The Quest for Security and Welfare in New Zealand 1938–1956

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Abstract

This paper, largely written in the mid-1950s, appraises the implications of the policies followed by the first Labour Government from 1935 to 1949 and the National Government that succeeded it between 1949 and 1957. They were fortunate that, through most of the period, favourable market conditions prevailed, especially in Britain, for New Zealand’s major pastoral exports. This provided a good basis for the expansion of the volume of goods and services available for a rapidly growing population. The emphasis of policy was on full employment, – it was an era of considerable shortage of labour – on redistribution through monetary benefits, free education and health services and state housing, and on a regulated stabilisation policy aiming at “fair shares” among producers. The paper discusses the implementation of these policies and their effects on the rate and pattern of growth and on the capacity of the New Zealand economy to develop in the less favourable external environment that was emerging.

Foreword

Some may consider that it is either brave or foolhardy to resurrect a piece of work, previously unpublished, that was written early in my teaching career in late 1956 or early 1957. It was to have been a chapter in a book that a group of staff members at Victoria University College had undertaken to produce for the New Zealand Institute of International Affairs. It was to be a successor to a valuable study of Contemporary New Zealand published by the Institute in 1938. Unfortunately, one of our members, Winston Monk, was killed in an air crash in 1954. For this and other reasons, the project foundered and I became involved in a number of other research, teaching, advisory and administrative responsibilities.

Having found my draft while culling old papers, I showed it to a few economic historians. They have encouraged me at least to put it on the web, with only slight modifications, for the edification of those interested in this period of the country’s policy history.

The primary object of this essay was to attempt a critical assessment of the major economic developments that had taken place, and of the economic policies that had been adopted, in New Zealand during the period since ‘Contemporary New Zealand’ had been written in 1938. I also wrote another chapter on New Zealand in the World Economy. I have since published this on the website of the Institute of Policy Studies as Policy Paper 18.

Introduction

Critically assessing a country’s economic development and the policies of its Government is, unfortunately, no easier than attempting to judge whether a man has made a success or a failure of his life. The major difficulty, in both cases, is that there is no single criterion on which judgment may be based.

Welfare is not just a matter of gaining command over more and better material goods and services each year, although most of us consider this a good thing. In their political activities during the late 1930s and up to the mid 1950s, the New Zealand people made it clear that they were concerned with many other things. The demand for security – security of employment and security against disastrous loss of income through ill health, old age, or changing overseas prices – was a major factor governing the policies adopted by both main parties.

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Governments were also forced to concern themselves with the provision of adequate housing and health and education services for all, with hours and conditions of work and with the state of industrial relations.

They felt responsible for ensuring that adequate provision was made for future generations, for protecting the country’s external reserves, for maintaining...
reasonable stability of prices and for providing some security against external aggression. And, in all their policies, they had to remember that most New Zealanders preferred the kind of community where they could choose their own way of living without too much interference from a higher authority.

Since Governments had to heed all these aspirations, and others, it would be unreasonable for us to ignore them in assessing what happened.

Unfortunately, our aspirations are not always consistent with one another, in that if we pay too much attention to achieving one of them, we often frustrate the achievement of others. Since we cannot achieve all our aspirations simultaneously, there will always be disagreement as to how far each of them should be pursued – disagreement springing from differences of opinion on the relative values of the many components of welfare. An essay like this, which tried to assess whether development had been ‘balanced’ and policies ‘correct’, inevitably reflected the value judgments of the author. I hoped that enough information was given to enable readers to apply their own value judgments to the author’s evaluation of the developments and policies discussed.

The Growth of the New Zealand Economy

Probably the most remarkable feature of the period which we are considering was the extent to which the New Zealand people were able simultaneously and successfully to pursue so many of the above objectives. Although they did not achieve the millennium that was said by extreme Socialists and by Social Crediters to be within their grasp, Governments of both parties were able to carry through, without serious misfortune, policies which according to the more conservative members of the community, were potentially disastrous.

a) Growth of the Volume of Goods and Services Available

The volume of goods and services available to the people of New Zealand increased substantially during our period. There is no completely satisfactory way of measuring the extent of the increase. Figures published by the Department of Statistics indicate that the volume of goods available for use in the year ended June 1955 was 88% greater, and that the average for the five years ending June 1955 was 61% greater, than in the year ended June 1939. The national income figures give a more comprehensive picture, in that an assessment is made of the value of services, as well as of goods, available. In money terms, New Zealand’s gross national income at market prices rose from £231 million in 1938-39 to £982 million in 1955-56. But this increase was due only partly to a rise in the volume of goods and services available. It was mainly caused by a rise in prices. An attempt, necessarily rough, has been made to allow for the rise in prices which occurred, and the results indicate that the volume of goods and services available almost doubled between 1938-39 and 1955-56, and increased by about 75% between 1938-39 and the average of the six years ending March 1951-56.

b) Growing Population

The increased volume of goods and services available had to be shared among a growing number of people. In the late 1930’s, concern was being expressed at the slow rate of growth of the New Zealand population. For instance, it was pointed out in ‘Contemporary New Zealand’ that the population would not maintain itself unless the birth-rate rose markedly or substantial immigration took place. The net reproduction rate was only 0.967 in 1936.

In fact, the birth rate rose from about 1.6% of the population in 1935 to about 2.5% of the population in 1956. The death rate rose slightly, and New Zealand could no longer claim in 1956, as it could in the late 1930s, that it had the second lowest death-rate in the world. Now not only the Netherlands, but also Israel, the European population of South Africa, Denmark and Canada preceded us. But natural increase had increased substantially from 0.95% of the population in the 1930s to about 1.7% in 1955-56.

In comparison with the 1930s, there had also been a substantially increased net inflow of immigrants into New Zealand after the war. A relatively small, but generally increasing, proportion of immigrants intending permanent residence were helped to come to New Zealand by the government under an assisted passage scheme which had been virtually in abeyance for 20 years. But immigration had provided only a small proportion of the total increase. At its peak in 1951 and 1952, the average
annual net inflow was about 18,800 or 0.96% of the mean population. Thereafter, the proportion declined markedly, with the average net annual inflow being only 0.41% of the mean population in the three years 1954 to 1956. As the immigrants had been predominantly British and Dutch, and those assisted had been fairly carefully selected, there had been little or no difficulty in assimilating them to the homogeneous New Zealand pattern.

Very few other countries exceeded New Zealand’s average rate of population increase in the first ten years after the war of about 2.3% per annum. It is difficult to decide whether this should be regarded as a creditable achievement or not. New Zealanders shared high and rising living standards with an increased number of immigrants. However this was not the argument for immigration that was most frequently heard.

Many proponents of rapid population increase argued that it was urgently necessary to people the country’s “empty spaces” with immigrants who would (to quote a late Labour Prime Minister) ‘appreciate this country, its democracy and its standards of living’. But no conceivable increase could have greatly reduced the relative attractiveness of New Zealand to a potential aggressor or greatly increase her relative capacity to defend herself. Those who contended that immigration would assist in solving the labour shortage that confronted New Zealand after the war were proved wrong, in the short run at least. Immigration, added to existing natural increase, aggravated inflationary pressure, and thus intensified the demand for labour, by stimulating an already high demand for capital works and equipment of all kinds.

This, of course, provides no real argument against immigration as such – many effective contributions to development are likely to aggravate inflation in the short run. From an economic point of view, a decision on the desirability of rapid population increase should rest on its effects on levels of living. One of the country’s leading economists, Horace Belshaw, argued that real income per head would grow more rapidly with a slower rate of increase of population. His theoretical arguments in support of this contention were convincing, given his assumptions. But they were not conclusive. One could not, with available information, tell whether he had been too pessimistic about the economies of scale that the economy might derive from a larger population or assess what effect higher immigration and more rapid population increase might have had in stimulating innovations that would not be made in a more static economy.

c) Growth of consumption and investment per head of population

New Zealand was able to keep the available supply of goods and services comfortably ahead of the rise of population. From the available statistics, it would appear that the volume of goods and services available rose by over 90% between 1938-39 and 1955-56 or by about 50% per head of population.

The volume of goods and services consumed directly by private individuals increased approximately in step with the total volume of goods and services available. The volume of goods and services taken up by the government in providing its varied services to the community also increased, but at 65%, the rise was considerably less than proportionate to the increase in total goods and services available. The most spectacular advances had been in private investment. There was a 190% increase in the real resources devoted to housing, factory and office building, machinery, equipment and other kinds of capital in the period. Government investment, on the other hand, showed the lowest proportionate increase of all major categories of expenditure. Comparing the six years 1951-56 with 1938-39, government outlay on capital works in real terms would seem merely to have kept pace with the growth of population.

Overall the community, while enjoying a substantial increase in its level of consumption, had been able to devote much greater proportion of its resources than before the war to investment in capital of all kinds. Gross capital formation, including changes in stocks, had averaged nearly a quarter of New Zealand’s gross national product. The percentage of gross national product spent on capital formation in New Zealand in the mid-1950s bore favourable comparison with that of Australia. It was significantly greater than the percentages prevailing in Canada, the United Kingdom and the United States. We leave until later a discussion of the favourable external
circumstances that had been heavily responsible for the progress made and of the question of balance among various kinds of activity in the economy.

The Pursuit of Security and Stability
The stresses of the depression of the 1930’s strengthened a conviction, already embodied half-heartedly in the country’s legislation, that the Government should assure the individual of much greater security than he had enjoyed in the past against severe cuts in his real income due to unemployment, sickness, accident or old age. The convincing majorities given to the Labour Party in 1935 and 1938 showed clearly how responsive the majority of the people were at that time to a programme which held out the prospect of security, as of right, against poverty and which argued that the measures taken to achieve this end would, at the same time, by raising the people’s purchasing power and creating work, draw forth a greater supply of goods and services to be shared among them.

There were six main strands in the Labour Party’s policy for security. The measures taken to implement them influenced economic development in New Zealand considerably throughout our period. The Government was determined first, to achieve and sustain full employment of labour; secondly, to guarantee to primary producers prices which would assure them of a “reasonable” standard of living, irrespective of market prices for their products; thirdly, to raise wages to an adequate level and protect them by legislation; fourthly to increase monetary benefits for the aged, the sick, the incapacitated and those with children; fifthly, to provide from public funds free education and health services of a high standard, and to ensure an adequate supply of housing primarily by constructing large numbers of state houses for letting at low rentals; and sixthly, to ensure that the above measures were not frustrated by undue increases in the prices of goods and services which they regarded as basic essentials. We must therefore briefly survey the methods adopted to approach these objectives and study the results.

a) Full Employment
In 1936, shortly after the Labour Party had been elected to office, there were estimated to be about 57,000 men fully or partly unemployed or in subsidized work.

The new Government set out to rectify this situation in three main ways: first, by increasing purchasing power in the hands of the people through the restoration and increase of wages and farm incomes and through higher monetary benefits of various kinds; secondly, by embarking on a more ambitious public works programme than that undertaken by their predecessors and, in particular, by the construction of state rental houses on a large scale; and thirdly, by promoting the development of secondary industry in New Zealand, not merely to create employment in the short run, but also in the hope that they could thus reduce New Zealand’s dependence on exports of pastoral produce. At first, primary emphasis was placed on the first two methods of approach, and on ensuring that increasing supplies of credit were made available to the private sector at relatively low rates of interest.

Initially the Government continued to finance the bulk of its own increasing expenditures by taxation (their revenues growing automatically with the return of prosperity) and by limited borrowing from the public. In 1938, however, it was forced to have substantial recourse to the Central Bank to cover growing commitments. In the same year, as a result of a combination of growing imports stimulated by economic expansion, a recession of export receipts and an outflow of capital, the net overseas assets of the New Zealand banking system fell to the dangerously low level of £7 1/2 million.

To meet this situation, comprehensive import and exchange controls were introduced in December, 1938. The Government, in its 1935 election programme, had intimated that some system of this kind would be an essential part of their employment policy, but they had apparently been unable to obtain the agreement of the British authorities to its introduction. The 1938 crisis was, therefore, (as James Thorn puts it in his biography of Peter Fraser) ‘not altogether unfortunate from the viewpoint of Labour Party policy’. The controls were thereafter used to give substantial protection to local industries deemed essential by the Government, by at least restricting to determined quantities, and sometimes by totally excluding, competitive imported goods.

Even in 1939, there were still 19,000 people fully or partly unemployed or in subsidized work. However the
heavy demands of the war soon removed this pool of unemployed. This initiated an era of labour shortage that persisted for many years. For example, the average number of men registered as disengaged and seeking work did not rise above 92 in any year between 1947 and 1955. Even with the slight tightening of the labour market in 1956, the average number in this category was only about 260 – a negligible proportion of a labour force of about 815,000. As against this, the monthly average of notified vacancies remained consistently above 20,000 from 1947 to 1951. At its lowest, in 1953, the average was 11,400. In 1956, it was about 13,000.

This ‘over-full employment’ continued in the post-war period without any necessity for positive action by the Government, although the financial policies of both Governments contributed to it. In addition, both Governments were inclined to pay considerable attention to the dangers of unemployment in particular industries, even ludicrously small ones, regardless of the buoyancy of the overall employment situation. This is a major reason why the National Government, pledged to abolish quantitative import restrictions, felt bound to retain a hard core of those introduced by the Labour Government for protective purposes. Against the obvious advantages that accrued to the community from the much fuller use of its labour resources in the past decade, must be set certain drawbacks that inevitably arise in a situation of such acute labour shortage. The most notable were a high turnover of labour, delays on relatively essential projects through lack of labour, slackness and inefficiency in many workplaces and competitive bidding up of wages. Some of these problems are discussed more fully below, as is the importance of maintaining adequate reserves of foreign exchange, an aspect of long-term employment policy that was discounted by both parties during our period.

b) Guaranteed Prices for Primary Products
The Labour Party undertook in 1935 to introduce a system of guaranteed prices for all butter, cheese, wool and meat produced during the first year after it became the Government. In fact, it found it possible to introduce such a system only in respect of butter and cheese. It took over the marketing of these and some minor products as a State monopoly in 1956. The general concept underlying the guaranteed price scheme for dairy products, as set out in the legislation, was that any ‘efficient producer’ ‘under usual conditions and in normal circumstances should be assured of a sufficient net return to enable him to maintain himself and his family in a reasonable state of comfort.’ In fixing prices, regard was also to be had inter alia ‘to the costs involved in the efficient production of dairy produce’ and to relative standards of living in the dairy industry and in the community as a whole. It is not surprising that, with these vague criteria and with the serious technical difficulties involved in determining a ‘cost of production’ upon which the guaranteed prices should be based, differences soon arose between the Minister of Marketing and the dairy producers on the prices paid. In the event, the Minister adopted a set of cost standards laid down by a Committee set up in 1938, with slight variations. Estimated movements in these costs became the main basis for fixing the guaranteed price until 1956. The estimates probably involved much “horse-trading” between the producers and the price-fixing authority. Little attention appears to have been paid to the other criteria in the Act, either by the Government up till 1947, or by the Dairy Products Marketing Commission, composed of three representatives of Government and three of producers, with an independent Chairman, which was made responsible for marketing and price fixing in that year.

The almost continuous rise in export prices for dairy products during the war and for many years afterwards confronted the Government and the Commission with problems in administering the scheme completely different from those envisaged when it was introduced. Although the Government hoped that the scheme would be self-balancing, it was generally expected, in the weak market situation for dairy products ruling in the late 1930’s, that the Government would be faced with continuing deficits between market realizations and guaranteed prices. These would have necessitated either the abandonment of the concept of equity for the dairy farmer or the payment of continuous subsidies to him. In fact, the only serious deficit incurred until 1955 was one of £2 ½ million in 1938/9. Thereafter, for many years, prices rose continuously under bulk purchase contracts with the United Kingdom, while farm costs were held reasonably stable by means of a
comprehensive stabilization scheme, in which the guaranteed price scheme became incorporated from the end of 1942. This is discussed in section (f) below.

By 1951, £23 million had been accumulated in a Dairy Industry Reserve Account. The main problem arising from this was that an increasing number of farmers, beginning to despair of sharing personally in the funds accumulated, urged that they should not be built up further. In 1952, the National Government acceded to a request by the Dairy Board that, until the 1954-55 season, the full realisations received for butter and cheese should be used for the benefit of suppliers and dairy factories. It was only in 1956 that any substantial drawing on the reserves had to be made. But the fact the butter prices slumped by over 30 percent between the beginning of 1956 and the beginning of 1957 brought some realisation that a reserve of about £25 million was not over abundant for an industry with annual export receipts from butter and cheese running at about £60-70 million.

The Labour Government was unable to ‘sell’ the guaranteed price scheme to the more individualistic meat and wool producers in 1936. In 1942, the farmers agreed to the establishment of a stabilization scheme for both meat and dairy produce under which all the proceeds of increases in prices above those ruling in December 1942 would be paid into stabilization accounts, unless increases in costs of production occurred. In 1944, the Labour Government agreed with the Meat Producers’ Board that the reserves accumulated under the stabilization scheme belonged to, and should be held for, the benefit of the industry. In 1950, the National Government expressed its understanding that the funds would be available to cushion any sudden price fall and spread any long-term downward trend in world prices.

Thus, in practice, if not in theory, the meat producers were also for a time subject to the principles of a guaranteed price scheme. However, with reserves reaching £40 million in 1952, pressure built up for the full pay-out of export realizations. This was conceded to them in that year.

The Government felt unable to bring wool into their wartime and post-war stabilization schemes due to opposition by the producers. During the latter part of the war, woolgrowers’ incomes were held relatively stable. The average price of wool remained constant from 1943-46 under the bulk purchase agreement with the United Kingdom. However, this agreement was terminated in 1946.

With wool prices rising more rapidly thereafter than prices for other export produce, woolgrowers, receiving the full realizations for their produce, began to increase their incomes more rapidly than other producers. This naturally led to some unrest among the meat and dairy producers subject to stabilization controls, and was a major factor in bringing about the ultimate breakdown of the meat and dairy produce schemes.

Although woolgrowers were not subject to stabilization control, a fairly substantial reserve was accumulated to protect them to some extent from future downward fluctuations in prices. About £19 million accrued to New Zealand from profits earned by the Joint Organization from the sale of surplus stocks of wool built up during the war. This, together with the proceeds of a levy imposed by the Wool Board on producers between 1947 and 1951 was placed in a fund, totalling £29m by 1956, under the control of the Wool Commission.

The Commission was authorized to fix floor prices for wool each year and to buy in wool or subsidize producers if wool failed to reach the floor price. Up till the time of writing, floor prices had been maintained well below the high ruling auction prices for wool. No action by the Commission had been necessary except for a very brief period in the 1951-52 season.

Important changes were made in the mid-fifties in respect of the policy to be adopted for the use of the meat and dairy reserves. In 1955, a system of minimum prices for meat exported from New Zealand was instituted. The floor prices fixed for various classes of meat were generally at levels about 25% below those ruling in 1954-55. In the case of dairy produce, agreement was reached between industry representatives and the Government that new cost standards would be determined, and that producers would be paid a price equal to not less than 95% of the new basic cost standard in the first year of the new scheme. Thereafter, floor prices were to be fixed at a level not less than 95% of the floor price for the previous season, after correcting that price for changes in a cost movement index.
The concepts of equitable distribution and relative stability of income that were the original governing principles in the Labour Government’s policy on farm prices had been largely abandoned by 1957. It was politically difficult to withhold funds from producers in a period of rising prices, especially after fairly sizeable reserves had been accumulated. There were dangers of distorted development when only certain sectors of primary production were subject to stabilization. There was a real need to offer encouragement to farmers to invest large sums on development of their farms if exports were to rise in step with rising population.

What emerged were three rather uncoordinated floor price schemes. In the case of meat and wool, the controlling authorities were left with a wide discretion in fixing prices. Even in the case of dairy produce, the authority controlling prices under the new scheme was not so closely tied to cost movements as in the past. The floors seemed likely to be set at widely different levels e.g. from about 95% of ruling prices in the case of dairy produce to about 40% of ruling prices in the case of wool. No ceiling was set to the extent to which incomes might rise if export returns increased, except in the case of dairy produce where provision was made for the payment to the reserve account of a proportion of any surplus realization received.

There is no question that the existence of accumulated reserves and, in the case of dairy produce, a virtual Government guarantee, provided the individual producer with much greater security than he had enjoyed in the past. However, in the event of sharp falls in overseas prices, meat and wool producers, in particular, could still suffer considerable annual reductions of income. These could well bankrupt marginal producers, especially those who had bought farms at inflated prices. A more serious potential problem was the effect of the fall of export income on the ability of the country to sustain a flow of imports adequate to maintain employment and standards of living. Real security for the community rested on the maintenance of buoyant export receipts and on the building up of adequate reserves of exchange to weather any temporary downward trends.

c) A Floor to Wages

The Labour Government was quick to take action to attempt to restore wages to pre-depression levels and to guarantee each adult male a wage deemed adequate to provide a reasonable standard of living for himself and his family. The Finance Act of 1936 required the restoration as from 1 July 1936 of all cuts in wages and salaries imposed during the depression period, whether or not the workers concerned were subject to an award of the Court of Arbitration. The Court of Arbitration was also required in 1936 to stipulate in its awards and agreements a basic wage sufficient to maintain a man, his wife and three children in a fair and reasonable standard of comfort. A Minimum Wage Act of 1945 made legislative provision for a minimum wage for all workers of 21 years and over, whether or not covered by a Court award.

The major problem of wages policy throughout the period under review was, in fact, the adjustment of wages to continuously rising prices. The main method adopted was to give the Court of Arbitration power in 1940 to make general orders at frequent intervals changing the minimum rates of wages under its awards and agreements. The Court was required to take a variety of conditions into account in making its decisions – notably changes in retail prices, general economic conditions, and relative movements in the incomes of different sections of the community. From 1944 until 1953, it was also to have regard to general economic stability. In 1953, this provision was deleted at the request of the workers, who were then able to argue with justice that most other sections of the community had their incomes determined without any reference to the country’s stability. A provision was added requiring the Court to consider changes in the volume and value of primary and secondary production.

The power of the Court to make general orders was severely criticized, especially by employers. The main ground of objection was that the system aggravated inflation. A return to individual bargaining, it was claimed, would ease the pressure for increases and at least slow up the response of wages to rising prices.

It is certainly true that the effects of the general orders were not confined to the 40% of salary and wage earners under the jurisdiction of the Court of Arbitration. The other major industrial tribunals –
those concerned with the Government services, the railways and the waterfront – tended automatically to apply awards of the Court to the workers under their jurisdiction.

Also, in the circumstances of the period, employers paying more than minimum award rates tended nonetheless to pass on the full increases awarded by the Court to preserve the margins they appeared to have deemed necessary to retain staff.

But the responsibility of the general order system for the spiral of prices and wages that occurred was popularly exaggerated. The fact that the gap between wages actually paid and minimum wage rates prescribed by the Court tended to widen during the period shows that other factors had been the prime contributory causes of wage inflation.

There is little doubt also that the system prevented a good deal of industrial unrest that would have inevitably arisen in a period of sharply rising prices if awards had had to expire before increases were granted.

d) Monetary Benefits
One of the most significant features of our period was the expansion of monetary benefits and pensions granted by the state to various sections of the community. The money cost of these rose from £7.7 million in 1938-39 to £64.4 million in 1955-56.

As a percentage of gross national income they increased from 3.3%, in 1938-39 to 8.2% in 1946-47 and fluctuated with a downward trend to 6.6% in 1955-56.

The Labour Government’s Social Security Act of 1938 which, the I.L.O. claimed, ‘deeply influenced the course of legislation in other countries’, increased the rates of family allowances and of existing benefits for the aged, the blind, widows, invalids, miners and unemployed. It reduced the qualifying age for age benefits from 65 to 60; provided new benefits for orphans and those whose incomes had ceased on account of sickness; and made provision for emergency benefits for persons suffering hardship although not entitled to any other benefits. Most of these benefits were already subject to means tests. The Government retained these, though in some cases on a more liberal basis.

A significant departure from earlier legislation was the introduction of a system of universal superannuation, payable without means test to all residents 65 years of age or over. The initial rate of benefit was very low, but provision was made for annual increases that would bring it into line with the maximum age benefit in about 30 years time. An even more significant increase in expenditure on monetary benefits came from the removal in 1946 of the means test for family benefits and the grant to mothers of ten shillings per week for each child up to 16 years of age (or up to 18 if still being educated).

Did these measures realise their objectives? For the individual, the fear of want arising from sickness, unemployment or death had been superseded by an assurance that, even if these misfortunes occurred, he or his dependents would not be left destitute. Through the benefits available to them, a married man or a widow with two children could rely on an income equal to about 60 percent of the wage of an adult male labourer with the same family. This could be supplemented to some extent if the beneficiary was able and willing to work. From 1951, special assistance could also be applied for in necessitous cases. To this extent, Social Security was an accomplished fact.

Nevertheless, surveys in the mid-fifties discovered signs of hardship on the part of single age beneficiaries who were obliged to rent lodgings, especially if they did not possess facilities for the preparation of their own meals. Moreover, in cases where the breadwinner of large families suffered extended periods of sickness, and especially where rentals were high, a considerable degree of privation was often evident. In this connection, we should note the continuous erosion in the real value of family benefits as a result of rising prices and the unwillingness of governments to raise the rate of benefit from ten shillings per week as fixed in 1944. This unwillingness was probably explained by the fact that the benefit was universal, so that about 700,000 children had become eligible for it. Any significant increase in rates of benefit would therefore add considerably to government expenditure.

e) Free Education and Health Services and State Housing.
When it took office, the Labour Party placed
considerable emphasis on the provision for all children of full educational opportunity from kindergarten to the university and on the institution of a national health service that would supply free medical, hospital and pharmaceutical services to all who required them.

In the educational field, major developments in policy were the restoration of the age at which children could commence school from six years to five years in 1936; the abolition in the same year of the previous proficiency examination and the provision of free post-primary education for all up to the age of 19; the raising of the school-leaving age from 14 to 15 in 1944; and liberalisation by both governments of expenditure on facilities, staff and assistance to students. These changes in policy, together with a substantial increase in the numbers of children and youths, led to a rise in current expenditure on education from 4.2 million pounds in 1938-39 to 21.2 million pounds in 1955-56, (or from 1.8% to 2.1% of the gross national product). Capital expenditure on school buildings had also risen substantially e.g. the government spent 6.1 million pounds on display in 1955-56 compared with one million pounds in 1946-47.

There was wide support for the government’s policy on education, despite the heavy expenditures involved. The major criticisms made (apart from the teaching methods currently used which were fortunately outside the scope of this essay), were that even more weight should be given to education, especially to technological and higher education and to expenditures on research. There was an increasing appreciation of the importance of improving the quality of the country’s labour force if we were successfully to cope with the problems posed by rapidly rising population. The government’s educational expenditures were a valuable investment towards achieving this end.

The increase in state expenditure on health services was much more striking. The various health benefits provided under the Social Security Act – benefits that did not exist in 1938 – cost 15 1/2 million pounds in 1955-56. In addition, the cost of the various activities of the Department of Health and the Mental Hygiene Division rose from 800,000 pounds in 1938-39 to 5.4 million pounds in 1955-56. And finally, as a result of the government’s gradually taking over from local ratepayers financial responsibility for the operation of public hospitals, transfers to hospital boards from the Central Government had risen from 900,000 pounds in 1938-39 to 10.7 million pounds in 1955-56.

The experience of New Zealand in the provision of free health services had been somewhat akin to that of the United Kingdom. The increasing demand in response to lower prices had been greater than expected. One could not look with equanimity at the apparent waste of resources involved, especially in the provision of pharmaceutical benefits. Government payments for prescriptions under the scheme, which were 536,000 pounds in the first full year of its operation (1942-43), rose to 1.4 million pounds in 1946-47 and 4 million pounds in 1955-56. The number of prescriptions given per head of population, and the average cost of each prescription, had been rising steadily, as had payments to doctors under the medical benefits scheme. The average cost per head of medical benefits had risen from nearly one pound in 1946-47 to 33 shillings in 1955-56.

The statistics of morbidity showed gains in community health after 1938. These were probably attributable in some degree to the more widespread availability of health services. But the evidence of increasing recourse to doctors and medicines could not be regarded as healthy. Steps were taken by the National Government to attempt to combat excessive and unnecessary prescriptions by doctors. Temporary success in reducing costs in 1953-54 was not sustained. The government had not seen fit to impose any charge on prescriptions nor to restrict the type of prescriptions to be covered by the scheme.

The Labour Government instituted its State rental housing scheme in March, 1937. By the year ended March 1939, over 40% of permits issued for new houses or flats were for government units. Construction was considerably reduced during the war, but the program was resumed and intensified from 1944 onwards. Permits for about 5400 government units were issued in the last year of the Labour government’s period of office.

However, state rental housing never comprised the major proportion of new dwellings built, even during the Labour Government’s regime. The construction of private dwellings, fostered by cheap and easy credit made available through the State Advances Corporation, and under the Rehabilitation Scheme, rose more rapidly
than the construction of State houses. By 1950, permits issued for the latter were only 30% of total permits issued. Their relative importance declined further after the National Government took office with a policy of encouraging private home ownership. The number of permits issued for Government units averaged only about 3400 per annum from 1950. In 1955 they comprised only 16% of all permits issued.

As part of its housing policy, the National government encouraged State tenants to purchase their houses on terms that were extremely generous compared with the cost of current building. Even so, many tenants were so well off on "subsidised" rentals that they were reluctant to take up the generous offers made. Both governments failed to raise rentals as maintenance and/or interest costs rose. In 1955, the General Manager of the State Advances Corporation reported that the accumulated loss in respect of State rental houses was about 1,166,000 pounds.

The National Government recognised early in its period of office that the subsidisation of all State house tenants could hardly be justified on any welfare ground. But its election promises to existing tenants made it impossible for it to do more than raise rentals to more economic levels when existing tenancies were vacated. This created anomalies and reduced mobility. For instance, married couples whose children had left home could hardly be expected to move to a smaller house when they had to pay a higher rental for the latter. In the face of this situation, the government made provision for a complete readjustment of rentals at the beginning of 1958, after the next election had been held. (It lost that election.)

Prosperity, the boost in natural increase and immigration, and the backlog due to the drop in construction during the war, led to an acute shortage of housing. This persisted, with diminishing severity, up till the end of the period under review. If anything, the National government took upon itself more responsibility for satisfying the housing needs of the country than did its predecessors. After conferences with those engaged in the building industry, it introduced a wide range of measures designed to rationalise and speed up the construction of houses, encourage the use of low-cost designs and make finance readily available to those building or buying homes. As a result, the annual output of houses greatly increased, as did the number of rooms available per person. Because insufficient attention had been given to matching the increased supplies of money made available for housing with the resources available to the building industry, average dwelling costs rose more rapidly than most other price indices.

f) Price Stability
A major problem of government during the period was to prevent its welfare measures from being undermined by steadily rising prices. Insecurity took a new form. The fear of a cut in real income through unemployment or reduction of remuneration was replaced by the fear of being unable to keep one’s income in step with an increasing cost of living. In fact, most people managed to keep their incomes well ahead of prices, but those depending heavily on relatively fixed incomes from savings, superannuation, rents etc suffered severely.

A great deal of the problem of rising prices was externally generated. Export prices had risen by about 190 percent between 1937 and 1956, while import prices had risen by about 180 percent. It has been suggested that, given a suitable exchange rate policy, the New Zealand price level could have been largely insulated from these overseas trends. The political and economic difficulties of such a policy led both governments to favour fixed exchange rates as a general rule. The Labour government came to office in 1935 intending gradually to restore the exchange rate to parity with sterling. It found it impracticable to do so until 1948.

In that year, a favourable set of circumstances made appreciation a highly desirable policy both economically and politically. The reserves of foreign exchange were reasonably satisfactory; there was a growing disparity between farm incomes and wages; import prices were increasing and wool prices were rising fairly rapidly; and payments to meat and dairy producers were divorced from external receipts under the stabilisation scheme. It would be difficult to point to any other period where such a favourable situation for exchange rate appreciation existed. (Whether it should have been pegged at that level for so long afterwards is, with hindsight, extremely doubtful.)
Given a policy of relatively fixed exchange rates, the rise in retail prices in New Zealand does not seem unduly excessive when viewed against the background of the external circumstances confronting the economy. In comparison with the UK and North America, the rise in retail prices was particularly small during the war and even up till 1949. A major reason for this relative stability was the extensive stabilisation programme agreed to by the major interest groups at the end of 1942.

The program involved the institution of the stabilisation accounts for meat and dairy produce and other minor farm products outlined above; agreement by wage earners to the maintenance of rates of remuneration at 1942 levels, except in so far as it was necessary to adjust anomalies or if a wartime prices index covering a limited number of “essentials” rose by more than two and a half percent; agreement by the government to stabilise the price level of 110 basic commodities and services, by subsidy if necessary; and the fixation of transport rates and rents not already controlled.

In addition to these arrangements, the major interest rates were pegged at very low levels. Price control, introduced even before the war, was further extended in 1943 to cover the retail prices of many kinds of fruit and vegetables. Towards the end of 1943, in the light of a substantial increase of land-transfer transactions, controls were placed on sales and leases of land, with the general objective of stabilising values at 1942 levels. An extensive system of rationing of food and clothing and of allocation of materials and fuel was also gradually evolved during the war.

This comprehensive system of direct control over prices and incomes was supplemented by high taxation and by the control of credit. In his first wartime budget, the Minister Finance, Walter Nash, announced that his policy would be to “tax to the economic limit for war purposes and borrow for essential productive works and for any balance of war requirements”. As he put it more forcefully in a later budget speech, in circumstances such as those existing in wartime, “creation of credit takes away by unseen methods the value of work done and savings made and ultimately in the form of price increases hits those most who have to spend their incomes on necessities of life.”

Mr Nash’s “orthodox” attitude had previously provoked acute opposition from some members of his party with a Social Credit background. These members envisaged more and more of the government’s expenditure being financed by the creation of “debt-free money”. After a period of dissension, which culminated in the expulsion of an undersecretary from the government and party, Mr Nash’s view prevailed.

Despite steep tax increases, the Government did not find it possible to avoid borrowing from the banking system to the extent of nearly 50 million pounds in the first three years of the war. After the introduction of its stabilisation policy in late 1942, however, it prohibited the trading banks from purchasing Government securities. It had repaid about 12 million pounds of its debt to the banking system by 1946. In the First World War, the Government raised all New Zealand’s war expenses by loan, and one third of them from overseas. 65% of the 650 million pounds spent on financing the Second World War was obtained from current revenue. No new overseas debt was incurred – in fact 45 million pounds was repaid.

To control the level of the other major form of trading bank credit, a selective advances control policy was introduced in January 1942. This policy was based not on statutory control, but on cooperation by the banks in limiting their advances for speculation and for other purposes deemed inconsistent with the prosecution of the war effort, such as property purchases, the finance of hire purchase schemes and so on.

The wartime stabilisation policy has been described in some detail because, in its essentials, it remained the basis of the policy of the Labour Party until its defeat in 1949. It was never contemplated that the economy could or should be completely stabilised. There were changes in the details of the policy even before the end of the war. The main problems arose because of the impossibility of holding down all prices and wages in an inflationary situation, complicated by steeply rising import and export prices.

With considerable competition for labour, actual wage rates in many industries rose above the award levels. Long hours of overtime further swelled the aggregate wages bill. Since the increased earnings were unevenly spread, anomalies appeared in the wage structure. Award wages could not remain unaffected by these developments. The wages situation was complicated by the fact that the government had
established a multiplicity of specialised wage fixing authorities in particular industries not covered by the Court of Arbitration. These included coal mining, waterfront work and the railways, while the government itself was responsible for fixing the salaries of public servants and the wages of agricultural workers. Since most of the independent authorities were merely required to have regard to the general purposes of the Stabilisation Regulations, differences of interpretation were inevitable.

In 1944, increases granted to miners and seamen by their authorities, and to certain agricultural workers by the government, provoked unrest. The government eventually acceded to pressure by amending the Regulations in February 1945 to allow the Court to adjust “disparities”. Accordingly, the Court increased the standard rate of wages for the various categories of worker by 3 ½ pence per hour, while the government granted a retrospective increase to all State employees. The Court felt justified in making further increases of a similar amount in 1947 and 1949. As a result of these changes, the nominal weekly wage rates of all adult workers in 1949 were about 23% above the level prevailing in 1945.

These developments, and the continued rise in import prices after the war, made it inevitable that domestic prices should rise more than they had during the war, unless the government was willing to ask taxpayers to bear a heavy burden of subsidies. Faced with the prospect of a subsidy bill of 20 million pounds in 1947, the government deemed it wise to withdraw subsidies worth 12 million pounds a year. Despite this, by the time the Labour Government left office, the annual cost of the remaining subsidies had again been forced up by rising internal and import costs to nearly 15 million pounds.

As indicated previously, the stabilisation of prices paid to meat and dairy producers was continued after the war. Price control was maintained with little alteration in principle in the early post-war years and given the semblance of permanence in the Control of Prices Act 1947. It was necessary for frequent price adjustments to be made to cover increased costs arising from increasing wages and import prices and from the removal of subsidies. Rationing was gradually relaxed, but cream, butter, motor spirits and eggs were not freed until after 1950. Allocations of many building materials were retained even after that date.

The Labour Government after the war placed much more reliance on this system of direct controls than on budgetary and monetary weapons. Taxation was certainly maintained at a very high level, but so was public expenditure. The government were forced to add to state indebtedness to the banking system between 1947 and 1949, thus aggravating the inflationary problems with which they were already faced. The continuation of the advance control policy and of the policy of prohibiting the trading banks from taking up Government securities, combined with restrictions on overseas spending by import and exchange control, prevented the accretion to the cash base of the banks from being reflected in a multiple expansion of bank credit. In fact, bank advances and investments combined were practically stationary over the same period.

No attempt was made to use interest rates as an anti-inflationary device. Money was deliberately kept as cheap as possible. Bank interest rates and the rates controlled by order-in-council were pegged at their low wartime levels. A combination of factors, such as State lending on mortgage at low rates, a plentiful supply of money, a relatively stable price level and many limitations on expenditure, ensured that free rates of interest would also remain relatively low. The average rate on mortgages remained consistently below 4% from 1947 to 1949 and the yield on Government securities at about 3%.

To prevent the people’s high money incomes from being diverted excessively to expenditure or investment overseas, the government preferred to rely on its system of administrative control of imports and exchange, rather than on indirect control through tariffs or exchange rates.

The Labour Government’s emphasis on the use of direct controls as an instrument of policy was inspired partly by persistent fear of a recurrence of unemployment in New Zealand. It also had a profound distrust of the market mechanism as a means of allocating the resources of the community among the various uses to which they could be put. “Rationing by the purse” had to be avoided as far as possible, especially in the case of commodities deemed essential.

Some Socialists would argue that the need to use direct controls to ensure fair shares could be avoided by
making shares more equal through redistributive taxation and expenditure. The Labour Government obviously felt that any marked increase of redistributive taxation would have a serious effect on incentives to produce. This provided ammunition for its left-wing critics, who claimed that could prove that the further extension of public ownership was needed to achieve another major objective of socialism. The majority view of the party seems to have been that to attempt such an extension at all rapidly would be tantamount to committing political suicide.

In the years immediately after the war, the retention of direct controls was inevitable if open inflation was to be avoided. Exclusive reliance on more drastic taxation, for example, would have been countered by the public’s drawing on their accumulated wartime savings. But the Labour Government was not excessively concerned about reducing the volume of purchasing power and potential purchasing power. It preferred to err on the side of inflation, to keep the economy at full steam, even if that did involve the need for retention of direct controls.

As was to be expected, both political and economic difficulties arose from the methods of control favoured by the Labour Government. Price controls, especially if they are administered on a cost-plus basis, as the New Zealand system generally was, tend to penalise efficiency. Since it is administratively impossible to control all goods and services, they tend to divert resources away from the more essential items, which are controlled, to the less essential, which are left more or less free to take advantage of the inflationary pressures. In New Zealand, further anomalies arose because of the lack of coordination among the civil authorities fixing prices, rents and transport charges using varying criteria for their decisions. There was evidence of evasion of some of the controls, especially in the case of land and property sales, where “under the counter” transfers were common.

The protective import controls removed or reduced the stimulus to efficiency in local industries. While subsidies may have restrained increases in the minimum rates of wages prescribed in awards and agreements, wages actually paid rose more rapidly. Indeed, the addition to Government expenditure involved probably worsened the inflationary tendencies in the economy. There are better and less costly means of making essentials adequately available to poorer sections of the community than by making them artificially cheap for everyone. Many of these obvious disadvantages of direct controls and subsidies, especially the lack of incentives to efficiency and the tendency towards a diversion of resources to relatively non-essential occupations, were present in the New Zealand economy in the early post-war period.

In general, the controls were applied relatively flexibly. In the prevailing economic and political circumstances, the stabilisation policy, supplemented by an appreciation of the currency in 1948, was on balance beneficial to New Zealand. By restraining potential increases in disposable farm income and the agitation for wage increases, the controls held back considerably the potential pressure of demand. Moreover, by holding down costs, they prevented secondary spirals of prices and wages of an unpredictable amount.

The situation would almost certainly have been improved by stricter budgetary policy. However inflationary forces were to a large extent inevitable in the prevailing international conditions and with the large domestic accumulations of purchasing power. New Zealand farmers were able to maintain a low cost structure in comparison with their competitors, to increase their real incomes gradually, to avoid such a rapid escalation of prices of land and other farm costs as happened in every previous boom, and to accumulate reserves which promised them a degree of income security unknown in the past.

It is unlikely that the majority of wage and salary earners would have gained significantly by a more open inflation. The relative price and income stability of the period was not accompanied by the stagnation of industry. Income per head increased progressively throughout the period.

The National Party was elected to office late in 1949. Its declared objective was to “make the pound go further”, by removing the root causes of inflation. It listed these in the election policy statement as the creation of money and credit, wasteful Government expenditure which necessitated high taxation, with its adverse effect on incentives,
and State interference with industry and commerce, in particular by price control, import control and the Land Sales Act.

There was a substantial relaxation of controls in the new government’s first year of office. Many items were liberated from price control. Controls over land and property sales were abolished. Rising export receipts made possible such a significant removal of import controls that the government could say in the first Economic Survey issued in the middle of 1951 that “import licensing does not restrict imports except where they compete with New Zealand industries or require to be paid for in hard currencies.”

To allow scope for tax concessions, subsidies on coal and tea were withdrawn and those on bread, flour, milk, butter and eggs were substantially reduced. The trading banks were also permitted to share to some extent in this general advance to freedom by being given somewhat more discretion in the granting of advances.

The Government had been led to believe by the overseas recession of 1948-49 that it would be assisted in the task of reducing the cost of living by a fall in import prices. With the deterioration of the international situation and the outbreak of the Korean war, external influences soon became profoundly inflationary. One effect on the New Zealand economy was a phenomenal increase in receipts from wool. Later, costs were affected as import prices began to reflect the world scarcity of key commodities. Inflationary elements also still persisted in the domestic situation. In particular, an even more rapid population increase added to the need for investment expenditure, while New Zealand was still trying to cope with the backlog of replacements accumulated during and after the war and to make additions to the capital stock demanded by people with high incomes and savings.

With this background, it was obvious that the government would have the utmost difficulty in fulfilling its election pledges. If freedom was to be restored to the economy and price increases held within reasonable limits, a severe budgetary and monetary policy was necessary to restrict demand. The main action taken by the government to deal with the situation was its wool retention scheme. It secured the agreement of the wool industry to set aside, in frozen bank accounts to the credit of individual growers, one third of proceeds from the sale of greasy wool in the 1950-51 season. Total receipts for 1950-51 were about 143 million pounds. This was 81 million pounds more than in the previous season. Accordingly the retention scheme went only part of the way to meeting the problem.

The government made some strenuous efforts to restrict its own expenditure. It achieved reductions in subsidies, law and order and the maintenance of public works. Total expenditures increased by only 6 million pounds in 1950-51. But it proved impossible to hold back the pressure for increases. Government expenditure rose by more than 30 million pounds in 1951-52. Despite the tax reductions granted in 1950 and 1951, budgeted revenue surpluses of 26.6 million pounds and 40.2 million pounds were achieved in 1950-51 and 1951-52, due to the buoyancy of incomes and increases in receipts from sales tax and customs duties with greater imports. However these surpluses were inadequate in the prevailing circumstances.

The major weakness of policy lay in the monetary field. The advantages derived from the Government’s reversal of its predecessor’s policy of drawing on Reserve Bank credit were more than offset by a tremendous expansion of trading bank credit. The Reserve Bank asked the banks in October 1950 and May 1951 to adopt a cautious lending policy. But advances rose by more than 80 million pounds between June 1950 and June 1952. The demand for credit grew for a variety of reasons. The high prices for wool in 1950-51 sent wool buyers, woollen mills and freezing companies to the banks for more accommodation. The waterfront strike of 1950-51 embarrassed the export industries and many others. Higher costs increased the need for working capital throughout industry. The most important factor was the desire of the distributive trades to build up their stocks to take advantage of the buoyant demand in the economy. Many barriers to the importation of goods from overseas, now much more freely available than before, had also been removed.

Consequently New Zealand’s inflationary demand was again able to turn partly to overseas markets for satisfaction. When wool prices dropped from the astronomical heights in mid-1951, a serious drain on foreign exchange reserves commenced. The situation was allowed to drift for some time. The Reserve Bank
issued a stronger directive to the banks in November 1951, but this was ineffective in bringing about any reduction of advances before May 1952 and the re-imposition of import control on motor cars. By April 1952, the Reserve Bank was alarmed that the country’s net overseas assets had fallen by 50 million pounds since June 1951 and had continued to decline throughout the export season. It introduced a system of exchange allocation. Largely because they had applied insufficient restraint on bank credit, the authorities had felt obliged to restore a form of direct control on imports.

In 1952-53, the volume of trading bank credit and imports fell away, as traders rid themselves of excessive stocks built up in the previous year. With import prices falling, (a trend which was to continue for the next three years), it seemed possible that New Zealand might achieve price stability for the first time since the Depression. However, the favourable effects on spending of the fall in bank credit were offset by a substantial balance of payments surplus and by increased borrowing by government from the banking system. The latter arose from an attempt to relieve pressure on the loan market by not seeking funds from the public. Another large balance of payments surplus was achieved in 1953-54. The volume of money in circulation rose by about 40 million pounds between January 1953 and January 1954.

In the light of the improved balance of payments position, the Government and the Reserve Bank gradually relaxed and eventually removed the system of exchange allocation. Again, monetary and fiscal policies proved inadequate to control domestic spending. Although Government expenditure was reasonably well controlled, private expenditure was fostered by a substantial expansion of bank advances and by tax concessions. It rose by 155 million pounds, or over 25%, in 1954-55. It is not surprising that the balance of payments on current account again moved into deficit by 39 million pounds in the same period. Despite this, prices continued to rise, certainly at a slower rate than the 6% average for the previous five years but not insignificantly at 2%. In the following year, prices again rose by 2½% and the balance of payments on current account showed a further deficit of 34 million pounds.

In the year ending January 1957, the balance of payments appeared to be moving into a slight surplus, as a result of a substantial rise in export receipts and a small fall in imports. The volume of money had remained relatively stable. A fall in trading bank advances of about 20 million pounds had been largely offset by higher Reserve Bank credit. Prices had continued to increase rather more rapidly than in the two previous years. Major reasons for this, apart from continued high domestic spending, had been an unusually marked shortage of potatoes and a rise in import prices of two or three percent.

The index of consumer-prices had risen by nearly 50% since 1949. Domestic expenditure had risen continuously, but in a series of fits and starts associated with marked swings in the volume of bank credit and in the balance of payments. In the early part of this period, the problems were largely externally generated. Since 1954 they had been mainly due to inadequate control of domestic expenditure by monetary and fiscal policy.

The Reserve Bank had begun to try to control the volume of trading bank credit much more closely than before. In its 1956 budget, the Government had increased taxation slightly after a long series of budgets granting tax concessions. Although this increase was insufficient in the circumstances, it indicated a greater awareness than before of the importance of controlling expenditure if prices were to be held reasonably stable and reserves of foreign exchange built up to a more adequate level.

Leisure and Working Conditions
One of the first measures of the Labour Government was to introduce legislation providing for a 40-hour week in most industries, and for a reduction of working hours in shops and offices from 48 to 44. In both cases this was to be effected without reduction in the weekly wage rate. At first, provision was made for special exemptions from these provisions in certain cases. Legislation in 1945 and 1946 made the 40-hour week almost universal, both in industry and in shops and offices. In 1948 and 1949, a seven-hour day was stipulated for underground workers in mines.

Thus, the New Zealand worker became entitled to work a considerably shorter working week than was the case before our period. In fact, a large proportion of the labour force worked considerably more than 40 hours a week. The 1956 Year Book shows that the average male
wage earner in factories worked 163 hours overtime in 1953-54. In many industries, the fact that overtime work was available was regarded as a valuable means of attracting and retaining staff. Again, in the 1951 census, 14 percent of males and 4 percent of females actively engaged claimed that they worked 60 hours or more per week. 34 percent of males and 12 percent of females said that they worked 45 hours or more.

As a result of the introduction of the 40-hour week, and accompanying legislation controlling sales by shops permitted to remain open at the weekend, the shopping centres of cities and towns were largely deserted on Saturdays and Sundays. The housewife in most places would have found it difficult to replenish her stocks if they proved inadequate for the weekend needs. The National Government introduced legislation designed to improve this position somewhat, in the face of rather vocal opposition by the interests affected.

Legislative provision was made in 1944 for an annual holiday of two weeks for all workers, whether permanently or casually employed. Many measures were introduced with the object of improving working conditions. Conditions for the average worker improved considerably during the period, partly through legislative provisions and partly through greater competition for labour. However, industrial accidents continued at a level that caused concern. Over 2,900,000 days of work were estimated to have been lost through such accidents in 1954.

**Industrial Relations**

Although industrial disputes had been a much less important cause of loss of working time than industrial accidents, New Zealand had by no means been “the country without strikes” during our period. The number of disputes increased markedly during the Labour government’s period of office in comparison with the previous 15 years. Even in the period from 1939 to 1946, an average of 40,000 days work per year was lost through industrial disputes. During the last three years of the Labour Government’s term of office the problem became more serious. About 100,000 days work were lost in both 1947 and 1948 and 220,000 in 1949. The stoppages occurred despite the fact the legislation governing the various wage tribunals, and the Strike and Lockout Emergency Regulations of 1939, had virtually withdrawn the legal right to strike. The law was not enforced by the Labour Government. It preferred where possible to settle strikes that threatened to become serious by securing the grant of compromise concessions to the workers concerned.

The industrial Labour movement in New Zealand had been for a long time broadly divided into two wings. There was a “militant” wing, composed mainly of large-scale unions in key positions in the economy such as the watersiders’, miners’ and freezing workers’ unions. The more “moderate” wing was composed largely of smaller unions, whose membership was increased considerably by the introduction of compulsory unionism in 1936. They were conscious of their lack of individual bargaining power and of their dependence on the Court of Arbitration for a legal minimum wage. The overt unrest of the period was concentrated in the “militant” unions. Many of their leaders regarded the arbitration system as merely a method of holding the unions while they were shorn by the employers, and as a barrier to the fundamental reconstruction of society that they desired. They were anxious to take full advantage of their strength in the period of buoyant demand. They were able to point to the considerable improvement of their position on the relative income scale as an illustration to fellow workers of the advantages of direct action.

The two wings of the union movement remain united in an uneasy alliance throughout the Labour regime. At the first conference of the Federation of Labour after the change of government, one-third of the 225 unionists of the country split of into a separate Trades Union Congress with a more militant program than the majority in the Federation would support.

The National Party had come to power in 1949 with the promise to deal firmly with the militant unions. It was not long before it was put to the test. In 1950 some 270,000 days of work were lost due mainly to three serious waterfront disputes, a stoppage in the coal mines, protest strikes in ten industries against the removal of subsidies, and a general railway strike over the Christmas holiday period, which was eventually settled by compromise between the government and the strikers. The showdown came in February 1951, when 8000 watersiders refused to perform overtime work at the peak of the export season, because of dissatisfaction.
with the extent of the wage increase offered by
their employers.

The Government met this situation by coming out
strongly against the watersiders, who were later joined
by about 12,000 workers in other industries for at least
part of the 20 week dispute. This was the most serious
in New Zealand’s history, over one million man days
of work being lost. A state of emergency was declared.
When the watersiders refused to return to work,
Armed Forces were drafted to perform work on the
wharves and to maintain other essential services
affected by sympathy strikes.

To overcome the difficulties of dealing effectively
with the situation under the existing law, power was
taken under emergency regulations to suspend many of
the traditional civil liberties. Regulations permitted
arrest without warrant and the seizure of funds of
unions and union members. They prevented picketing
or meetings and publications in support of the strikers.
They also swept aside the legal difficulties of defining
a strike and establishing responsibility for acts contrary
to the regulations. The continued existence of
compulsory unionism – which the government had
promised to abolish in its election platform – enabled
it to deregister some of the striking unions and replace
them by people who were willing to work under the
conditions offered by the employers.

The Government would have been in extreme
difficulty if the other unions of the country had sided
with the strikers. The Federation of Labour in fact
supported the Government’s stand. It even opposed
the action of the Parliamentary Labour Party in
attacking the provisions of the Emergency
Regulations. That the majority opinion of the country
was with the government was clearly indicated by the
result of a snap election that was held after strike had
been broken.

The period after the strike was one of comparative
industrial peace. Having fought the government and
suffered defeat, the more militant unions appeared
to have lost influence. The Trades Union Congress
collapsed. For their part, the Government took
steps to amend industrial legislation so as to
strengthen their ability to cope with any similar problem
in the future and to weaken the possibility of Communist
domination of the unions which, the government alleged,
was a primary factor in the waterfront dispute.

Under the Industrial Conciliation and Arbitration
Act, the definitions of strikes and lockout were
considerably widened. Heavy penalties were provided
for members and officials of unions who participated
in strikes or lockouts without a secret ballot being
taken. Union officials had to be elected by secret ballot.
The Registrar of Unions could refuse to record any rule
or amendment that he considered “unreasonable or
oppressive.” Under the Police Offences Amendment
Act of 1951, the Government also strengthened to
some extent the law relating to sedition and intimidation.
They did not go as far as they had originally intended,
due to a strong public outcry against some of their
proposals to write part of the emergency regulations
into the Statute Book. There was great opposition to
proposals that would have placed the onus of proof on
the accused rather than on the Crown.

Such legislation embodied a rather negative
approach to the problem of industrial unrest. Despite
the apparent harmony in industry after 1951, much
remained to be done to improve relationships between
employers and employed in New Zealand. A start was
made in the work of the Industrial Advisory Council
set up in 1949.

Those who argued that both groups should
participate more fully in the formulation and
implementation of national policy did not find it easy
to make progress. Most New Zealand unions were still
preoccupied with the task of fighting for their share of
the cake and for good working conditions. They had
done little to prepare themselves to take a greater part
in management or to put forward well-considered
views on national problems.

There was some sign that management was
gradually becoming more conscious of its wider
social responsibilities. An Institute of Industrial
Management has been formed to offer training classes
in foremanship and general business management on
a fairly elementary level. Senior public servants and
business executives had begun to hold residential
conferences on management problems. But there
was an obvious need for organised training at a
higher level to enable managers and trade union
officials to study the techniques and social
implications of their respective functions.
The Pattern of Growth

a) Introduction

Was the growth of the New Zealand economy over the period balanced? Unfortunately, as mentioned in the introduction, there is no convenient yardstick by which to measure the desirability of a given pattern of development.

There are cases where an economy is clearly out of balance. It was said, for example, that the post-war Australian economy was in danger of becoming “a milk bar economy with no milk”, because of the relative stagnation of its export industries, its agriculture and its basic sources of power and raw materials. There was no comparable lack of balance in the New Zealand economy after the war. But, subject to similar influences, the tendency towards some of Australia’s problems was present. New Zealand by no means grossly misused the limited resources of labour and capital at its disposal, but it tended to pay insufficient attention to certain activities vital to the future development of the country.

When they first came to power, many members of the Labour Government had the introduction of a system of detailed government planning of the use of the country’s resources in mind. If the big American corporations could plan the operation of their vast empires, they asked, why should not the government plan the operations of the New Zealand economy? One of their first pieces of legislation was the Industrial Efficiency Act of 1936. This set up a Bureau of Industry to guide the Minister of Industries and Commerce on planning and development.

This Act envisaged the Bureau making recommendations on everything connected with the development of new industries and the rationalisation of old ones. In fact it became primarily a device for limiting, by licensing, entry into certain occupations whose existing members sought protection against “excessive competition” which would cause “over-capitalisation”. Industrial plans involving some degree of rationalisation were implemented for only four industries – pharmacy, flax, footwear and radio manufacture. Forty-five industries were subject to licensing under the Act at one time or another. Most of them were very small, some with only one licensee, eg. those concerned with the manufacture of agar-agar and macaroni. In late 1956, only three industries remained subject to the provisions of the Act, although two other industries previously licensed under it were by then licensed under separate legislation.

There were many reasons for the failure of the Bureau. It was hampered from the start by the inadequacy of the information available about the structure of the economy. It was never given sufficient qualified staff, unencumbered by other duties, to make a detailed survey of New Zealand industry. Its members were busy men, preoccupied with other interests. Due to the continued prosperity of the period and the protection afforded after 1939 by import control, industry itself lost interest in rationalisation. Moreover unions and consumers were never represented on the Bureau. The government was never willing to impose rationalisation on any industry or even to force individual units of an industry to conform to the plan adopted by majority of its members.

Another attempt at comprehensive planning was made early in 1944 with the setting up of an Organisation for National Development to study and plan for the transition from war to peace. National committees, composed of departmental officers and outside interests were appointed to cover the major aspects of development, with a central coordinating committee at the head. This experiment was also unsuccessful. It was dropped soon after the end of the war, never having aroused any enthusiasm, either among the departmental heads primarily concerned, or among other sections of the public.

Thus, while the activities of New Zealand’s industry were extensively controlled, there was no coordinated plan aiming at the best use resources.

b) Balanced Industrial Development?

NZ’s labour force grew from about 672,000 in 1939 to about 815,000 in April 1956. Of the total increase of 143,000, about 95,000 went into secondary industries and 88,000 into tertiary, with labour force in the primary sector declining by 28,000.

The most spectacular development was in the manufacturing industries, and in particular in those industries most heavily dependent on imported materials and equipment. Consumers’ goods became only about 16 percent of total imports, compared with about 30%
pre-war. The growth of manufacturing industry by no means “insulated” New Zealand from the effects of reductions in the prices of her traditional exports. They still provided practically the whole of the country’s earnings of foreign exchange. There was little scope for meeting a fall in export receipts by cutting down the importation of “non-essential” consumers’ goods. In the absence of adequate reserves of foreign exchange or overseas borrowing, the materials and equipment required for manufacturing industry would soon be affected. In short, New Zealand was still very much a dependent, farm-based economy.

It is hard to determine how far the protective devices discussed above fostered the development of manufacturing industry in New Zealand during the period. With continually increasing export receipts, growing population, shortages of imported suppliers and the relative stability of New Zealand’s prices during and immediately after the war, substantial growth of secondary industry could have been expected, regardless of protection. But there was undoubtedly a section of manufacturing industry whose continued existence depended on the maintenance of the shelter of import control.

Protection sustained a proportion of totally inefficient production. It generally reduced the pressure to rationalise and improve that would have come from outside competition operating through a tariff barrier. Labour was drawn off to protected concerns from other manufacturing industries, from important public works projects and to some extent, from farming. The main reduction of the labour force in farming was a natural development, arising from the marked increase in machinery, fertilisers and other capital equipment used. But there is little doubt that the efficiency of the economy would have been improved, without adverse effects on other aspects of welfare, by a somewhat less protective policy in respect of manufacturing industry.

More positive action could also have been taken to foster the efficiency of manufacturing industry. The size of the typical manufacturing establishment remained very small by overseas standards. The average number of persons engaged per factory was about 17 in 1954. This raised difficulties, particularly in the fields of finance and research. Many small manufacturers have relied heavily on the trading banks for finance, not a desirable basis at the time for any significant expansion. The State Advances Corporation was permitted to make advances for industrial purposes, but probably because its criteria were primarily those of a mortgage institution, manufacturers had not sought its services. Some of us saw merit in the idea of setting up a special institution to provide long-term credit to small and medium-sized businesses, along lines of the Finance Corporation for Industry in the United Kingdom.

Too little attention had also been given to research into the problems of industry. Only a few firms found it feasible to set up research departments of their own. The government provided valuable, but limited, assistance through the Department of Scientific and Industrial Research. The dairy, leather, laundry, wool and pottery industries had research association jointly financed by the industry and the government. The scientific labour force was too small and attention was directed almost entirely at applied problems of servicing and development, leaving little scope for basic research. Similar comments could be made about the rather neglected field of distribution.

In farming, the effect of the decline in the labour force on production was much more than offset by more extensive use of capital. This was fostered by the high net returns enjoyed during most of the period and by tax concessions on farm investment. A particularly noteworthy development had been the growth of aerial top dressing of hill country pastures. During the year ending March 1956, 3,850,000 acres were treated in this way with 405,000 tonnes of fertiliser. Discoveries in the field of trace elements enabled previously unimproved land to be brought into production at the rate of about 80,000 acres a year. A large part of the development work had been undertaken by the government. Farmers increasingly appreciated the value of the research and extension work being done by the government and others institutions. In 1957, there was an unsatisfied demand for research into and instruction in the best methods of farm management for particular areas. I believed that more expenditure on training and employment of people to undertake this work would have been a very worthwhile investment.

Two fields of activity that presented problems during
the period were transport and power. In each, New Zealand suffered from deficiencies in maintenance and expansion due largely to war and post-war dislocations and scarcities. Excessive outlay by the community on other fields was also a factor in leaving inadequate resources available to expand power and transport facilities to meet the demands of a growing and more prosperous population.

Various restrictions on the use of power were found necessary from 1941 till late in 1952, when most of them were removed. An indication of the growth of demand for electric power in the period can be obtained from the fact that the State Hydro-Electric Departments in 1955 was feeding over three times as much electricity into the retail distribution system as it was in 1939. In the face of the probable inadequacy of sources of hydro power in the North Island to meet estimated demands there in the 1960s, a new coal-fired steam station was being built at Mercer and a geothermal station at Wairakei. The possibility of linking the power system of the North Island with that of the South, more abundantly supplied with untapped sources of hydro power, was being closely studied.

Inadequate maintenance of the road system was being rapidly overcome by heavy expenditures under the auspices of a National Roads Board. This was set up by the government in 1953 and given exclusive use of the proceeds of motor taxation. Major problems in transport in the mid-50s arose from the inadequacy of facilities provided by the railways and the ports to handle the growing volume of production of the country, and in particular the growing volume of exportable produce.

c) The Balance between Present and Future

Any country may increase its present standard of consumption temporarily by reducing its provisions for the future. Adequate provision must be made for maintaining and increasing capital equipment and reserves of overseas exchange.

New Zealand in the 1950s had been investing in capital at a rate that bore favourable comparison with most other countries. Nevertheless, with population increasing at the rate it had, a very large proportion of annual investment had served merely to replace capital wearing out and to maintain the stock of capital at its previous level per head of population. It seemed essential that the high ratio of investment should at least be maintained.

Much of course depends on how selective a country is prepared to be as between more and less productive types of investment and consumption. New Zealand for instance would probably have found it easier to achieve the desired rate of growth over the years ahead with that level of investment, if it had placed more emphasis on investment in farming, transport facilities and efficient manufacturing industry and less on housing and other social capital, or if a greater proportion of expenditure on consumption had been devoted to education, extension work and research.

One can be somewhat more dogmatic about the reserves of overseas exchange. At various times in the two decades to 1956, the reserves were permitted to fall to quite inadequate levels. The lowest ebb was in 1938 when they fell to 7½ million pounds. In 1956 they averaged about 90 million pounds, but this was equivalent to only about 3½ months’ overseas payments at current prices. Bearing in mind the continued reliance on exports of pastoral products, and the heavy dependence of production and employment on a sustained flow of imports, this seemed much too low for comfort.

d) The Balance between State and Private Activity

The complaint was regularly heard in New Zealand that an excessive proportion of the resources of the country was taken up by the State. According to the Labour Department’s figures for April 1955, about 105,200 people, or 13 percent of the labour force, were employed by the central government in its various commercial and administrative activities. Local authorities employed a further 61,000, or 7½ percent of the labour force.

During the period under review, there had been some extension of public ownership, but less than some might originally have expected from a professedly socialist administration. To the old state monopolies by the Railways and Post and Telegraph services, and the competitive public enterprises like the Government Life and State insurance offices and the Public Trust Office, the Labour administration added monopolies over broadcasting, the internal airways system and workers’ compensation insurance. The Government took
complete ownership and control of the Reserve Bank and State Advances Corporation, nationalised the Bank of New Zealand, took over several collieries and the rights to all coal on private land, and intensified its activities in the field of housing and road transport. Moreover the State took up shares in private concerns manufacturing wool packs, salt and coal products and distributing petrol. The marketing of many items of primary produce was nationalised in the early years of the Labour regime. As mentioned above, a producer-government marketing agency took over the marketing of dairy produce in 1947.

After 1949, there was some reversal by a National Government of the trend towards larger public enterprise activity. State housing and road transport activity were curtailed and the monopoly over workers compensation withdrawn. Attempts were made to sell the National Airways Corporation, but these were considerably impeded by the threat of the Opposition to return the Airways to public ownership if and when they were elected to office.

The National Government also showed a disposition to pass control of state monopolies as far as possible to independent statutory authorities. For example, a Commission was set up to run the railways; control of marketing was transferred to producer boards; legislative amendments were made implying that the Reserve Bank might be granted a degree of independence in the control of credit and foreign exchange. While this was expected to be beneficial in relieving already overburdened ministers from some of the details of administration of these concerns, it did not relieve them from responsibility in the public mind for the actions of their management. It also tended to increase the difficulties of coordination of policy. There were two main exceptions to the general trend away from public ownership under National. A Totalisator Agency Board was established in 1951 to harness the propensity of New Zealanders to bet off course, which was previously providing a very comfortable living for illegal bookmakers. The government also decided to participate in the Tasman Pulp and Paper Co, established in 1954, to manufacture pulp, paper and newsprint from the Kaingaroa State Forest.

There appeared to be much less public concern about the extension of public enterprise than about the growth of the proportion of gross national product taken by the central government in taxation. This grew from about 16 percent in 1938–39 to 25% in 1955–56.

This increase was not due to increased government expenditure on providing goods and services. This declined in proportion to the gross national product. The main causes were increased transfers in the form of Social Security benefits and subsidies, and the greater use of revenue surpluses for capital purposes. The spectacular increases in investment, however, were private rather than public. The proportion of gross national product spent by the central government on capital works was slightly lower in 1955–56 than it was in 1938–39.

There was therefore no great increase in the proportion of the community’s real resources taken up by State. What happened was that the State developed a much more extensive system of control over the economy. It was also redistributing a higher proportion of the national income as Social Security benefits and subsidies.

There was no sign in 1957 that National would be able to offer serious resistance to the trend of rising government expenditure and higher taxation developed under Labour, despite its expressed anxiety to do so. In many fields, such as the development and maintenance of capital works, and expansion of educational and research facilities, there was a backlog of public expenditure to be made up, if adequate provision was to be made for future economic progress. A significant reduction could have been made only by a partial dismantling of the security and welfare measures built up during the period. But National, like Labour, seemed to have decided that any tampering with them would be politically suicidal.

e) The Balance between Progress and Security

Had the “welfare state” been impeding economic progress?

Some commentators contended that New Zealand and other countries had been sacrificing progress for security since the 1930s. Expansion of Social Security monetary benefits, health services and subsidies had led to a considerable increase in taxation. Some argued that this would inevitably weaken the
incentive to produce upon which economic progress and long-term security depend. It also removed money and resources from the more productive elements of the private sector. While there is a certain element of truth in these arguments, they oversimplified the problem.

For example, the government’s increased expenditure on health services and benefits relieved private individuals of some of the necessity that had always existed to make provision for the sick, the aged and the needy. Again, some economists suggested that only a part of the Social Security expenditures involved the direct use of resources that would otherwise be available to the private sector. The monetary benefits were merely transfers of income within the private sector from taxpayers to beneficiaries. The only “real cost” involved, they contended, was the cost of administering the transfers. However, they did require considerably higher taxation, much of it levied at relatively high marginal rates, on income. The disincentive effects of these taxes could not be ignored.

From the point of view of businesses selling to the New Zealand public, any deterrent effect of higher taxation was at least partially offset by the increased buoyancy of the market caused by the transfers. These went predominantly to those who could be expected to spend the bulk of the money received. There were also direct benefits to production from the Social Security measures that were often neglected. For example, a better average level of health and education, leading to an improvement in the quality of labour and management, and fuller use than in the past of the country’s labour force, was a productive advantage.

Given all this, there remained an element of conflict between the security measures and more rapid economic progress that any country should strive to avoid wherever possible. The conflict was obscured to some extent in post-war New Zealand by the effects of continuously increasing prices for New Zealand’s exportable produce and its greatly improved terms of trade.

Some adverse effects of the welfare measures could be noted during the period:

Some waste of resources was involved, particularly in the provision of free health service, to a lesser extent as a result of food subsidies, and to an unknown but probably considerable extent through the inducement to wasteful expenditure and tax avoidance induced by the higher marginal rates of taxation used to finance increased welfare expenditures.

There was an increasing tendency for voluntary savings to fall short of requirements for investment, partly because social services reduced the need for provision against adversity and because there was redistribution from potential savers to more needy groups.

The government could possibly have forced the additional “saving” required by still further increasing taxation, especially if it were imposed on commodities in general use. However there was a tendency to avoid such action wherever possible in welfare states like New Zealand. There was a political preference to impose taxation on those with higher incomes. In New Zealand, this involved relatively high marginal rates of income tax. These might not only have had adverse effects on incentives to work, save, invest and take risks by those affected. They also encouraged some to avoid and in some cases evade the taxation.

The political difficulty of increasing taxation meant that resort was had to additional bank credit with inflationary effects; or that important government or local body works were deferred through lack of funds or through lack of labour and resources to carry them out; or that inadequate provision was made for other important government activities such as higher education and research.

In the absence of empirical studies, it was impossible to say how far incentives to work and to take risks were affected by the greater security provided by welfare measures or the higher taxation involved, but there was probably some adverse effect involved.

It was beyond the scope of this essay to consider whether, and if so how, these effects might be remedied. I suggested that, especially if external conditions changed, the value of subsidies and of free health services, and the desirability of universal as opposed to “means-tested” benefits, would be among the most keenly debated issues in politics.
Conclusion

Between 1938 and 1956, the people of New Zealand were able considerably to improve their current material standards of living, despite a fairly rapid increase in their numbers and decline in the proportion actively engaged in production. They also managed to devote a large proportion of their annual income to investment in capital works; to expand their health, education, defence and general administrative services; and by making provision for the payment of much more generous monetary benefits and building up substantial reserves of the major primary industries, to improve the security of the individual against economic adversity.

Although a good deal of the credit for this improvement must be put down to good management, both public and private, it would be a mistake to minimise the importance of very favourable external circumstances in enabling New Zealand to enjoy these improvements. While farm production and exports in 1955 had risen by just over one-third since before the war, the volume of imports had almost doubled. The ability to purchase more imports for each unit of produce exported was a major factor governing the extent to which the country was able to increase factory production by 135% and the volume of goods available for use in New Zealand by nearly 90%.

I concluded that it would be unwise to rely on the continuation of favourable movements in the terms of trade to maintain improved standards of living in the future. New Zealanders had been inclined to overlook the fact that their ability to maintain production and standards of living in the event of the deterioration of the terms of trade would rest heavily on their ability to sustain the flow of imports. To do this they had to sustain the productive capacity of exchange earning industries and build up adequate reserves of foreign exchange while conditions were favourable.

It was generally agreed that this had not been done during the period surveyed. New Zealanders had also suffered, in common with other countries, a continuous depreciation of the domestic value of the pound through rising prices that could not be viewed with complacency. External factors could be largely blamed for this, but New Zealand had added to the problem as a result of the tendency to attempt to achieve more than its limited resources would permit.

Perhaps the relative ease with which the country had been able to improve standards after the Depression had led it to neglect to some extent the factors on which the future rate of progress would principally depend. These factors included more efficient use of resources in all avenues of production, (not just farming), enterprise, good management, scientific knowledge, quality of labour and harmony in industrial relations. New Zealand, I argued, would do well to invest much more heavily than it had in the higher education, research and extension work needed to build up this intangible capital that was becoming so increasingly important in the modern world.

Afterword

After study in Britain in 1957, in which I concentrated on the implications for Britain and NZ of the successful negotiation of the Treaty establishing a European Economic Community, I became increasingly aware of the need for NZ to adopt policies that would promote the efficient diversification of our export industries and markets. As I had indicated in the foregoing text, and a companion article on New Zealand in the World Economy, this would not be achieved by a policy of high protection of relatively inefficient industries, especially where economies of scale were significant. Rather we would have to expose protected producers gradually to more international competition. A good starting point could be our own form of regionalism through a negotiated agreement to free trade with our trans-Tasman neighbour. I have provided my account of the long and difficult negotiations leading to such an agreement in 1983 in a paper The Rocky Road to CER, published by the IPS in 2003.

By the time I became Chairman of the Monetary and Economic Council in the early 1960s, I was expressing disappointment at the relatively slow growth of productivity per head of the labour force and at the go-stop-go course of the economy, aggravated by government policies that were considerably influenced by the electoral cycle. I was concerned about the “misdirection” of investment and the relatively inefficient use of capital, shortages of skilled people, restrictive practices and relatively high marginal rates of personal and company taxation. Cumulatively, these factors had reacted with one another to become important...
hindrances to growth. The reports of the Monetary and Economic Council sought to promote public debate on the remedies that governments and others in the community should be considering to improve New Zealand’s capacity for future economic and social development.

Frank Holmes

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