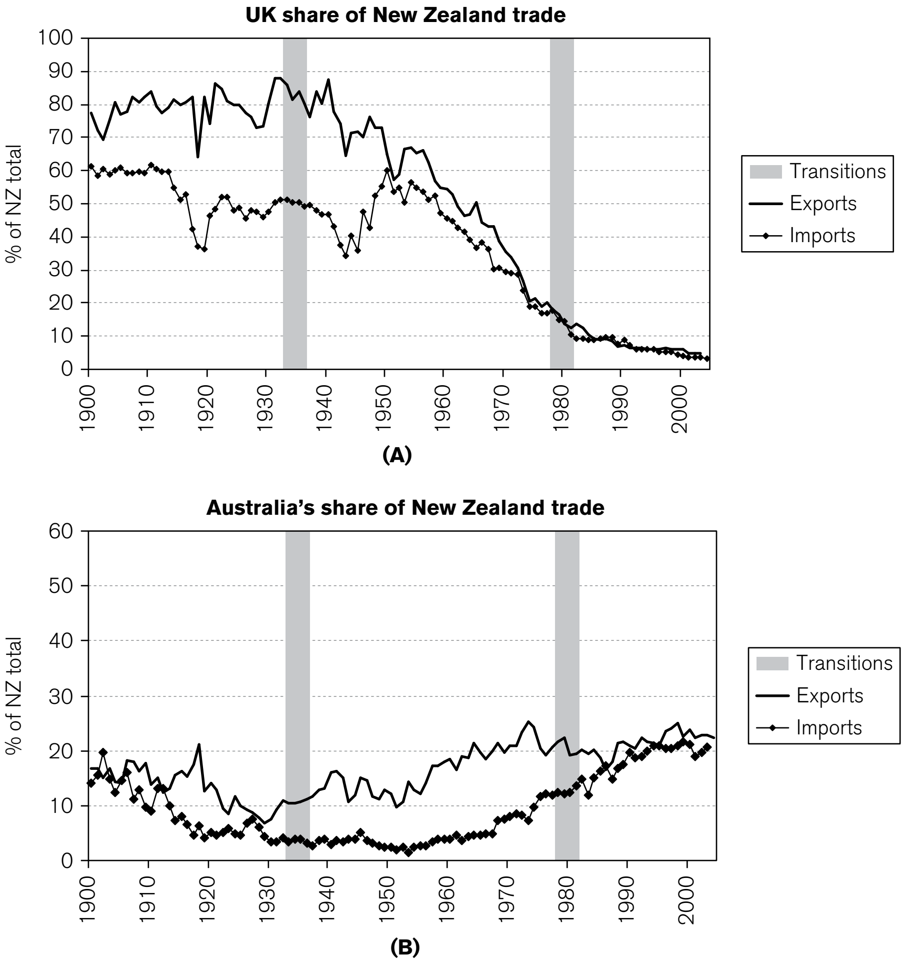


FIGURE 22.4:

SHARES OF TWO TRADING PARTNERS: (A) UK SHARE OF NEW ZEALAND TRADE; (B) AUSTRALIAN SHARE OF NEW ZEALAND TRADE.

Sources: 1900–51 from G. T. Bloomfield, *New Zealand: A Handbook of Historical Statistics*, G. K. Hall, Boston MA, 1984, pp. 293–5; 1952– from *New Zealand Long-Term Data Series*, <www.stats.govt.nz/tables/ltds/default.htm>, Tables H1.6 and H2.4.

operation in Queensland. This rising import penetration by Australia had no counterpart on the export side; exports to Australia were still under 5 per cent of the total in 1967.

The third era saw Australian import penetration stalled at between 20 per cent and 25 per cent, but exports to Australia climbed rapidly to near parity with imports by the mid 1990s. As the economic relationship became more two-sided, New Zealand interest in closer economic and political integration with Australia

FIGURE 22.5:

SHARES OF PASTORAL COMMODITIES AND SERVICES IN TOTAL EXPORTS OF GOODS AND SERVICES.

Source: New Zealand Long-Term Data Series and New Zealand Official Yearbooks.

blossomed with a limited free-trade agreement in 1965, and accelerated in 1983 when the Closer Economic Relations (CER) Agreement was signed.[20] With only one-quarter of New Zealand's total external trade at stake, the importance of this trade liberalisation has to be kept in perspective. However, Australian investment in New Zealand, especially in the financial sector, increased steeply in the third era, as did trans-Tasman labour migration (in both directions), so that a long-term process of increasing economic integration was underway on a number of fronts.

Recent econometric research suggests that the nineteenth century was a period of convergence between New Zealand and Australia, but the twentieth century was not: the two national economies followed distinct paths over the hundred years following New Zealand's 1901 decision not to join the Australian Commonwealth, and the gap between the two economies' growth performance widened spectacularly through the 1980s and 1990s under contrasting economic policy paths.[21] Figure 22.5 shows the relative contributions to foreign-exchange earnings of grass-based commodities (the pillar of the first era) and services exports (the rising star of the third). In contrast to the common New Zealand statisticians' practice of ignoring services when calculating export shares, Figure 22.5 uses, as denominator, total exports of goods and services as recorded in the balance of payments statistics. With less than 30 per cent of the total at 2000, services exports were still far from the sort of dominance enjoyed

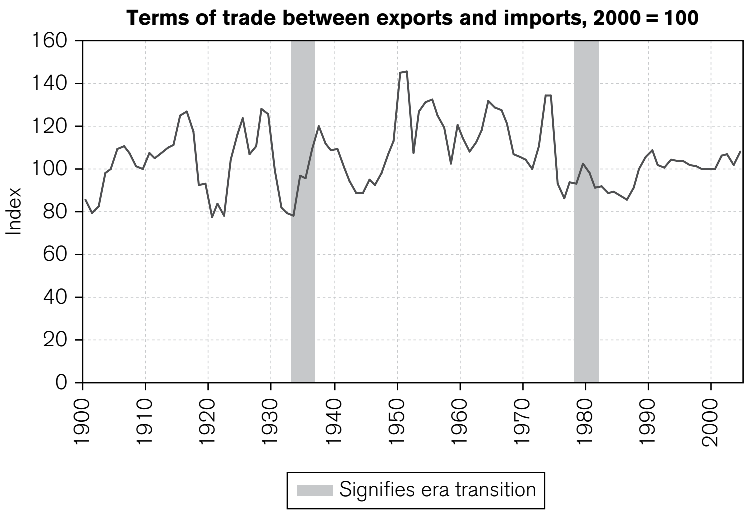


FIGURE 22.6:

TERMS OF TRADE BETWEEN EXPORTS AND IMPORTS.

Source: New Zealand Long-Term Data Series, <www.stats.govt.nz/tables/ltds/default.htm>, Table G1.1.

by pastoral products until the 1960s, but their steady rise in the second half of the century signalled the appearance of a new basis for long-run economic sustainability far removed from the staples exports of the old white settler model.

Relative prices played a central role in the economy's evolution. Probably the most important price statistic until the 1980s was the commodity terms of trade—the relationship of the price of export goods to the price of import goods. As long as commodity exports were central to the sustainability of local incomes and employment, a downswing of the terms of trade meant a crisis, because it implied a fall in the quantity of imported goods that could be purchased with the prevailing volume of exports. In Figure 22.6 four such major downswings are apparent. One of these immediately followed the First World War and took the gloss off the early 1920s (note the long plateau in per capita income through the 1920s in Figure 22.3), although the momentum of export volume expansion carried the pastoral economy through until the second terms-of-trade shock of 1930–31, which transmitted the Great Depression to New Zealand. The subsequent election of the first Labour government triggered the regime shift to insulationism.

A third terms-of-trade downswing was associated with the Second World War, when import prices were driven up by shortages; but as the domestic economy was running at full throttle for the war effort and import demand was rationed, it did not stall the economy. The fourth downturn, however, from 1967 through to about

1980 (briefly interrupted by a short-lived commodity price boom in 1972–73) was associated with a tightening foreign-exchange constraint on the economy, rising unemployment, the beginning of an upward trend in overseas debt and the second major regime shift of the century.

The terms of trade figured less in public consciousness and political debate in the 1980s and 1990s than previously, partly because they became less volatile than before, and partly because a new relative price ratio had moved to the foreground: the real exchange rate. Following the float of the New Zealand dollar in March 1985, the new economic policy regime introduced under the fourth Labour government led to an unprecedented situation where a major upswing in the terms of trade during the second half of the 1980s was completely offset by real exchange rate appreciation, which collapsed profitability and employment in tradeable goods production.

The real exchange rate has a variety of guises, one of which is the relationship between the prices of tradeable goods and those of non-tradeables (goods and services supplied to the local market but not traded offshore). Figure 22.7 plots the relationship between the economy-wide GDP deflator (a price index

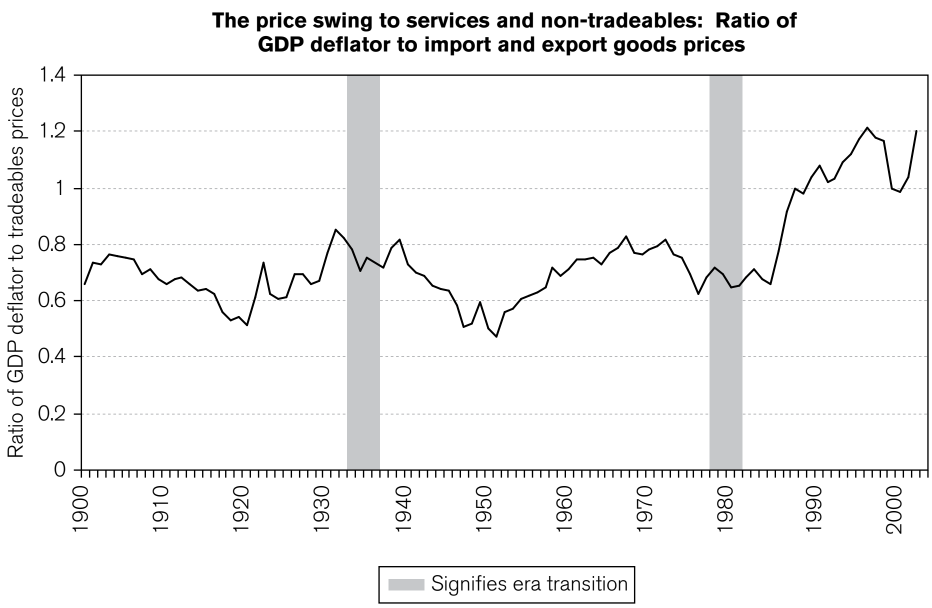


FIGURE 22.7:

THE PRICE SWING TO SERVICES AND NON-TRADEABLES: RATIO OF GDP DEFLATOR TO IMPORT AND EXPORT GOODS PRICES.

Source: New Zealand Long-Term Data Series, Tables E1.3, G4.1 and G5.1. Tradeables prices calculated as a simple average of the export and import price indexes.

covering all types of production including services) and the prices of traded goods (captured by a simple average of the import and export price indexes). This is not a perfect proxy for the real exchange rate because tradeable services are excluded from the denominator. The doubling of this ratio between 1984 and 1990 nevertheless indicates clearly the extent to which the neo-liberal policies of that period squeezed the profitability of traded goods producers (both goods exporters and suppliers of import substitutes), while favouring the suppliers of non-tradeables such as electricity, telecommunications, construction, transport and local financial services. The relative price swing also reflects the rising profitability and prominence of tradeable services such as tourism and education, which, as noted above, figure in the GDP deflator but not in the import and export price indexes.

In another important respect the third era differed from its two predecessors: unemployment. Figure 22.8 shows the unemployment rate as measured by the five-yearly census. No census was conducted in 1931, so a comparable measure of unemployment in the Great Depression is missing; estimates range from 12 per cent[22] to 33 per cent.[23] In the high years of the pastoral-exports era and the insulationist era, unemployment was low. The census unemployment rate bottomed

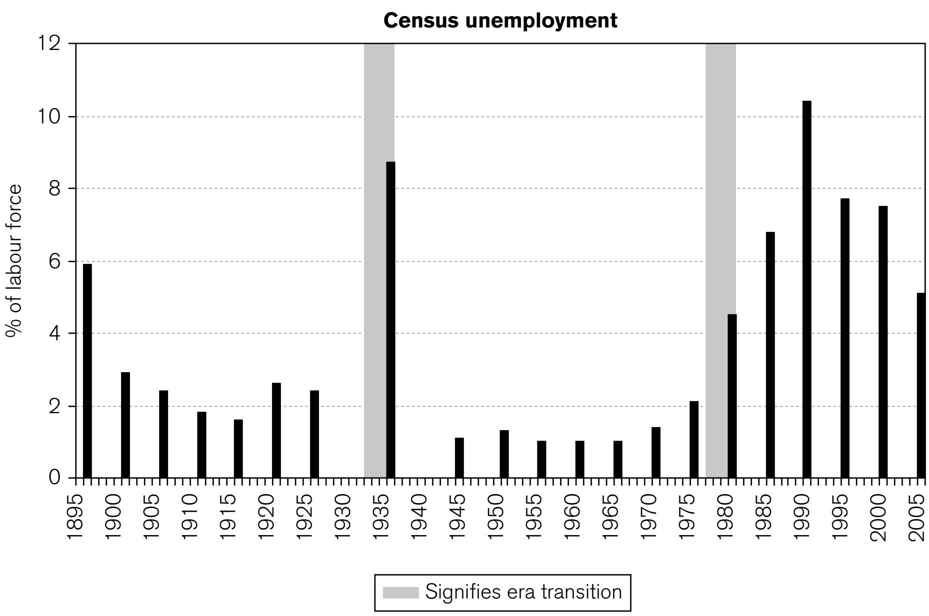


FIGURE 22.8:

CENSUS UNEMPLOYMENT.

Source: B. H. Easton, *In Stormy Seas: The Post-war New Zealand Economy,* University of Otago Press, Dunedin, 1997, Table 14.5, p. 196; 1996 and 2001 data from *New Zealand Long-Term Data Series*, Table B2.3; 2006 from Statistics New Zealand, *Quickstats National Highlights: 2006 Census*.

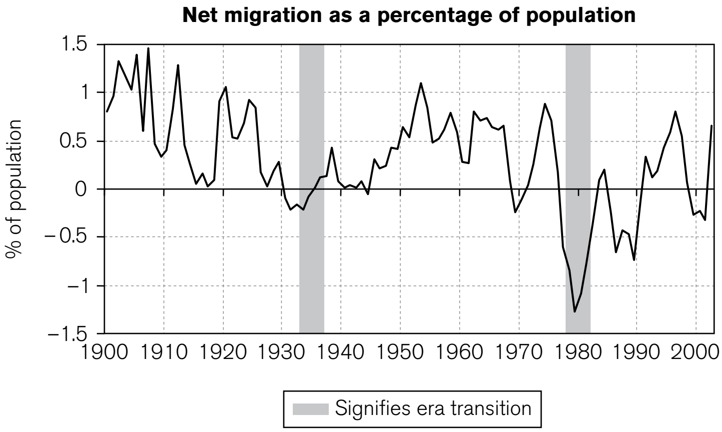


FIGURE 22.9:

NET MIGRATION AS A PERCENTAGE OF POPULATION.

Source: New Zealand Long-Term Data Series, Table A3.1. Data for 1900–1950 from Column W, net total migration. Data for 1951–2004 from Column AJ, long-term/permanent migration only.

at 1 per cent of the labour force in 1961; the registered unemployment rate was half or less of this.[24] This was an important element in the maintenance of support for the policy regime in place, and in both the 1920s and the 1970s an upward trend in unemployment foreshadowed the onset of crisis and a policy regime shift. In the third era, however, the regime shift to neo-liberalism was in a direction that radically increased unemployment, as traded goods producers were squeezed and the economy's growth came to a stop for several years. The unpopularity of the policies was manifest in greater political unrest and uncertainty in the 1990s, and unemployment remained above 5 per cent for two decades, though it fell gradually as growth recovered from its 1980s sudden stop.

Figure 22.9 shows swings in migration that affected the New Zealand economy. A successful settler economy draws migrants during its boom phases but not during crises; this is clearly the pattern in Figure 22.9, which shows net migration surging 1900–10, 1919 and the mid 1920s, 1950–65 and 1991–2004 (with a dip during the late 1990s 'Asian crisis').[25] Immigration dropped away sharply at the two points of crisis (the Great Depression and the years of turmoil in the late 1970s), picking up again once the new political economy regime had been consolidated. As the twenty-first century opened, nearly one-quarter of the resident population was still foreign born, with a new generation of settlers drawn from Asia and the Pacific rather than the United Kingdom.

One further chart underscores the distinctiveness of the mid-century insulationist era. This is net overseas indebtedness/foreign investment, shown in Figure 22.10. Overseas investment always played an important role in the settler economy;

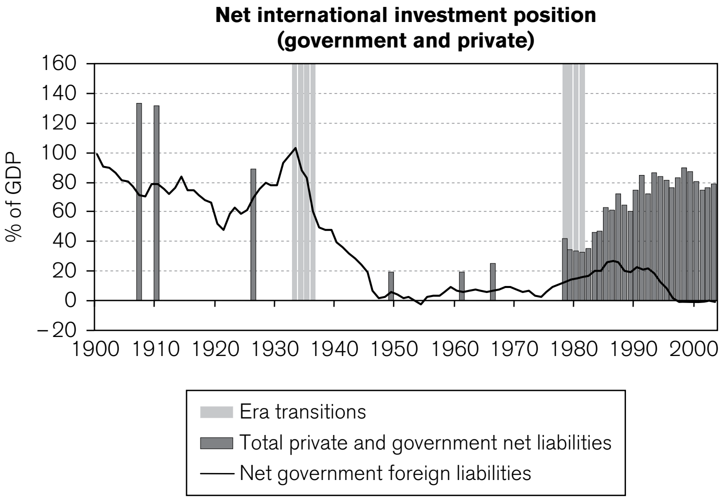


FIGURE 22.10:

NET INTERNATIONAL INVESTMENT POSITION (GOVERNMENT AND PRIVATE).

Sources: Government Net External Debt from *Public Debt History of New Zealand*, <www.nzdmo.govt.nz/govtdebt/historytable.asp> (accessed 7 January 2007); Private external liabilities 1900–1966 from Z. Frankel, *New Zealand Overseas Borrowing*, Research Paper No 11, New Zealand Institute of Economic Research, Wellington, 1968, Table 10, p. 40; Net investment position 1978–1991 from P. Colgate and J. Stroombergen, *A Promise to Pay? New Zealand's Overseas Debt and Country Risk*, Research Monograph No. 58, New Zealand Institute of Economic Research, Wellington, 1993, pp. 16–17; Net investment position since 1992 from Statistics New Zealand INFOS Series IIPA.S5AAB; GDP series from *New Zealand Long-Term Data Series*, Table E1.2, Column AH.

foreign investors were generally welcomed (or at least tolerated) despite a recurrent undertone of critical commentary.[26] New Zealand has always been a debtor country reliant upon inflows of foreign capital, but the amount of debt outstanding has swung widely and has changed in character over the past century. The pastoral export era was financed to a considerable degree by government borrowing overseas, supplemented by private investment in export processing, shipping, banking and insurance. Total debt hovered at over 100 per cent of GDP during this period, with a downward trend during the First World War.

In the late 1930s the new Labour government found itself in growing difficulties in its attempts to roll over the large official debt, which was a key element leading to the imposition of exchange control at the end of 1938. Official overseas debt was virtually eliminated during the Second World War by the combination of British procurement prices for New Zealand export products abroad and the implementation of exchange control and import control at home.[27] The Depression and war had also a negative effect on private foreign investment, so that by the 1950s total indebtedness was down to only 20 per cent of GDP.

The insulationist era, therefore, was one in which the New Zealand economy had no serious overhang of government overseas debt. The upward trend in private foreign investment in manufacturing during the 1960s and 1970s ran only slightly ahead of GDP growth, taking the aggregate net liabilities to 40 per cent again by 1980.[28] A renewed rise in government net overseas debt was one of the signs of increasing stress from the late 1970s to the mid 1980s, and only savage fiscal retrenchment in the 1990s enabled this debt to be eliminated again by the end of the century. Meanwhile, the third era was marked by major inflows of private capital, much of it into financial services and privatised infrastructure utilities. By the end of the century the economy was carrying a private external debt of the same order (relative to GDP) as the government debt of 1900.[29] Servicing this became a major drain on the economy, reflected in unrelentingly large current account deficits on the balance of payments from the mid 1980s.[30]

POLITICAL ELITES, THE STATE AND THE ECONOMY

The state played a central role in sustaining the institutional and attitudinal underpinnings of each era's political economy. Interestingly, the election of a reformist political party was a reflex settler response in all of the three transitions discussed above: the Liberals in 1890, Labour in 1935 and Labour again (albeit a very different Labour) in 1984. Post-crisis consolidation of hegemony and legitimacy fell to conservative parties representative of (and/or responsive to) the newly ascendant economic elites: Reform and United in the pastoral exporters' unchallenged reign; National in the era of alliance between rural and urban tradeables producers in the 1950s and 1960s; and National again in the 1990s, representing this time the newly dominant business elite based in finance.

Throughout the grass monoculture era the state was activist in relation to the labour market, rural credit, large-scale infrastructural investments in support of pastoral farming, and a nascent social welfare framework designed to forestall social unrest by redistributing a share of the spoils from the export economy. In the labour market the state designed a centralised bargaining framework in the 1890s, enforced it in the industrial confrontations of 1912–13 and buttressed the subsequent consensus with pensions and housing credit.[31] In infrastructure, by 1920 when Lenin in Russia was calling for 'electrification plus soviet power', the Massey government—with Coates as Minister of Works from 1920—had introduced New Zealand's distinctive institutional arrangement of elected Electric Power Boards to electrify rural areas and enable adoption by the dairy industry of modern techniques of electrical milking and cream separation, and was embarking on the State Hydro Construction programme, which came to an end only in the 1990s. Coates' attitude to institutional design closely matched that of New Zealand dairy farmers (his constituents) in general, for whom collectivist institutions such as cooperative factories and a centralised state-run marketing board were always pragmatically compatible with an ideology of 'rugged individualism'.

Through the insulationist, import-substitution era the critical policy focus was the labour market, where full employment was sustained until the end of the 1960s by the centralised system of arbitration and compulsory unionism, held together by a remarkable act of collective willingness on the part of labour, capital and the rural sector. The re-emergence of mass unemployment in the 1970s has been attributed to the breakdown of this consensus, and the subsequent outbreak of a 'struggle for shares' was associated with a wage–price inflationary spiral as the 1970s progressed.[32]

In the era of the swing to services, the state apparatus itself was comprehensively remade to fit the mould of the new political economy.[33] Government departments were restructured or abolished, and both power and analytical capacity were concentrated in those parts of the administration most closely involved and aligned with the financial and business services sectors. The removal of state control over economic activity, and the extraordinary extent of government's willingness to rely upon unregulated market forces to steer the economy, made New Zealand (as in the 1890s and 1930s) an extremist outlier on the international policy spectrum.[34] By the mid 1990s a bipartisan strategic policy consensus on the direction of the economy had been bedded in at the level of the country's ruling elites and mainstream media.[35]

A consistent feature of the post-1984 economic policy mix has been official tolerance for economic and social developments that would have forced intervention in preceding eras, in particular high unemployment, steadily worsening inequality in the distribution of income and wealth, and rapidly rising overseas debt due to a flood of overseas investment, largely directed to takeovers.

DETAIL ON THE THREE ERAS

New Zealand's entry to the twentieth century began with an economic transformation, starting in the 1890s, away from a relatively diversified export economy based mainly upon depletable resources—what Sutch described as 'the quarry'—towards a highly specialised pastoral export operation selling partly transformed primary commodities: meat, butter, cheese and wool.[36] The full transition to a settler-controlled pastoral monoculture selling into the United Kingdom market has been described by James Belich as 'recolonisation', but this term is unsatisfactory as neither colonisation nor decolonisation has unambiguous meaning in a settler-capitalist context.[37] The tight integration of the New Zealand economy and polity with Britain during the grass-monoculture era was a bottom-up, not a top-down, process, driven by the settlers' enthusiastic embrace of ongoing economic connections with the metropolis—more a process of settler colonisation of market niches in the UK than any revival of British control over New Zealand.

The radical shift was a logical opportunist response to the rapid advance of industrialisation in Europe and North America, once that process had created the trilogy of steamships, refrigeration and a growing market for imported foodstuffs in the United Kingdom. It also represented escape from the unsustainability of the nineteenth-century political economy, which Easton has summarised as 'a Maori economy, a quarry which was rapidly exhausting depletable resources . . . a small sustainable sector [primarily wool], and a mainly urban society parasitic on the other three'.[38]

Domestically, the shift entailed resolution of the nineteenth-century land struggles in favour of the settlers, followed by a determined, state-led consolidation of the emergent rural economy of owner-operated medium-sized farms. In the 1890s the Liberal government embarked upon subdivision of large landed estates in the South Island and in the Waikato, with the acquisition of huge areas of Maori land for conversion into medium-sized owner-operated farms.[39] Between 1891 and 1911 the Liberal government purchased 3.1 million acres of Maori land at an average price of 6s 4d per acre.[40] Following the removal (in the Native Land Act 1909) of restrictions on land alienation, private buyers joined the Crown in the market. In the period 1912–20, 2.34 million acres were purchased, more than half of it by private buyers. By 1920 Maori owned less than 5 million acres, of which 3 million acres were leased to small-capitalist farmers, and over a million were unusable for agriculture.[41] The simultaneous breakup of pre-existing great estates (much of it by private subdivision rather than compulsory purchase under the Liberals' 1892 and 1894 Land for Settlement Acts) made available for intensive settlement another 1.3 million acres, at an average of 84s per acre.[42]

The transfer of this massive amount of land from Maori and large-estate ownership into medium-sized holdings—many developed by clearing forest, funded by state credit and intensively farmed to supply new market opportunities opened up by refrigeration—swung the New Zealand economy towards a 'monocultural, extraverted specialisation in the production of primary raw material for the "mother country" . . . The combination of British imperial dominance and a collaborative mercantile-financial-landed ruling group in New Zealand . . . guaranteed the colony's full insertion into the world-system . . . as a specialist staple producer and exporter in return for the import of British capital, labour and manufactures'.[43]

Still, the new generation of New Zealand pastoral farms lay above the threshold of peasantry. They were technologically sophisticated and underwritten by massive government spending on infrastructure, in the form both of direct support to pastoralism (herd testing, extension services and cheap credit) and of indirect support (roads, rural electrification and producer boards). The staple export products were wool and a set of industrially processed livestock products—meat, butter and cheese—with transportation around the world made feasible by refrigeration technology introduced in the 1880s, and production technology that required skilled labour, which commanded internationally high wages (explicit in meat processing plants and dairy factories; implicit in the case of self-employed farmers). The key input for all these export goods was, of course, grass.[44]

The mid twentieth century brought the phenomenon of what has been called 'insulationism', a notion that evokes the idea of 'economic insulation' and used with particular reference to the 1958–60 Labour government.[45] State support notwithstanding, the grass-monoculture era lost momentum in the 1920s and ran into crisis in the early 1930s as agricultural commodity prices collapsed. In New Zealand, as in many other countries on the global periphery, the Great Depression triggered a switch from reliance upon export-led growth to a more inward-looking economic strategy designed to insulate the economy from external shocks to the terms of trade. This policy orientation was reinforced by the Second World War, during which government intervention to promote industrialisation and ration scarce imports was wide-ranging.[46]

Three aspects of the economic regime shift of the 1930s appear to have been instrumental in triggering the subsequent growth boom. First was the relative price impact of the 1933 exchange rate devaluation, which provided a protective edge for local import substitutes while at the same time lifting farm incomes. This was subsequently supplemented by Labour's adoption of quantitative import and exchange controls in late 1938.[47] Second was a period of remarkably relaxed monetary policy following establishment of the Reserve Bank of New Zealand in 1934.[48] Third was the impact of increasing government spending, initially on state house construction and relief work, and subsequently on social welfare transfer payments, which lifted domestic demand.

The relationship between per capita GDP and exports is explored in Figure 22.11, which shows a zigzag pattern in the industrialisation era, separating the other two periods (1900 to the early 1930s, and 1973–2003) when export growth was more closely linked with GDP growth. The 'Korean boom' shifted the entire relationship abruptly to the right between 1945 and 1952, but with allowance made for this one-off structural seismic shift, from the mid 1930s to the mid 1940s, and again from 1952 to the early 1970s, GDP per capita grew largely independently of the trend of per capita real exports.

The first Labour government's political mix of full employment, industrialisation, infrastructure investment and construction of a welfare state always remained dependent, in the final analysis, upon the continued ability of pastoral exports to secure foreign exchange until such time as an alternative source of overseas earnings

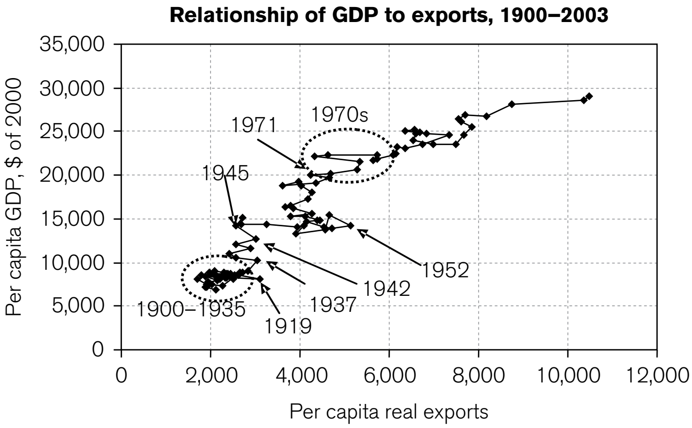


FIGURE 22.11:

RELATIONSHIP OF GDP TO EXPORTS, 1900–2003.

Source: New Zealand Long-Term Data Series, Table E1.2, Columns AH (GDP), AJ (population) and AK (per capita GDP); per capita exports calculated from Figure 22.3 data.

might emerge. Quantitative import licensing, imposed at the end of 1938 in the face of a critical shortage of foreign exchange, became a central plank in the postwar quest to render full employment sustainable in the face of a foreign exchange constraint (manifest in persistent excess demand for imports under the fixed exchange rate regime that prevailed until 1985).[49] Many of the new industries were import-substituting to serve a growing internal market supported by welfare-state transfers; but some were export-substituting in a drive to diversify exports away from the grass-monoculture base. Forest products processing was one such new industry; large areas of countryside were invaded by a new industrial crop, exotic forestry, and forestry exports rose from 0.4 per cent of total exports in 1945 to 3 per cent by the early 1960s.[50] Another project aimed at export diversification, which came into production only in the 1970s, was the Comalco aluminium Smelter at Bluff.

Responding to the new incentives presented by import licensing and the expanding internal market, foreign investment transferred its focus from the freezing works and shipping lines of the grass-monoculture era into heavy industry—metals, chemicals, pulp and paper, and engineering—and import-substituting through the production of manufactured consumer goods.[51]

The new political economy stabilised and solidified when export pastoralism was suddenly and unexpectedly revived by the Cold War and the Korean wool boom. Under National Party administrations through most of the 1950s and 1960s, government was in the hands of a coalition of tradeable goods producers in town (import-substituting manufacturing) and country (pastoralist export producers), with tacit support from the labour movement so long as full employment was sustained.

The logic of economic policy in the insulationist era was straightforward.[52] The goal of full employment required a change in sectoral balance away from farming, which in turn required policy interventions. As population growth outran employment opportunities in farming, and with settler-economy expectations of continued high material living standards, the achievement of full employment entailed the expansion of non-farm economic sectors providing high-wage jobs. This in turn required a high degree of government regulatory intervention to keep economic activity high while preventing domestic demand from spilling over to create balance-of-payments crises.

Quantitative import and exchange controls were central to keeping this policy regime sustainable through the Bretton Woods era of fixed nominal exchange rates. Before the 1938 imposition of controls, New Zealand tariffs were low and manufacturing was effectively exposed to world prices. Lattimore has estimated weighted average tariff protection for manufacturing at 20 per cent in 1906, 17 per cent in 1908 and still 17 per cent in 1925.[53] Further tariff reductions were agreed at Ottawa in 1932, and legislated in 1934.[54] Import controls reversed this trend, sharply increasing the rate of effective protection. Elkan estimated that effective protection was over 50 per cent in the 1950s and 70–75 per cent by the mid 1960s.[55] Lattimore estimated 45.5 per cent for 1955–58 and 66.5 per cent for 1964–67:[56] 'If New Zealand was to grow beyond its pastoral base, then it had to industrialise in some form. The alternative was emigration or at least a reduction in immigration'.[57] The obverse of protection for manufacturing was a de facto tax on pastoral export producers. Elkan estimated significantly negative effective protection for primary producers: –11.3 per cent in the mid 1950s and –13.5 per cent in the mid 1960s.[58]

The last third of the twentieth century brought a swing towards a services economy. In New Zealand, as in many other countries on the global periphery, especially within Latin America, the import substitution era that began in the 1930s had by the 1970s reached the stage at which a transition to export diversification was required for growth of the new industries to continue, which implied an opening up to international competition and relaxation of exchange controls. The resulting political stresses have been characterised by Easton as 'the new diversified political economy remorselessly overriding chunks of the long-standing pastoral one', providing the driving force behind the CER Agreement with Australia which came into force in 1983.[59] However, Briggs dates the start of rapid export diversification about 1967, while Gould dates it from the 1950s, but gathering pace in the 1970s.[60] From around 15 per cent of the total goods exports in the late 1960s, forestry and 'other' exports (fruit, aluminium, steel and manufactures) had risen to around half by 1980. Meanwhile, as Figure 22.5 shows, the share of pastoral exports in the economy's current-account earnings fell precipitously through the 1970s. Some of the new export products—such as aluminium, and pulp and paper—were associated with giant industrial operations, but a great many were produced by small- and medium-scale firms in manufacturing, fishing and non-pastoral agriculture.

By the early 1980s the newly ascendant business elite was coalescing around emerging opportunities in both services and non-traditional exports, but in 1984 politics abruptly stepped in and reoriented the process of economic evolution. The extremist neo-liberal policies adopted by the fourth Labour government, 1984–2000, laid waste to large swathes of manufacturing and agriculture by adoption of a macroeconomic policy stance that led to a swing of relative prices, and hence profitability, against tradeable goods producers and in favour of non-tradeables such as finance and utilities (see Figure 22.7).

Finance, education, tourism, business services, design, and infrastructure utilities moved to centre stage in the 1980s and 1990s in a deregulated policy environment that attracted large capital inflows.[61] This consolidated a new generation of large corporates in utilities and finance. The swing to services took roughly two decades from around 1970 and crystallised during Roger Douglas' period as Minister of Finance (1984–88).

Debate over economic strategy among the country's sectoral elites and policymakers had rumbled along through the 1960s in a series of major government-sponsored conferences: the Industrial Development Conference (1960), the Export Development Conference (1963), the Agricultural Development Conference (1963–64) and the National Development Conference (1968–69). All these were grounded within the policy discourse of the import-substitution era but saw future economic growth as depending increasingly on broadening the export base as manufacturing matured and deepened, although the potential for future expansion of services sectors such as tourism was canvassed. The oil shock of 1974 gave rise to a 1976 task force report that led to establishment of the New Zealand Planning Council, a state-sponsored think tank that undertook and published a stream of strategic policy-related economic research over the following decade, before being wound up in 1990 as the post-transition neo-liberal policy consensus was bedded down.[62]

Precisely what sort of regime shift would shape the economy's transition out of insulationism was unclear for nearly two decades. The National Development Conference produced, after tense negotiations, Resolution 209A, which called for import licensing to be replaced by tariffs and for protection to be 'such as to encourage competition, efficiency and reasonable prices to other sectors and to consumers' and to 'have regard to the need to give the consumer choice and variety'.[63] Movement by policymakers in this direction was, however, slow throughout the 1970s. Experimental strategic reorientations were tentatively tried: limited financial liberalisation in 1976 and an expensive but unsatisfying flirtation with heavy industrialisation based on energy resources (the so-called 'Think Big' package) in 1979–83. Finally, the fourth Labour government, elected in 1984, decided simply to throw overboard the entire policy framework of the preceding half-century, allow deregulated markets free rein and see what emerged.

As was true of import substitution during mid century, so, too, the liberalisation policies of the 1980s were in tune with a strong current of international policy thinking: in this case, that of the major Washington-based international agencies, the World Bank and International Monetary Fund. But again, as in the 1890s and 1930s, the New Zealand settler state brought its own distinctively radical, extremist and ruthless flavour to implementation of the new model. Once embarked on the new course, the fourth Labour government between 1984 and 1990 moved as far and as fast as the Liberals 1890–1910 and the first Labour government 1935–1940.

State agencies not aligned with the new political economy were simply abolished, and those that were so aligned (particularly Treasury and the Reserve Bank) were strengthened.[64] Vested interests that had dominated the preceding era—farming, engineering, manufacturing and the holders of import licences with their associated scarcity rents—were crippled by the stripping away of virtually all their effective protection: farm subsidies were abolished, import controls ended, tariff rates dropped and the concessional credit for tradeables producers terminated. This coincided with the implementation of a strong anti-tradeables 'bias' in policy. Indeed, policy momentum was built up by rapid implementation of foreign-exchange-market deregulation, corporatisation and privatisation of state-owned enterprise, and tax reforms favouring the financial sector, all of which created opportunities for a new business elite to consolidate its strategic influence over economic policy.

There is an extensive literature on the 'crisis' and the 'reforms' of the 1980s.[65] Two empirical observations serve to underscore how radical was the sectoral reorientation of the last two decades of the century. First, take the activities of the major companies listed on the New Zealand Stock Exchange (NZX). In 1980 in the twilight of the import-substitution era, 75 per cent of share-market capitalisation was in agriculture, primary processing, engineering, manufacturing and construction. By 2000 these sectors had fallen to 21 per cent of the share market. On the other side of the story, finance, investment and property companies, utilities and transport had risen from 8 per cent in 1980 to 50 per cent by 2000.[66] The top fifteen firms listed on the share market in early 2006 included only a single manufacturer and a single construction company; the remainder were involved in energy, transport and infrastructure (seven firms); entertainment, health care and retail (four); and finance and investment (two).

Second, take the sectors earning foreign currency revenues on the current account of the balance of payments. In terms of the official statistics, 'services exports', which had been 7 per cent of total export earnings in 1960 and 12 per cent in 1970, had risen to 21 per cent by 1984, 24 per cent by 1995 and 27 per cent by 2003. These figures understate the shift because neither education nor tourism is reported directly in the trade statistics, yet their combined earnings by 2000 had overtaken total pastoral exports. In terms of services exports, the wide-bodied passenger jet was to the

New Zealand of 2000 what the refrigerated steamship had been to the New Zealand of 1900—a global transportation technology that transformed the set of opportunities open to settlers on the global periphery. From farming sheep and cows, New Zealand moved towards farming visitors. For the utilities sectors supplying the local market, the big change was one of ownership and control, as formerly government-owned infrastructure assets were corporatised and privatised, and their new private owners and/or managers thereafter occupied the commanding heights of the domestic economy. The resulting regulatory problems were left for the new century.

THE CONVERGING MAORI ECONOMY

While the statistical record and policy history of the twentieth century trace the path of the settler economy, the non-settler indigenous economy underwent its own transitions. For Maori, as for settler Pakeha, the same three clearly defined economic eras are to be seen, while the story of the century is one of economic convergence between Maori and settler economies and peoples.[67]

In the grass-monoculture era, with Maori reduced to the status of a tiny demographic minority, the settler strategy was to dispossess Maori of land and then sideline them in rural enclaves—a local version of the 'native reservations' model adopted in other settler colonies. The corresponding Maori strategy (no less flexible and pragmatic than that of the settlers) was to turn inwards and focus on the sustainability of community, tribal structure and cultural resources in a period of subsistence involution. Maori political leadership from 1900 to the 1940s was strategically concerned with the construction and protection of a space within which Maori culture and society could recover from the nineteenth-century cataclysm.[68]

The second era, insulation and industrialisation, opened the door in the 1940s and 1950s to urban wage labour for rural migrants, and young Maori seized the opportunity.[69] Within a generation most Maori were urban and engaged in labouring occupations, and Maori leadership was preoccupied with the social stresses of urbanisation and questions of tribal and ethnic identity. White settler strategy towards Maori in this era was assimilationist, aiming to fully incorporate Maori into both the new industrial labour market and the redesigned welfare state.[70] This made economic sense: unskilled labour had become a scarce resource for the first time since the nineteenth century, and there was a growing and untapped rural reserve of young, mobile Maori labour available for recruitment.

Maori society suffered cultural setbacks in the 1960s (declining use of the language and erosion of iwi identity and cohesion), but reaped economic gains from full employment and ethnic intermarriage in the growing cities of mid-century

New Zealand. Because the expanding employment opportunities were primarily in manufacturing and construction, Maori became concentrated as wage workers in these sectors, which would later render them especially vulnerable to the 1980s downturn in these sectors.[71]

In the third era—the swing to services and the arrival of neo-liberalism—the new political economy opened a plethora of opportunities for Maori skills and entrepreneurship. Maori ownership of the key cultural resources that provide New Zealand with its distinctive branding advantage in global tourism, combined with their prior incorporation into the mainstream settler economy via urban wage labour, coincided with a sudden (and typically radical) relaxation of the settler state's focus on appropriation and retention of Maori land and denial of effective redress for past expropriations.[72] As the national economic spotlight shifted off pastoral production, settlement of Waitangi Treaty grievances became acknowledged as fundamental to construction of the new strategic policy consensus, and Maori came into possession of substantial resources of fishery quota, land and cash under a sequence of Treaty settlements during the 1980s and 1990s. By 2000 the distinctively Maori economy—defined by NZIER as 'all those businesses and transactions where "Maoriness" matters', and excluding Maori employment in the mainstream economy (the principal source of income for ethnic Maori)—accounted for 37 per cent of the nation's fishing sector and 7.5 per cent of agriculture, though only 1.4 per cent of total GDP.[73] Maori political and economic leaders had stepped out again onto the national stage.

A major stocktake of the economic position of Maori occurred at the turn of the century, stimulated by the incoming Labour government's declared intention of adopting special measures to 'close the gaps' between Maori and Pakeha. A series of analyses indicated that by then there was no simple causal link from Maori ethnicity or cultural identity to economic or employment status. The problems of low-income Maori were those of low-income groups per se, following a decades-long convergence process.[74] The prospects for the Maori economy as a distinctive component of the country's economic structure were bright, with progress on Treaty settlements, health and education status, and a cultural renaissance reinforced by booming tourist demand.

THE GLOBAL CONJUNCTURE

To place the discussion of domestic regime changes in context, it is important to bear in mind that, in broad outline, New Zealand's development phases closely matched the global conjuncture.[75] The half century to the First World War was a period of globalisation, with free trade, the gold standard and virtually unrestricted mobility for labour and capital, while Europe's rapid industrialisation sucked in imports.

Primary commodity export economies rode a wave of prosperity, and their economic structures became attuned to the production characteristics of their main exports.

An entirely different global order followed in the wake of the First World War. Attempts to restore the gold standard failed and national currencies broke away; labour and capital mobility were sharply curtailed and protective barriers were raised in a climate of economic nationalism. The external market opportunities facing Europe's colonial and ex-colonial territories were sharply curtailed. Only those colonies that had already become independent nation-states enjoyed enough policy autonomy to turn inward and promote development strategies built around internal markets. Of these, the English settler colonies were the most successful, followed at some distance by Latin America. For most of Africa and Asia (apart from Japan), the four decades to 1955 were a bleak period of falling behind the developed world.

New Zealand in this era held onto its high position in the world distribution of income by activist state intervention in the economy, a process that tested severely the country's institutional framework. In common with Canada and Australia, New Zealand emerged successful, albeit with an economic structure that was too constrained by the limited size of the domestic market to be sustainable indefinitely. South Africa and the Latin American settler colonies struggled to survive economically and their institutions bent under the strain, yielding apartheid in South Africa and Peronism in Argentina.

The global conjuncture swung again in the 1960s, back to a revival of globalisation that proceeded through the remainder of the century, with a conspicuous and persistent gap between rich and poor countries. Above the gap, along with the rest of the OECD, was New Zealand. The problem for policymakers was to work out what had to be done to stay there. Local economic commentaries became filled with comparisons of per capita income between New Zealand and other OECD economies, and concern over the gradual 'falling behind', revealed by Figure 22.1, opened the political door to the radical neo-liberal policy experiments of the 1980s and 1990s. New Zealand was not alone in its adoption of a neo-liberal package; in the 1980s Latin American countries hit by the debt crisis of the early 1980s adopted recognisably related 'new paradigm' neo-liberal policy responses, as did welfare states in Europe under the same global pressures emanating from Washington DC.[76]

WORLD SYSTEMS HISTORIOGRAPHY

World system and 'dependency' writings from the 1950s to the 1970s used to portray a bipolar world of centre and periphery, in which the latter was dominated and exploited by the former.[77] This literature had its echo in New Zealand, where 'progressive' New Zealand Pakeha historians of the mid twentieth century, including W. B. Sutch and Keith Sinclair, portrayed white settler society as subject to a colonial straightjacket and engaged in a form of liberation struggle for national independence similar in kind to those waged in the 1950s and 1960s in tropical Africa and Asia.[78] An obvious problem with this bipolar conceptual scheme from the outset was the distinctive character of the white settler societies, which, as Warwick Armstrong pointed out, 'occupy an intermediate position between the world centres and peripheries, and exhibit characteristics of both'.[79]

A comparative world-system approach to New Zealand economic history was pioneered in the 1970s by Armstrong and Ehrensaft in their model of 'dominion capitalism'.[80] This was followed by Denoon's study of 'settler capitalism', a comparative economic and social history of six white settler societies (New Zealand, Australia, South Africa, Uruguay, Chile and Argentina), all of which began their modern economic histories by incorporation into the global economy as peripheral, temperate-latitude outposts of European empires.[81]

The 1980s brought a more sophisticated and nuanced version of world system theory. Senghaas proposed a typology of six responses by European and other states to threatened or actual peripheralisation.[82] In his third category, 'associative-dissociative development', Canada, Australia and New Zealand appeared along with four small economies on the fringes of Europe—Denmark, Sweden, Norway and Finland—that had followed a state-guided evolutionary path from the export of staples to industrialisation via import substitution. New Zealand, Canada and Australia made up Senghaas' 'sub-type IIIa': countries with exports that remained dominated by primary commodities into the 1980s and with manufacturing sectors still primarily inward-oriented, in contrast to the European IIIb cases that successfully made the transition from import substitution to export of manufactures.

Senghaas classified New Zealand as intermediate between Uruguay and Denmark, and argued that Uruguay's lagging twentieth-century performance was due to the persistence of large landholdings that determined social and institutional structure.[83] This he contrasted with New Zealand's political and social transition in the late nineteenth and early twentieth centuries from large landholdings and rule by a landholder/mercantile elite to a more intensive export agriculture, based on relatively small landholdings and later allied to an urban economy of small protected industries and services. According to Senghaas, the fact that 'part of agriculture adopted intensive farming methods, producing for export (dairy products) as well as for the domestic market (fruit, vegetables, honey etc)—combined with the shift in domestic political power from the Conservatives to the progressive Liberals . . . saved New Zealand from falling into the structural trap that caught Uruguay . . . New Zealand escaped peripheralisation on account first of her political, then of her economic de-oligarchisation, without having as yet attained a degree of structural diversification and coherence comparable to Denmark's'.[84]

That turn-of-the-century transformation of the ownership and productive structure of New Zealand agriculture, however, had occurred in the particular context of New Zealand's formal status as a British Dominion and consequently a more secure foothold in the UK market for pastoral commodities. Senghaas' account probably underplays the importance of the colonial connection and its pay-off at Ottawa.

EXPORTS AND OUTPUT OVER THE CENTURY

Figure 22.12 traces the evolution of aggregate export performance, measured in 'real' terms. There are two different ways of approaching what one means by 'real exports' and both are shown here. The first approach is to take the total value of export receipts, in New Zealand currency of the day, and to deflate this by a price index such as the Consumer Price Index; the resulting series shows the purchasing power, in the New Zealand market, of revenues derived from export sales. That is, it indicates the evolution of exporters' real incomes.

The second approach is to measure the actual volumes of individual goods exported, and then use constant-price weights to aggregate them. The resulting export volume index, available only from the late 1940s, does not reflect export producers' actual income derived from their export sales, but is informative with respect to the physical output being exported by the economy's supply side. Six key features of the New Zealand export economy in the twentieth century stand out in Figure 22.12. In aggregate terms over the full century, long-term export growth was around 3.2 per cent per year (shown by the grey trend line drawn through the log chart). Deviations from the trend provide moments of short-run drama in the story, but all periods of crisis were followed by return to the long-term path. The crises associated with strategic turning points appear as periods when exports fell markedly below trend for more than a single year: the Great Depression and early 1940s; and 1967–68 and 1974–75 (key moments in the crumbling of the insulationist policy consensus). In addition, there was a period of export weakness in the years following the regime shift of 1984, with its combination of destructive sectoral rebalancing and anti-tradeable-goods bias in economic policy.

The Great Depression of 1930 is identifiable as a sharp dip, followed by fifteen years of below-trend exports; the central event that brought the outward-looking grass-monoculture era to an end and turned economic policy inwards. The subsequent seven-year export boom of the late 1940s and early 1950s, generally associated with the Korean War but beginning well before that war, was the biggest export event of the century (see Figure 22.12). Not only did it render the first Labour government's

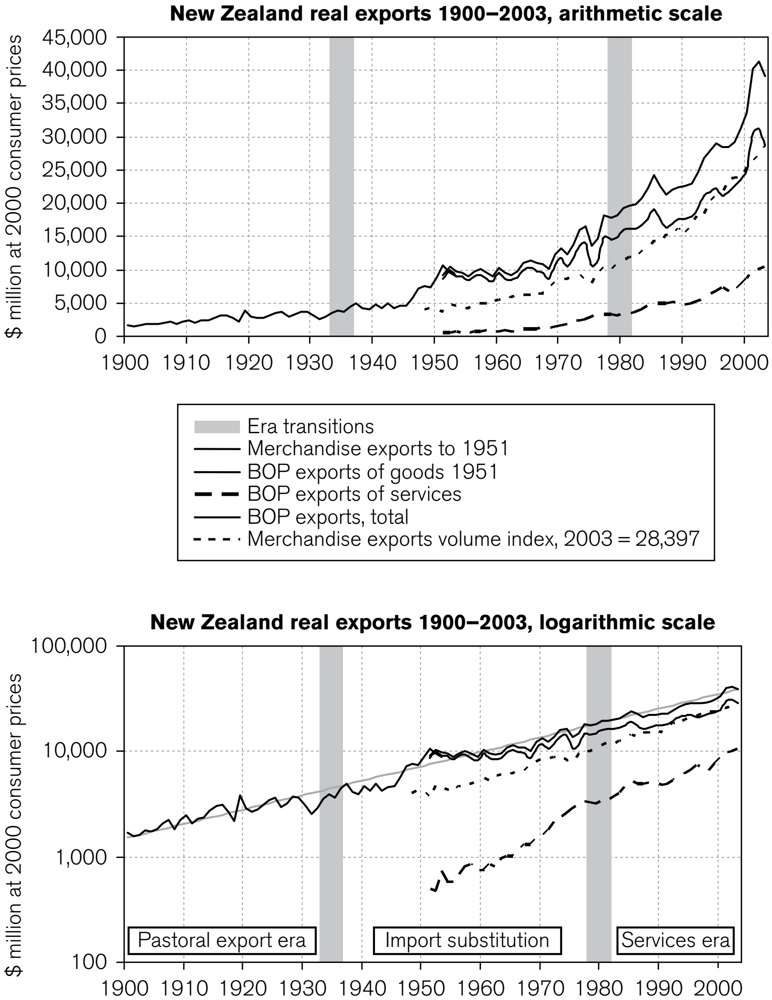


FIGURE 22.12:

LONG-RUN REAL EXPORTS, ARITHMETIC AND LOG SCALES.

Sources: All figures are from *New Zealand Long-Term Data Series*: Merchandise trade deflated by the CPI from Table H1.1, 'Value of Goods Exported', Data worksheet, column Z; Balance of payments exports of goods and services from Table H3.6, 'Balance of Payments Exports', Data worksheet, Columns U, V and W; Merchandise exports volume index from Table H1.5, 'Export Volume Index', Data worksheet, Column L, rebased to 2003 = 29,397 in order to coincide with the real-export series at 2003.

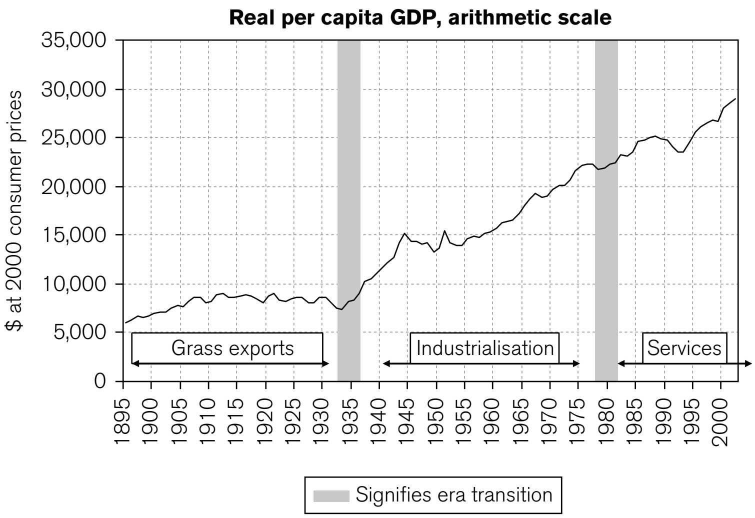
economic and social policy framework sustainable for another two decades, but it also enabled the economy to sustain genuine full employment within that framework without serious inflation through two of those decades. Between 1945 and 1951 the real value of exports more than doubled in six years. Physical farm output volumes grew only slowly, so that the boom in farmers' incomes was attributable to export prices rather than to increased production. However, far from falling back after the Korean War ended, real exports remained on a plateau throughout the 1950s and early 1960s, with farm output rising steadily and farm incomes sufficiently high to allow ongoing investment in improvements and new capital equipment.[85]

From 1950 to 1970 the real value of exports hardly rose, though the volume index grew somewhat more rapidly.[86] By the time of the wool price slump of 1967, noted above, an obvious question mark already hung over the sustainability of export growth in the face of weak prices. The relief provided by booming world commodity prices in 1972–73 was short-lived, and the subsequent Muldoon years of 1976–84 saw an attempt to build export volume growth on a programme of widespread subsidies to agriculture and industry. The radical policy reversal of 1984 dealt a *coup de grâce* to Muldoon's economic policy settings, and ushered in the export crash of 1985–87 when merchandise exports fell 15 per cent in two years.

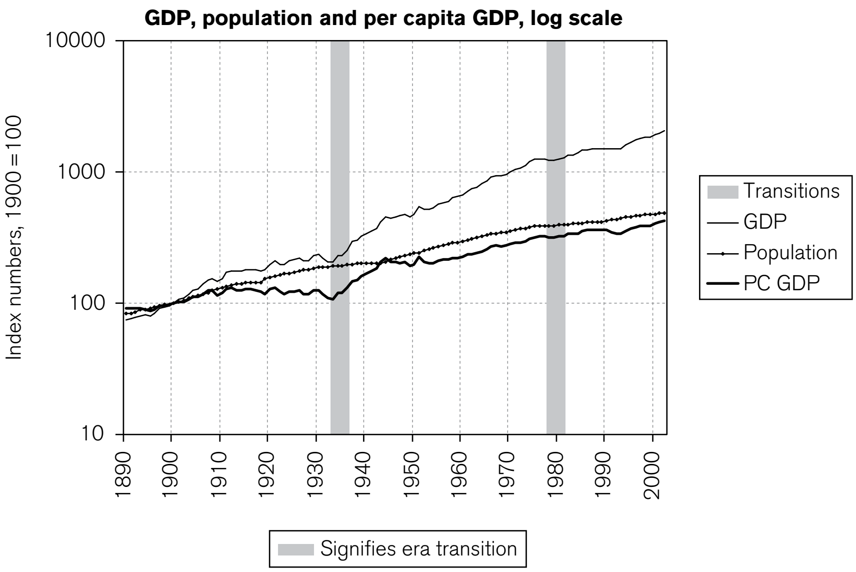
Looking at the longer term, merchandise exports from the 1950s onwards were falling below their 1900–50 trend, and although their volume continued to grow 3.5 per cent per year from 1949 to 2003, their real value expanded only at 2.4 per cent—far below the previous trend. Aggregate growth in export earnings was lifted to its long-term trend by services exports. The major contributors were tourism and (from the late 1990s) education.[87] The two main inputs to the tourism product were landscape (often the landscapes created by export pastoralism) and indigenous culture. Since settler capitalism was slow to develop a distinctively attractive culture, the major cultural resource was that still owned by Maori (despite energetic settler attempts over the preceding century to appropriate for themselves selected images, rituals and words from Maori culture). Consequently, successful exploitation of the tourism opportunity required settlers to engage in a genuine joint venture with Maori, the social and political consequences of which were enormous. Pragmatic and opportunist as ever, settler society swallowed its pride and changed course.

Turning to output, Figure 22.13 captures the major swings in the growth performance of the economy as a whole over the century as measured by GDP. From Figure 22.13(a) it is evident that the grass-monoculture era delivered rising per capita incomes until the First World War, but that thereafter rising output only just kept pace with population. Figure 22.13(b) shows the growth of aggregate GDP slackening while population continued to grow strongly through the 1920s; subsequently the rate of population growth slowed gradually through to 1943. Population growth in the 1920s was driven mainly by immigration; already by 1900 New Zealand was among the highest-income (and highest-wage) economies in the world, and so was a magnet for migrants even at a stationary high level of per capita income.[88]

There was clearly more to the long stagnation of the 1920s than population pressure. The growth of aggregate GDP slowed sharply from 1920. This has



(A)



(B)

FIGURE 22.13:

REAL GDP PER CAPITA, 1895–2002: (A) REAL PER CAPITA GDP, ARITHMETIC SCALE; (B) GDP, POPULATION AND PER CAPITA GDP, LOG SCALE.

Sources: New Zealand Long-Term Data Series, Table E1.2, Columns AH (GDP), AJ (population) and AK (per capita GDP); per capita exports calculated from Figure 22.2 data.

sometimes been attributed to the sharp drop in the external terms of trade (relative prices of exports and imports) in 1920 (see Figure 22.6), but the terms of trade recovered quickly in the mid 1920s, while aggregate real GDP growth continued to slow. Greasley and Oxley have argued that overpriced property and a heavy debt burden overhanging the pastoral sector, following rampant land speculation from 1890 to 1920, contributed largely to the slowdown. The real price of pastoral land doubled between 1900 and 1920, but then fell 40 per cent by 1930 as the land market crashed. They conclude that 'the collapse of the land boom after 1920 was a powerful home grown force on real GDP per capita throughout the long depression surrounding the 1920s'.[89] Not for the last time, New Zealand settler society's tolerance of (and taste for) the speculative pursuit of capital gains brought the economy to a near standstill.

With per capita GDP thus already weak, the Great Depression impacted only relatively mildly on output—a drop of about 14.5 per cent from 1930 to 1932, followed by a swift bounce back to 4 per cent above the 1930 level by 1936. Thereafter, coming out of the Great Depression New Zealand exhibited the world's most rapid economic recovery: an annual growth of 7.5 per cent in GDP and 6.7 per cent in per capita GDP from 1934 to 1944. Economic growth at this rate, sustained for a decade and then followed (and underpinned) by the postwar export boom, took New Zealand back to the top of the world income distribution. By 1938 Maddison's figures show New Zealand's per capita income 3–5 per cent above Switzerland and the USA, and 8–13 per cent above Australia and the UK.[90]

The first Labour government, with its interventionist approach to social and economic policy, thus presided over a process that today would rank as an 'economic miracle' on a par with East Asian performance in the 1970s. The great leap in per capita GDP from 1934 to 1944 (shown in Figure 22.12) came a decade before the 'Korean boom' in real exports of 1945–52 (Figure 22.11) and was sustained through a renewed steep drop in the terms of trade from 1938 (Figure 22.6) and through the Second World War. A slackening of the pace of GDP growth in the mid 1970s is apparent in Figure 22.13, and only a renewed slowdown in population growth prevented this from having a more serious impact on per capita income. Following Britain's 1973 entry to the EEC and the oil shock of the mid 1970s, recovery was engineered for a few years by the Muldoon government, but following the policy regime shift by the third Labour government after 1984, economic growth effectively stopped for a decade. Growth resumed from the mid 1990s, but at a rate sufficient to raise the long-run trend only marginally, and certainly not sufficient to match the growth explosion triggered by first Labour.

Figure 22.14 tracks four price indicators: export prices, import prices, consumer prices and the GDP deflator. All are plotted on a logarithmic scale, so that the slope of each line represents the rate of change (inflation rate) in each price index.

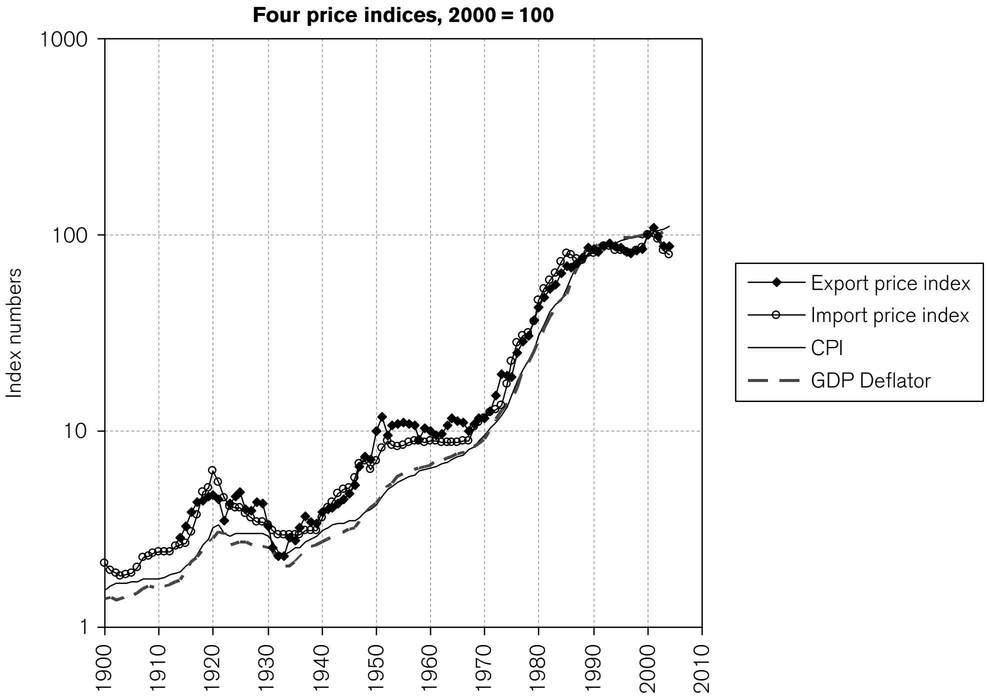


FIGURE 22.14:
FOUR PRICE INDICES.

Source: New Zealand Long-Term Data Series, Tables E1.3, G2.1, G4.1 and G5.1.

One of the central facts of twentieth-century economic history immediately stands out: although in the very long run the four series run parallel, over periods of a decade or so the prices of traded goods (imports and exports) at the New Zealand border have performed very differently from consumer prices in the local market. The CPI shows the New Zealand currency's purchasing power over consumption goods available in the local market. The import price index tells the story of the New Zealand currency's purchasing power over imported goods, and the export price index depicts the local market's purchasing power secured by exporters from each unit of exported goods.

In the early twentieth century, at least to 1919–20, export and import prices ran ahead of the CPI, and farmers' real incomes benefited accordingly. The 1920s witnessed stable consumer prices, slowly falling (though more volatile) export prices, and falling import prices, a combination that offered little to farm incomes but enabled the population as a whole to gain from increased consumption of imports.

The Great Depression was above all a collapse of export prices, which fell 47 per cent between 1928 and 1932, while import prices fell only 14 per cent and consumer prices 19 per cent.[91] New Zealand's extraordinarily rapid recovery from the

Great Depression was underwritten by two decades in which export prices surged ahead of consumer prices, redistributing purchasing wealth back towards the export sectors. The terms of trade changed little for the first fifteen years or so (import prices rose as rapidly as export prices), but in the late 1940s and early 1950s import prices softened while export prices raced on into the Korean boom.

Through the 1950s and the first half of the 1960s, domestic CPI inflation in New Zealand was engaged in a long, slow catch-up process, while tradeable goods prices remained virtually flat from 1952 to 1967. Apart from the dip in export prices in 1957–61, it was generally the case through this period that the purchasing power of export goods over imports (the terms of trade) remained at the high level established in the early 1950s, and this goes some way to account for the sense of prosperity and security enjoyed by New Zealanders in those years, basically because the economy at large was able to collect and spend an implicit tax on its farmer exporters, without unduly squeezing farm living standards.[92] The inexorably narrowing gap between the CPI and the traded goods price indices, however, spelt the approach of distributional stress between exporters and the rest of the community, and the associated prospect of a crisis of political as well as economic sustainability.

From the end of the 1960s there came twenty-five years of rapid inflation, during which all four indices moved closely together until the New Zealand dollar was floated early in 1985. This sharp inflationary acceleration, and the impression of indexation of prices to each other from 1969 through to the 1980s, had the strong appearance of an outbreak of intersectoral conflict over shares of the product.[93] Domestically, the nil wage order of 1968 and the subsequent breakdown of the arbitration system opened the way to a wage–price spiral, while at the same time import price rises were indexed into the prices of locally produced goods and services.

In the early 1980s the adoption of a 'moving peg' exchange-rate regime facilitated an additional inflationary spiral in which devaluation raised import prices and pushed up domestic inflation (given that wages were effectively indexed), and so required further devaluation.[94] The steady depreciation of the nominal exchange rate failed to halt the progressive emergence of overvaluation of the real exchange rate, and the incoming Labour government's 25 per cent devaluation in mid 1984 passed through to a very high wage round in 1985.

In the third era the CPI and GDP deflator ran significantly ahead of world price trends, due to a radical shift of local market prices in favour of the non-tradeable and services sectors. Again, the inflation process was performing a redistributive function, but this time the underlying conflict was not between capital and labour as in the insulationist era, but between suppliers and users of essential infrastructure. Not coincidentally, the New Zealand government abandoned price control at the same time as it deregulated and privatised the country's essential infrastructure in the years around 1990. The new managers of that infrastructure exercised the market power thus gifted to them to drive up the prices of essential services, in the process placing a squeeze on the profitability of tradeable goods producers.

New Zealand's twentieth century economic history might be likened to a sort of political economy relay, with the baton of leadership passed on from one elite to another as the economy's structure evolved. At a superficial level this structural evolution seems to match the stylised 'textbook' transition from primary to secondary and on to tertiary sectoral leadership, but New Zealand's was not the traditional closed-economy development story. There are six main reasons for this. First, export performance was always fundamental to economic growth and high incomes. Second, the internal dialectics between settler and Maori society evolved as an essential part of the overall economic picture.[95] Third, the labour market was always open to both external and internal migration, moderating what could otherwise have been more radical cycles in income and employment. Fourth, capital inflows meant that investment was seldom if ever constrained by any scarcity of domestic savings. Fifth, the state was fundamental in defining and sustaining each era: a common feature on the periphery of the twentieth-century world economy. Finally, although the local story appeared to have its own cast and script, the eras and their turning points faithfully matched the changing conjuncture in the global system into which New Zealand was inextricably integrated. New Zealand's experience had clear parallels with that of other settler colonies and, indeed, with many economies on the global periphery, especially in Latin America.[96]

Common themes throughout the economic experience of the twentieth century were the enormous importance of migration (both external and internal) in forming the labour force in each era; the remarkable adaptability, strength and resilience displayed by the settler state in selecting and enforcing a new strategic direction at each turning point; and a tendency towards (and societal tolerance of) speculative booms and slumps. This speculation was concentrated in the land market of the 1910s and 1920s, against the exchange rate of the currency in 1933 and 1984, and then in the housing market since the 1960s. Further activity in the share market in the 1980s, and in the privatisation opportunities of the 1990s, would suggest that New Zealanders still retain the colonist's liking for capital gains.[97] As if to underscore this, at the start of the twenty-first century New Zealand was conspicuous among modern developed nations for the absence of a capital gains tax and the extent to which deregulation of key sectors had been allowed to flow through to capital gains for speculators in the privatised assets, formerly owned by central and local government.[98]

Undoubtedly, a major mid-century literary and political theme was the settler quest for security.[99] In the late twentieth century the focus shifted from social to ethnic harmony, reflecting both the rapid diversification of the population as migration sources in the Pacific Islands and Asia took the place occupied by European migration in the first half of the century, and the demographic, economic and political resurgence of Maori. Moreover, Maori economic experience diverged significantly from that of indigenous peoples in other former settler colonies. Through most of the twentieth century in the neo-European settler societies, pre-colonial indigenous traditions survived primarily as cultural artefacts, re-emerging as a force in economic history only in the last two decades of the century.[100] In the New Zealand case, this indigenous resurgence came earlier and was more rapid and dramatic than in the other settler societies. This was due partly to an institutional convergence of indigenous and settler traditions, partly to far-sighted and effective Maori leadership in the period of involution from the 1880s to the 1930s, and partly to successful Maori urbanisation during New Zealand's extraordinary three decades of full employment from the late 1940s to the mid 1970s. It was also due, at least in part, to the post-1973 structural swing in the economy towards services as a leading sector. This opened the way to a Maori economic renaissance both by removing previous roadblocks to land claims and by projecting Maori cultural practices and artefacts into a tourism market where they enjoyed a near-monopoly.

NOTES

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CHAPTER 22: THE NEW ZEALAND ECONOMY, 1900–2000

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