RECENT ECONOMIC CHANGES IN NEW ZEALAND

by

W. B. SUTCH

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RECOVERY MEASURES IN NEW ZEALAND

A Comparison with the New Deal in the United States

By

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Prepared as a Data Paper for the Sixth Conference of the Institute of Pacific Relations to be held at Yosemite Park, California, August 15-29, 1936.

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FOREWORD

THIS PAPER has been prepared for use at the Yosemite Conference of the Institute of Pacific Relations, particularly in connection with the first Round Table topic on The Aims and Results of Social and Economic Policies in the United States. The New Zealand Branch of the Institute presents it in the belief that such a comparative study of recovery measures in two widely different countries may help to clarify the discussions and interpretation of the long term effects of the American programme. It is supplemented by another New Zealand paper dealing in greater detail with New Zealand's economic problems from the point of view of trade relations, New Zealand's Economic Adjustments to the International Situation, by Mr. W. B. Sutch, and is naturally to be studied along with numerous documents prepared by other National Councils for the Conference. Papers submitted by the American Council of the Institute of Pacific Relations include Business and Government under the National Recovery Administration, by Theodore J. Kreps; How the N.R.A. Worked, by Robinson Newcombe; Agricultural Adjustment under the New Deal, by Miriam S. Farley; Public Works and Unemployment Relief, by Arthur D. Gayer; The Foreign Trade Policy of the United States, by William W. Lockwood, Jr. and Harriet Moore. The Australian Institute of International Affairs is issuing a paper on The Australian Recovery Programme as Compared with the American Recovery Programme. The Canadian Institute of International Affairs is submitting papers on The Economic Effects on Canada of the Recent Monetary Policy of the U.S.A., by J. D. Gibson and A. F. W. Plumptre, and on The Effect of the United States Tariff on the Agriculture of Ontario and Quebec. Documents prepared by the Royal Institute of International Affairs include one on Repercussions of the American New Deal on the British Empire, by Oliver Lawrence.

Although the present study is issued under the auspices of the New Zealand Institute of Pacific Relations and is recommended by it for study by all members of the Yosemite Conference, it must be understood that the author alone is responsible for statements of fact and opinion contained in the paper.

May 1936

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SUMMARY

THE purpose of this paper is to describe the recovery programme in New Zealand and compare it with the New Deal in the United States. Though the two countries show marked contrasts in size and in economic and political structure, a comparison between these two programmes is useful by way of indicating the manner in which such differences lead to differences in outlook and in economic and political philosophy. It is interesting in so far as it may reveal similarities in policy which suggest parallel responses to basically similar historical forces.

An understanding of the recovery programme in New Zealand requires some description of the main economic characteristics of the country. The New Zealand economy is based mainly on grassland farming. Before the depression the value of farm production was 54 per cent of the national income and 65 per cent of the value of all production. Many nonfarming industries, trades and professions are directly dependent on agriculture. New Zealand relies to an unusual degree on overseas trade, which is of a higher per capita value than that of any other country. In 1928, the value of exports was about 36 per cent of the national income, nearly 44 per cent of the value of all production, and about 60 per cent of the value of farm production. Pastoral products provided 94 per cent of the value of exports. The development of the country has resulted in heavy private and public indebtedness, and this makes for rigidity in costs.

The world depression was transmitted into New Zealand by the heavy fall in export prices. This reduced the income of farmers, and the decline in their purchasing power was transmitted to the rest of the community, thus leading to diminished production, trade and employment. Since a large proportion of public revenue consists of interest and other fixed obligations which it was difficult to reduce, while revenue, and especially customs duties, are very susceptible to trade conditions, the depression resulted in heavy budget-deficits.

Export prices fell by 40 per cent between 1928 and 1931, but

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internal prices fell by only about 10 per cent. Since these prices represent farmers' costs, there was a serious disparity between costs and selling prices in the export industries. The crux of the problem was to remove this disparity as a basis for general recovery. Farmers' receipts were raised by depreciating the New Zealand rate of exchange on London by 25 per cent, and a series of operations was undertaken to reduce costs. These operations included wage reductions, statutory reductions in mortgage interest and other fixed charges, and reductions in market rate of interest by agreement with the banks. A mortgage moratorium was enacted and provision was made for the compulsory writing-down of the excessive liabilities of farmer mortgagors. The Mortgage Corporation of New Zealand and the Reserve Bank of New Zealand were established with the intention of strengthening the financial system; but in addition, they contributed to the policy of cost reduction. Budget policy was directed towards the early balancing of the Budget. Expenditure was curtailed and the internal debt converted. Tax rates were increased and new taxes introduced. The Budget was balanced in 1934-5 and again in 1935-6.

Unemployment relief was financed by means of special taxes on wages and other incomes. The general policy was to provide relief in return for work done. There was no expansion of public works expenditure to provide employment. On the contrary, public works expenditure was contracted, largely because it was believed that borrowing for public works would hinder the government's policy of cost reductions.

Trade policy was dominated by the Ottawa agreement, by subsequent negotiations, and by the desire to find new markets. The Executive Commission for Agriculture was established to coordinate the work of the Produce Control Boards, to develop new markets, and to improve the organization of farming and internal marketing. In the operation of the recovery programme, there was a noticeable trend toward administrative devolution.

During the past two or three years, there has been a marked recovery in New Zealand, and there is little doubt that the Government's programme has contributed a great deal toward this.

The New Zealand recovery programme differs in important respects from the American New Deal. The banking system was not seriously endangered by the depression in New Zealand, and a "banking holiday" was unnecessary. There is no parallel in New

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Zealand to the banking reforms enacted in the United States. The main reform was the establishment of a Reserve Bank.

The expansion of internal purchasing power was a dominant motive running through most of the New Deal legislation in the United States. The expansion of public works, large deficits in Federal finances, loans to agriculture, and to industrial and financial institutions, the extension of the basis for credit in various ways, and wage policy under the N. R. A. codes, are all indicative of this intention. Policy in New Zealand was directed, not to expanding purchasing power (except by the depreciation of exchange), but to reducing costs. The reasons for this difference are to be found mainly in the greater importance of export industries in New Zealand and of domestic demand in the United States.

The concept of a "parity price" was basic to the agricultural programme in both countries, but the concept was differently interpreted. In New Zealand, there was more direct emphasis on the relationship between costs and receipts as expressed in export prices and internal prices as a whole. This was the reason for the depreciation of the exchange and measures directly designed to reduce costs. While the United States currency was devalued, less significance seems to have been attached to this than to exchange depreciation in New Zealand. The emphasis in the United States was on raising farm income by (a) raising farm prices through restriction of production (b) rewarding farmers for restriction by benefit payments financed out of taxes. New Zealand did not adopt a restrictive programme because its farm prices are determined in overseas markets. Any reduction in supply would have reacted to the benefit of overseas competitors without raising domestic prices, and with insufficient effect in overseas prices to increase the gross return of overseas producers.

There was nothing in New Zealand comparable with the N. R. A. codes. Manufacturing industries are of less importance, and "unfair competition" was not regarded as being a serious problem. There was little obstacle to trade union organization so that those aspects of the codes which dealt with labor organization played no part in the New Zealand programme.

There was a smaller admixture of social security with recovery legislation in New Zealand; labour laws, although by no means entirely adequate, were more satisfactory than in the United States, old age and other pension schemes being already in existence. At

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the election in November 1935, all political parties favored an extension of social legislation in the form of national compulsory superannuation, health insurance and housing.

Although the different types of economic and political organization in the two countries led to marked differences in the two programmes, there was the same underlying trend towards increasing social control of economic affairs. This is no new thing in either country and seems likely to continue. If such be the case, there are many questions which call for answers. It will be necessary to have an evaluation of economic and social ends, and to discover the proper means to achieve these ends. Further, it will be imperative to devise an administrative technique which permits of resiliency and rapid adjustment to change.

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RECOVERY MEASURES IN NEW ZEALAND

I. INTRODUCTORY

THE PURPOSE of this paper is to describe the main aspects of the recovery programme in New Zealand, and attempt a comparison with the New Deal in the United States. Chief attention will be directed to a description of the measures adopted by the New Zealand Government to meet depression, since published accounts of these measures are not likely to be readily available to the majority of members of the Institute of Pacific Relations.[1] The experiments of the Roosevelt administration have been described in a voluminous and readily accessible literature[2] and in several data papers prepared for the Yosemite Conference.[3] Hence nothing more than the briefest summary statement of the Roosevelt programme will be attempted, sufficient to present a comparison with its counterpart in New Zealand.

It might appear that a comparison of recovery measures in two countries presenting such contrasts in economic and political organization as the United States and New Zealand, can be little more than an academic exercise, barren of any practical result, but it is surely not unimportant to discover both the extent to which differences in economic and political structure give rise to differences in outlook and philosophy, and the degrees of continuity and parallelism in policies formulated in response to basically similar historical forces. Such parallelism as exists is all the more significant if it reveals itself in countries showing marked contrasts in organization. It may well be that the different kinds of

[1] The basis of the New Zealand programme is to be found in the Reports of the *Economic Committee* and the *National Expenditure Committee*, February 1932. See also A. H. Tocker, "Recovery Measures in New Zealand," Supplement *Economic Record*, March 1935; H. Belshaw, "Crisis and Readjustment in New Zealand," *Journal of Political Economy*, Vol. XLI, No. 6, 1933; and "Mortgage Adjustment and the Reorganization of Farm Finance in New Zealand," *Journal of Farm Economics*, August 1936. See also *Agricultural Organization in New Zealand* (especially concluding chapter), edited by H. Belshaw, D. O. Williams, F. B. Stephens, B. J. Fawcett and H. R. Rodwell, and published for the New Zealand Institute of Pacific Relations by the Melbourne University Press, 1936.

[2] Note for example the series of books published by the Brookings Institution, Washington.

[3] See Foreword.

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machinery used to pull the two capitalisms out of the mire, are propelled by the same motive power; an urge towards an increasing social direction of economic forces.

II. CRISIS AND READJUSTMENT IN NEW ZEALAND

1. The New Zealand Economy

Production and Trade. The New Zealand economy may be simply described. It has been based on the assumption of a limitless and expanding overseas market for a narrow range of products from grass land farming. The following table summarizes some of the most important characteristics of economic organization in New Zealand.

TABLE 1. POPULATION, INCOME AND PRODUCTION IN NEW ZEALAND IN 1928–29

Estimated Population as at Dec. 31, 1928	1,467,000
Estimated National Income	£154,000,000
Value of all production	£128,000,000
Value of Farm Production	£ 83,000,000
Value of Exports (Calendar Year 1928)	£ 56,000,000
Value of Imports[a] (Calendar Year 1928)	£ 45,000,000

[a] Mainly manufactured and semi-manufactured goods.

Prior to the crisis, the value of farm production was about 54 per cent of the national income and about 65 per cent of the value of all production. The total area of occupied land as at 31st January 1935 was 43 million acres of which 19½ million acres was in cultivation, 17 million of this being in sown grasses and clovers. The remaining 23½ million acres of the occupied area consisted of unimproved land of which 14 million acres was in tussock and other native grasses. These figures demonstrate the great relative importance of farming industries in New Zealand, and the significance of pastures as the basis of the farming system. The items in Table 2 show the character of the export trade.

In 1928 the value of exports comprised about 36 per cent of the national income, and nearly 44 per cent of the value of all production. Pastoral and agricultural products comprised 96 per cent

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TABLE 2. CHARACTER OF EXPORT TRADE IN NEW ZEALAND IN 1928[a]

	Value £1,000	Per Cent of Total
Pastoral Products including Dairying[b]	51,509	94.2
Agricultural	965	1.8
Forest	627	1.1
Mining	710	1.3
Others	849	1.6

[a] 72 per cent of Exports went to Great Britain, 84 per cent of Exports went to the British Empire as a whole; 16 per cent of Exports went to the United States.
[b] Mainly wool, meat, butter and cheese.

of the value of all exports, and about 65 per cent of the value of farm production.[4]

Table 3, giving the occupational distribution of the population in census years 1901 to 1926 shows that those engaged in primary production represent the largest single group, but that occupations other than primary and industrial have been increasing in relative importance.

In interpreting this table it must be borne in mind that many industrial enterprises are concerned with the processing of primary products and that much of the activity of other groups consists in providing service to agriculture.[5] If farming industries and retail establishments and the professions are included, the number of "workers-on-own-account" as contrasted with workers in receipt of wages or salaries is unusually large. This is important in using

[4] In 1928 the value of the per capita external trade (probably the highest in the world) was as follows:

Exports	£ 38 – 12 – 5
Imports	£ 31 – 3 – 4
Total	£ 69 – 15 – 9

[5] Comprehensive statistics showing the size of business enterprises are not available to the writer at the time of writing. It is sufficient to say that they are very small. The following figures classify individual establishments according to number of employees in 1928-29.

Size	*Number*	*Per Cent of Total*
10 or under	3,474	67.6
11– 20	775	15.1
21– 50	584	11.4
51–100	170	3.3
Over 100	133	2.6
Total	5,136	100.00

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TABLE 3. OCCUPATIONAL DISTRIBUTION OF POPULATION
(as per cent of total population in the census years)

	1901	1911	1921	1926
Primary Production	14.49	12.95	12.60	10.82
Industrial	13.10	13.25	9.86	10.22
Transport and Communication	2.82	3.62	4.59	4.47
Commerce and Finance	5.17	6.52	6.56	6.38
Public Administration and Professional	3.04	3.25	4.30	4.43
Domestic and Personal Service	4.45	4.39	3.45	3.39
Other	0.98	1.07	2.81	3.06
Total Occupied	44.05	45.05	44.17	42.77
Dependents	55.95	54.95	55.83	57.23
Total	100.00	100.00	100.00	100.00

numbers of unemployed as an index of changes in business conditions. A given increase in the number of unemployed, expressed as a percentage of total population gainfully employed,[6] is indicative of a greater relative deterioration in economic conditions in New Zealand than in most Western countries.

The small size of business establishments is one reason why the problem of monopoly control has never been seriously disturbing to the government and people of New Zealand and explains one point of contrast between policies in New Zealand and the United States; for the issue of controlling anti-social monopoly practices was never very acute in the former country.

Public and Private Debt. The economic resources of New Zealand have been developed largely out of borrowed money so that there is a heavy private and public indebtedness. The debt of the central government and local authorities as at March 31, 1929 was as indicated in Table 4.

The estimated private mortgage debt as at the same date was £225,000,000 of which £100,000,000 was on town or suburban properties and £125,000,000 on country properties. A substantial

[6] This would include employees and "workers-on-own-account" as well as wage-earners and salaried workers.

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TABLE 4. GOVERNMENT AND LOCAL BODY DEBT AS AT 31ST MARCH, 1929

Domicile	Government	Local Body
	£	£
United Kingdom	149,300,000	18,300,000
Australia	4,200,000	7,400,000
Total Overseas	153,500,000	25,700,000
New Zealand	110,700,000	36,300,000
Total	264,200,000	62,000,000

proportion of private mortgage debt was held by government lending departments, probably between £40 million and £50 million in all. The greater part of this private indebtedness was held in New Zealand. These figures—the annual changes on which would be not far short of 20 per cent of the national income in 1928-9—represent a formidable total for so small a country. Interest and other fixed charges were important factors making for rigidity in the cost structure when prices fell, and raised a problem of adjustment which was hardly susceptible to orthodox measures.

Government Finance. For the year ended March 31, 1929, revenues of the national government totalled £23.6 million or about 15 per cent of the national income. Of this amount £17.8 million was provided by taxation, and £5.8 million from other sources, the most important being interest on the Public Debt Redemption Fund; railway capital liability; post and telegraph liability; and other public revenues. Other financial activities of the government such as those of the State Advances Department are outside the normal budget, but may react upon it in a time of acute depression. The main items of taxation for the same fiscal year are shown in Table 5.

Customs revenue is especially susceptible to changes in prosperity, as also are certain items of revenue other than taxation such as interest on railway capital liability.

Expenditures for the fiscal year 1928-29 totalled £24.17 million of which over £16 million consisted of permanent appropriations and nearly £8 million of annual appropriations. Permanent appropriations included about £10 million for interest on and amortiza-

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TABLE 5. TAXATION IN NEW ZEALAND FOR YEAR ENDED MARCH 31, 1929

	Amount £1,000	Per Cent of Total
Customs and Excise	860	48.04
Land Tax	110	6.40
Income Tax	330	18.57
Death Duties	190	10.90
Totalization Taxes	50	3.03
Other Taxes	230	13.06
Total	1,780	100.00

tion of public debt and £2½ million for pensions. Hence while revenue was subjected to acute shrinkage during depression, a big proportion of expenditures was relatively rigid and not susceptible to ordinary methods of economy. So the problem of the budget became one of the most serious preoccupations of the Government.

2. Effects of Falling Export Prices

In the light of the above conditions the effects of falling prices in New Zealand may be very summarily stated. Depression and prosperity are transmitted into New Zealand through changes in export prices. A fall in the prices of the raw materials and foodstuffs which comprise the bulk of New Zealand exports, usually precedes and goes further than the fall in prices of imported manufactured and semi-manufactured goods, so that the terms of trade move against New Zealand. To the loss in real income thus occasioned should be added the additional real cost of meeting annual overseas capital obligations. These are fixed in terms of money and a larger volume of exports is required to finance them. Hence a fall in export prices normally means a loss in real income. During the present depression there has been a further loss in current real income because the annual net overseas borrowing of £5,000,000 to £6,000,000 annually was no longer possible.

Since the prices of exportable products consumed within New Zealand fall in sympathy with export prices, a fall in such prices involves a more or less proportionate fall in the gross income of farming industries. In 1928-29 the value of farm production was

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over half the national income, so that a 10 per cent fall in export prices leads directly to a fall in national money income of the order of 5 per cent. Internal prices, which comprise the elements in farm costs, are much more rigid than export prices, their intractability being increased by the high proportion of fixed expenses in the form of mortgage interest, taxes and the like.[7] Hence agricultural net income declines much greater than gross income. The decline in farm income reacts on the rest of the community through a decline in purchasing power over non-agricultural products and in this way depression is transmitted to the rest of the community. The rigidity of costs in manufactures and trade, though less than in farming, makes it difficult to make adjustments in prices to conform to the reduction in demand from farming industries. Production and employment are reduced, and these lead to an intensification of depression and a further real loss in national income.

Since the different elements in the price system show varying degrees of rigidity, the loss of income is unevenly spread over the community, and the adjustment of price disparities and the re-distribution of the burden of loss become different aspects of the same crucial problem.

The susceptibility of government revenue to price changes through its substantial dependence on customs duties and sensitive items of non-tax receipts, coupled with the high proportion of permanent appropriations including interest on the National debt, and the need for increased relief expenditure, impose the threat of budget deficits. It may become necessary to increase tax rates and impose new taxes at a time when economic conditions are already seriously shaken by the fall in world prices.

3. Effects of the World Crisis

To an economy so vulnerable, the heavy fall in world prices after 1929 brought serious consequences, arising primarily out of the acute price disharmony which developed. This is shown by a comparison of various prices in 1928 and 1931, the year before the government's programme was got under way.

As an approximate statement of the position, it may be said

[7] An official estimate places interest and rents at about one-third of total cash payments of farmers prior to the crisis.

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TABLE 6. PRICES IN NEW ZEALAND IN 1928 AND 1931

(Base 1914 = 1000)

	1928	1931	Per Cent Fall
Wholesale Export (Pastural and dairying)	1,553	881	43
Wholesale Import	1,363	1,346	2
Wholesale General	1,417	1,278	10
Farm Expenditure[a]	1,642	1,490	9
Retail (all groups)	1,602	1,447	10
Nominal Award Wages	1,656	1,542	7

[a] The index number of farm expenditure is not strictly an index of farm costs since it takes no account of changes in the relationship between physical units of input and output, as well as for other reasons. Nevertheless it is perhaps the most useful rough indication of the price disharmony which developed. For a further discussion of the index see *Agricultural Organization in New Zealand*, p. 12.

that farm prices fell by over 40 per cent and farm costs by less than 10 per cent.

Changes in the value and volume of production between 1928-29 and 1931-32 are shown below:

TABLE 7. VALUE AND VOLUME OF PRODUCTION, 1928–29 AND 1931–32

(Value in £ millions)

	1928–29	1931–32	Per Cent Fall
Value of all production	£ 127	£ 84	34
Value of Farm Production	£ 82	£ 49	40
Value of Exports	£ 55.6 (1931)	£ 35	39
Value of Imports	£ 44.8 (1931)	£ 26.5	40
Physical Volume of Production	1,000	922	8

Although the physical volume of production declined by 8 per cent the volume of farm production increased, probably by about 10 per cent, so that there was a substantial decline in non-farming production. Despite the increase in the volume of farm products there was a decline in gross value of about 40 per cent. Since farm costs proved very rigid the percentage decline in net farming income was very much greater and it is doubtful if there was any

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net income if individual losses are balanced against individual gains.

All other indices of business activity show similar evidences of deterioration, the following being selected as affording useful indications:

TABLE 8. OTHER INDICES OF BUSINESS ACTIVITY

(Value in £ millions)

	1928	1931
Building Permits in Principal Towns	£ 8.6	£ 2.5
Mortgages Registered[a]	£33.6	£14.7
Mortgages Discharged[a]	£25.3	£11.1
Land Transfers	£30.5	£13.8
Totalizator Investment	£ 7.6	£ 5.3
Bank Debits (weekly average)[b]	£19.1	£15.8
Per Cent Free to Fixed Deposits	75	47
Average of 25 Shares (par = 100)	213	152
Unemployed on Register[c]	2,504	40,335

[a] Year ended March 31, following.
[b] Last nine months' weekly average only.
[c] This exaggerates the increase since a much larger number would register when relief schemes have been organized. The increase in the number of unemployed probably totaled about 25,000.

The effects on the national budget were such as might have been expected. Considerations of space permit of brief reference only. The financial years from 1922-23 to 1927-28 showed substantial surpluses. In 1928-29 there was a deficit of £577,000. In the following year, as the result of increases in taxation and reductions in expenditure, a small surplus of £150,000 was realized. Thereafter the situation deteriorated rapidly. In the 1930 Budget a decrease in revenue of £2,830,000 was allowed for, but the returns fell short of the estimate by £2,050,000 making a total shrinkage for the year of £4,880,000. The next year, 1931, provision was made for a further shrinkage of £4,810,000 but, before the year was out it was realized that this was insufficient and measures were taken to cope with a total shrinkage of £6,060,000. Even so the year ended with a deficit of £2,140,000, bringing the aggregated shortage for the year up to the huge amount of £8,200,000 equal to about one-third of the normal year's revenue.[8]

[8] *Budget statement*, 1935, pp. 8-9.

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4. The Recovery Programme

The peculiar dependence of New Zealand on overseas trade and the simplicity of its economic organization made it comparatively simple to diagnose the malady and formulate remedial measures. It is for these reasons that reconstruction policy in New Zealand has been clear-cut and unambiguous in outline, even though the problem itself was serious enough, involving courageous and unpopular measures.

Briefly, the policy had the following main aspects:[9] first, the removal of the disparity between export and internal prices which was the crux of the problem; second, the balancing of the budget; third, reducing the volume of unemployment and providing relief against the distress which unemployment occasioned; fourth, elaborating an appropriate trade policy; and fifth, devising new administrative instruments.

Price Policy

The adjustment of the disparity between internal and export prices was the major objective of general economic policy and was to be achieved by the depreciation of the exchange on London and a series of operations to reduce costs.

The immediate purpose was to place farming on a profitable basis, and critics of the government complained that too much concern was shown for farming interest and too little for those of the rest of the community. This was a misreading of the position. The rehabilitation of the basic industries was essential to recovery and to the prosperity of the rest of the community. Exchange depreciation would reduce the extent to which farming costs would require to be deflated. Since such costs are sources of income to the rest of the community, exchange depreciation would sustain the national income as a whole. While the reduction of costs in

[9] With a view to arriving at a plan of action, the government called a joint-conference of the three political parties (United, Reform and Labour) in August 1931; but the conference failed to report. Instead, a coalition was formed between the United and Reform parties. This appealed to the country on a "blank cheque" programme and was returned to power with Labour in opposition. In January 1932, a Commission on National Expenditure was set up to recommend economies in government expenditure, and in February 1932, a committee consisting of four economists and the Secretary to the Treasury was called to report on the "Economic and Budgetary Situation." In December 1932, the available members of the Economic Committee were recalled to consult further with the government. In the main, the government policy was based on the recommendations of these committees.

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farming was of major importance, most measures directed to this end benefited other producers and debtors as well. Unemployment policy certainly assisted the farmers, but its main effect was to benefit unemployed workers drawn largely from other occupations.

It is true that the policy of the government effected a transfer of income, but this was considered justifiable on economic grounds and on considerations of equity. Furthermore, such a transfer was not avoided by a policy of doing nothing. It would occur in any case, but unevenly and with much avoidable dislocation, suffering and unfairness. All that the government did was to speed up economic processes while softening their effects, give them some logical consistency and uniformity and transfer into them a modicum of distributive justice. The programme salvaged capitalism by major operations cutting across the sacred right of property and sublimating the nightmare of competitive equilibrium into a still unpleasant but more tolerable pattern.

Exchange Depreciation. The normal rate of exchange is £ N.Z. 100 = £ Sterling 100. From the beginning of 1930 the rate for telegraphic transfer steadily depreciated owing to the pressure on London funds through the influence of the Australian exchange position, until it reached £ N.Z. 110 = £ Sterling 100 in January 1931. It was pegged at this level by the banks until January 1933. The rate was then depreciated as a matter of government policy to £ N.Z. 125 = £ Sterling 100, against the opposition of five out of the six trading banks which controlled banking policy until the Reserve Bank was established in August 1934. The unwilling acquiescence of the banks was bought by the passing of the Banks Indemnity (Exchange) Act under which the government agreed to purchase any exchange in excess of that existing at the date of passing of the Act. The purchase of this exchange was made by Treasury Bills which were taken up by the banks. Not unmindful of the interest of shareholders, the banks drove a hard bargain charging the Government about 5 per cent as against the nominal interest which such funds would earn in London.

It was argued in support of the exchange policy that it would bring about a proportionate increase in the price of farm products, including that of exportable products consumed locally. It would thus reduce the extent of the fall in costs necessary to bring about

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adjustment. The increase in farm purchasing power would permeate the rest of the system and avoid a further decline in national income, production and employment. Internal prices, more especially when influenced by cost-reduction measures, would rise little, if at all, because the extent of the depreciation proposed was still insufficient to remove price disharmonies. Hence the downward pressure on internal prices would still continue. Exchange depreciation simply narrowed the gap. The net effect was not inflationary but the avoidance of further internal deflation. While the cost to the Budget of transmitting overseas interest would be increased, this would be more than offset by the avoidance of the reduction in taxable capacity which would follow from further deflation.

Exchange depreciation would lead to some reduction in imports and the accumulation of exchange funds in London; but these effects would only be temporary since the capacity to purchase imports, after an initial period of disturbance, depends, not on the level of exchange but on the purchasing power of exports over imports, both expressed in sterling. The higher level of internal incomes would offset the higher price of imports. Further, the process of internal deflation, if unchecked, would in any case lead to a reduction in imports which might even be greater than the reduction due to exchange depreciation. While the accumulation of exchange funds would provide the basis for a possible credit inflation, this would not occur if the financial policy of the government and the banks remained sound. Finally, it could not be assumed that the internal situation would remain unchanged in the absence of exchange depreciation. Indeed, further deterioration would be inevitable. The actual results followed this analysis very closely.[10]

Wage Reductions. In pursuance of its policy of achieving budgetary equilibrium and reducing costs, the government initiated a 10 per cent reduction in civil servants' salaries in April 1931, and empowered the Arbitration Court to reduce award wages.[11] Accordingly, by a general order of the Court dated May 29, 1932 award rates of pay were reduced by 10 per cent, except in the case

[10] See below.

[11] Many Arbitration Court awards, under which wages and conditions of work are determined, still had some time to run.

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of apprentices and where substantial reductions had already been made.

In May 1932, further graduated cuts of from 5 per cent to 12½ per cent in Civil Servants' salaries were imposed, and the Industrial Conciliation and Amendment Act was amended. The amendment replaced voluntary conciliation and compulsory arbitration with compulsory conciliation and voluntary arbitration. One purpose of the Act was to remove restrictions which were alleged to impede industrial efficiency, but the main object was to facilitate wage reductions by weakening the protection through the Court of the workers' standard of living. While further wage reductions may have been necessary, it is open to grave doubt whether the emasculation of such an important instrument of collective bargaining was the best way to go about it. Between 1930 and 1934 the index number of nominal award wage rates fell from 1772 to 1466, but effective award wages were practically stable, the index numbers being 1066 and 1068 respectively.[12]

Reductions in Market Rates of Interest. In February 1930 the bank overdraft rate stood at 7 per cent. By successive negotiations between the government and the banks, the rate was reduced until it stood at 4½ per cent in December 1934. Two-year deposit rates were similarly reduced from 5 per cent in April 1930 to 2½ per cent in November 1934.

This policy was supported positively by reductions in the deposit rates of the Post Office and Trustee Savings Banks, building societies and other competitive institutions, reductions in rates on over-the-counter sales of government inscribed stock, in the rates at which maturing government loans were renewed, and the rate at which local authorities could raise loans. The accumulation of exchange funds and of deposits with the banks also facilitated agreements to reduce rates since these led to a plethora of funds.[13]

Negatively the policy was assisted, at least psychologically, by the government limiting its public works programme and its demand for new borrowings; by conversion operations and statutory reductions in fixed interest.

[12] These indices take no account of unemployment levies.

[13] It may be mentioned, in passing, that there is no short-term money market in New Zealand and that the Reserve Bank did not exist as an instrument of policy until August 1934. In any case it is likely to be some time before the Reserve Bank can exercise effective control.

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Reductions of Fixed Interest and Other Charges. The government made a direct attack on fixed interest and rents. The National Expenditure Adjustment Act of 1932 reduced interest and rents by 20 per cent with specified minima according to the class of security. At the same time, an ad valorem stamp duty of 10 per cent was imposed on government and Local Body securities.

Mortgage Relief and Adjustment.[14] Under the Mortgagors and Tenants Relief Act of 1931 and its amendments temporary relief was given to mortgagors and tenants in difficulties. As originally passed the Act was operative until the end of 1935 but has since been extended indefinitely. The Act applies only to securities given prior to April 1931 or securities executed in lieu thereof.

A mortgagor may apply for relief from the terms of a mortgage, applications first being heard by adjustment commissions set up for the purpose, each commission operating in a more or less defined area. Applications are then referred to the Magistrate Court or the Supreme Court, according to the amount of the principal of the mortgage or the annual rental under a lease. Commissions endeavor as far as possible to arrive at voluntary agreements but failing such agreements they may make recommendations. The Court may prohibit the mortgagee from exercising any of his powers, reduce the rate of interest, postpone the due date of interest, remit arrears of interest, extend the period of table mortgages, postpone repayment of principal or the right of action under personal covenants. There is no appeal against the decision of the Court and no mortgagor or mortgagee may contract out from under the Act.[15]

The Mortgagors and Tenants Relief Act was not designed to effect permanent adjustment but to give relief against a situation which it was hoped would be only temporary. There is little doubt that it has achieved its purpose in giving relief while avoiding the distress and confusion which would have resulted from a large number of forced sales or compositions and that it has also encouraged voluntary agreements. But it prevented permanent adjustments since neither party could contract out of the legislation on the basis of a new arrangement.

It was partly for this reason, partly from the belief that the

[14] For a fuller account see the writer's article, "Mortgage Adjustment and the Reorganization of Farm Finance in New Zealand," *Journal of Farm Economics.* August 1936.

[15] For an evaluation of the legislation see W. H. Cocker, "Relief of Mortgagors in New Zealand," *Economic Record.* May 1932.

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excessive overcapitalization of farm properties could no longer be regarded as temporary that legislation was enacted in 1935 enabling the excessive liabilities of farm mortgagors to be reduced to within their capacity to pay. Under the Rural Mortgagors Final Adjustment Act of April 1935, the administrative machinery consists of the adjustment commissions referred to above and a special Court of Review set up under the Act. The present Court consists of a judge of the Supreme Court, a lawyer and a farmer. The Act applies to farm securities executed prior to April 1931 or securities executed in substitution thereof. Under the Act any farmer mortgagor or mortgagee may apply to have the liabilities of the farmer adjusted. An attempt is first made to arrive at a voluntary adjustment, which is defined as one in which two-thirds in value of the creditors concur. If this is approved by the Adjustment commission it becomes effective. Failing such an agreement, the adjustment commission decides whether or not a stay order is to be granted. This operates for a period of five years, and stays action by creditors during its operation. The farmer is placed under a budget, the first claim on receipts being living and working expenses, the remainder being distributed among the creditors, normally in order of priority. A trustee is appointed who receives receipts and makes payments. The period of five years may be reduced or terminated under various conditions. Provision is made for voluntary agreement at any time. At the expiration of the stay order, the basic value of the property is determined under conditions defined by the Act, and liabilities are reduced to this figure. Any other property of the mortgagor may be used to meet excess liabilities. The mortgagor is removed from the protection of the Act and of the Rural Mortgagors Final Adjustment Act when the liabilities are adjusted, or if a voluntary adjustment is made or a stay order is not granted, as well as under certain other conditions laid down in the Act.

The Mortgage Corporation of New Zealand.[16] The primary purpose of the Mortgage Corporation of New Zealand Act (April 1935) was to transfer the mortgage activities of the State Lending Departments, including the State Advances Department and the Lands Department to a quasi public institution jointly controlled by directors appointed by shareholders and the government. At the same time, it was a factor in reducing costs since the rate on

[16] This is described more fully in "Mortgage Adjustment and the Reorganization of Farm Finance in New Zealand," *Journal of Farm Economics*. August 1931.

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securities transferred might be reduced to the rate of 4⅛ per cent charged on the mortgage advances first made by the corporation. The average saving was probably not less than 1 per cent per annum.[17] In addition the corporation is expected to lower and stabilize competitive mortgage rates.

Subsidies and Tax Relief.[18] Comparatively little use has been made of subsidies by way of assistance to farmers. Subsidies to augment returns from the major farm products were not favored because their cost would be too high in proportion to the national income. In the main, assistance has been given towards cost reduction by subsidies on fertilizers, and railway freight concessions on lime, fertilizers and specified agricultural products. In addition, farm labour has been subsidized for developmental work by the Unemployment Board, while in certain cases farmers themselves have been helped where otherwise farms might be abandoned.

The sliding scale tariff on wheat represents a special type of assistance designed to stabilize returns in arable farming.[19]

Further assistance was given to agriculture, more especially to large land-owners, by the abolition of the graduated land tax in April 1931 and its replacement by a flat tax. The minimum valuation taxable was, however, reduced and farmers became liable for income tax.[20]

Budget Policy

The heavy deterioration in the national finances from 1930 onwards called for stern measures if the budget was to be balanced.[21] The policy of the government was to accept moderate

[17] No information is available as to the value of all the securities to be transferred, but securities of the State Advance Department alone totalled £36½ million. (See *N. Z. Official Year Book*, 1936, p. 469.)

[18] See *Agricultural Organization in New Zealand*, pp. 795-6, also Chapter XII.

[19] *Ibid.*, p. 726 *et seq.*

[20] *Ibid.*, p. 795. In 1934-5 receipts from land tax totalled £492,526 as against £1,140,324 in 1928-9.

[21] For convenience the budget deficits for 1930-31, 1931-2 and 1932-3 may be tabulated as follows:

Year	*Estimated Deficit Provided for*	*Final Deficit*	*Total Deterioration*
1930–1.....	£3,095,000	£1,639,000	£ 4,734,000
1931–2 July £6,850,000			
" " Oct. £1,745,000			
Total.....	£8,595,000	£2,100,000	£10,695,000
1932–3.....	£8,300,000	£ 700,000[a]	£ 900,000

[a] This was the *anticipated* final deficit which was covered when the year was closed.

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deficits financed out of reserves, and achieve budget equilibrium in two or three years. This objective was realized. The methods adopted covered "savings," increases in tax rates, the levying of new taxes and conversion of debt.

Savings included reductions in salaries and departmental grants, the suspension of war debt payments, the abolition of subsidies to local authorities, societies and institutions, and to the unemployment fund, and transfers from the main highways fund.[22]

The income tax was increased, the exemption lowered and a special emergency tax imposed on unearned incomes equal to one-third of the tax payable. Interest on government and local body securities was not at first reduced, but a special tax of 10 per cent was imposed. Customs, primage and excise duties were raised, but in 1934, duties on a wide range of goods of British origin were lowered in conformity with the agreement entered into at Ottawa. Certain other taxes were also increased. The most important new taxes were a sales tax and an export tax on gold, the price of which had increased owing to the depreciation of the New Zealand exchange in terms of gold.

In March 1933 provision was made for what will go down to history as the voluntary-compulsory conversion of the internal debt. Bond holders were invited to convert to a rate approximately 20 per cent lower than existing rates. The 10 per cent tax was repealed and a tax of 33 1/3 per cent laconically imposed on those who failed to convert. The response was almost unanimous. The gross saving was about £1,000,000 annually, and the net gain, allowing for securities held by government departments, was approximately £570,000.

In respect of overseas debt, New Zealand was less fortunate than Australia, in that a small proportion was redeemable, but about £19 million was converted to lower rates in three operations between 1933 and 1935, over £2 million being redeemed. The total saving was about £300,000 annually.

The objective of the government was reached when the financial year 1934-5 closed with a substantial surplus, despite some easing up in economies and an increase in civil servants salaries of 5 per cent. The surplus of £1,600,000 was due mainly to the receipt of death duties in excess of the estimate and profits from the sale of gold taken from the banks at par value. Apart from

[22] By the end of 1933 these savings totalled not far short of £10,000,000.

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these items the budget approximately balanced. Estimates for 1935-6 provided for a further increase of 7½ per cent in civil servants salaries and some increases in social expenditures, a small surplus being anticipated. At the time of writing the buoyancy of revenue is such as to lead to the anticipation that budget estimates will be exceeded.

Public works expenditure was substantially reduced during the depression. For the ten years 1922-1931 average annual payments from the Public Works fund exceeded £5,000,000, these being financed mainly by borrowing. By 1932 payments had fallen to £2,300,000 and remained below £3,000,000 in following years. The budget of 1935-6 provided for an increase to £3,750,000, this amount to be provided out of government accounts so that no public issue was necessary. The government was largely influenced in its Public Works Policy, by the desire to avoid any action calculated to hamper its cost reduction programme. It was believed that to go on the New Zealand market for funds to finance public works would impede the reduction in interest rates and make the future balancing of the budget more difficult by increasing interest costs in the future.

Unemployment Policy

The considerable increase in unemployment raised a problem of especial difficulty. The general scheme of unemployment relief was based on the report of a committee which was set up in 1928, and was set in operation by the Unemployment Act of 1930. Under the Act an unemployment board was established and voluntary local committees were set up. Later these were abolished, officers of the Department of Labour being used as agents of local administration. Finance is provided entirely out of taxation, by means of a flat rate levy of £1 per annum[23] on all adult males over twenty years of age, with certain exemptions, and on women with incomes of £250 and over; and by means of a tax on wages and other income which began at 3d. in the £1, was raised to 12d. and lowered in 1934-5 to 10d. The tax now stands at 8d. in the £1.[24] Receipts from the levy and taxes combined have exceeded £4,000,000 per annum since 1932-3, or about one-sixth of

[23] Originally £1.10.0 per annum.
[24] For a list of exemptions see *N. Z. Official Year Book*, 1936, p. 453.

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the normal national budget.[25] The general policy has been "no relief without work" but this became increasingly difficult with the passing of time, more especially as public work funds available for capital expenditure were sharply curtailed.

The major scheme from the point of view of numbers covered was in cooperation with local authorities, which provided materials and supervision, the unemployment board providing labour. Since ordinary maintenance and capital expenditure which would be undertaken in any case were excluded, the types of work available were nearing exhaustion by the end of 1933. Hence it became necessary to place increasing emphasis on direct relief, and on other schemes.

An essential part of the Board's programme has been to encourage by means of subsidy, useful work which would not otherwise be done under private enterprise or to expedite such work, the general intention being to encourage full employment at standard rates of pay. A wide variety of schemes was put into operation, including the rehabilitation of deteriorated lands, capital improvements on farms, land settlement on small farms, prospecting for gold and other minerals, and subsidies to building. This last has been especially useful in assisting the depressed building industry.[26]

Towards the close of 1935 unemployment funds were used in support of public works funds to develop public works which were considered useful, but which would not repay the full amount of the capital cost. This led to the rapid absorption of some 8,000 to 9,000 men at standard rates of pay.[27]

Trade Policy

New Zealand trade policy since 1932 has been largely conditioned by the Ottawa and subsequent agreements with the United Kingdom. These agreements and the United Kingdom Agricultural Marketing Act of 1931 and 1933 marked a definite change in British agricultural policy removing the assumption of a limitless and expanding market for New Zealand exports. So far, the

[25] Unemployment funds are in a separate account and do not come into the consolidated fund.

[26] For a statement of the various schemes see *N. Z. Official Year Book*, 1936, p. 651.

[27] For a further account of the unemployment problem to the middle of 1933, see J. P. Belshaw, "Post-War Unemployment and Unemployment Policy in New Zealand," *Economic Record*. June 1933.

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main results have been in the quantitative regulation of meat exports from New Zealand, without any actual reduction, but if tariffs and quotas are imposed, New Zealand may well be forced into the encouragement of domestic manufacture or other non-farming industries in order to utilize her resources of labour and capital.[28] One consequence has been to stimulate efforts to seek new markets, but so far these have not been fruitful of any substantial results. Reciprocal trade agreements bringing any substantial benefit to New Zealand would probably involve a reconsideration of the principle of imperial preference.

Commencing with the establishment of the Meat Export Control Board in 1921-2, boards have been set up to direct and regulate the marketing of all the major export commodities.[29] The report of the Dairying Industry Commission in 1934 strongly urged the need for cooperation between the various produce boards and the coordination of their activities. Accordingly, under the Agricultural (Emergency Powers) Act of 1934, an Executive Commission of Agriculture was set up. The Commission consisted of the Minister of Agriculture, as Chairman, and three other members. Included among its functions are the coordination of the work of the several Boards, the development of new markets, and improvements in the organization of production and internal marketing.[30] Provided that a proper basis of cooperation can be established between the commission and the Government, the Control Boards, and other organizations of producers, it may well become an important force making for agricultural and marketing reorganization.

Administrative Trends

The Government steadily developed a new technique of procedure, and new instruments of policy. In most cases, action was preceded by the setting up of special committees or commissions.[31] These commissions were not stalling devices, but were based on the belief that expert enquiries should precede action, and that

[28] See *Agricultural Organization in New Zealand*, p. 798 *et seq.* for a further discussion of the problems raised.
[29] *Ibid.*, p. 771 *et seq.*
[30] *Ibid.*, pp. 784-5.
[31] Note for example the Committee on Unemployment (1928); the National Expenditure Commission (1932); the Economic Committee (1932); The Tariff Commission (1933); the Commission of the Dairying Industry (1934); and the Commission on Company Promotion (1934).

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busy politicians could hardly be expected to have the time or knowledge to conduct such enquiries. Further, departmental officers were becoming increasingly involved in the new problems thrust upon them. In all cases, substantial effect was given to the major recommendations of the investigating bodies.

At a late stage in the depression, action on many important matters was preceded by the setting up of inter-departmental committees of responsible officials. Thus the passing of the Mortgage Corporation of New Zealand Act, and the Rural Mortgagors Final Adjustment Act followed months of intensive discussion under the direction of the Minister of Finance. The growing emphasis on the need for intensive, authoritative enquiry was one of the most significant political phenomena during the depression.

The growing belief in the need for a greater social direction of economic forces led to the establishment of several new and important administrative instruments. The Reserve Bank was established as a non-profit making institution to control currency and credit in the general interest. The Executive Commission for Agriculture was regarded as being concerned essentially with the reorganization of agricultural production and marketing. The Transport Coordination Board was forced into being by the growing chaos in unregulated competitive transport and the Unemployment Board by the urgent social need for unemployment relief and prevention. The Mortgage Corporation was regarded as an institution which would improve and stabilize Mortgage Finance by its competitive influence and the Mortgage Adjustment Commission and the Court of Review were designed to force the solution of a problem which was not amenable, in any socially acceptable form, to the operation of laissez faire. The Commission on Company Promotion held strongly to the view that the further control of investment practices was imperative, and recommended the establishment of a Bureau of Securities which should exercise more effective regulation.

Thus, there was a definite if not fully coordinated movement towards economic planning.

Certain important trends were noticeable. The most apparent and significant was the delegation of administrative authority from Ministers to *ad hoc* bodies which reported to Parliament. The dominant motives here were the creation of a buffer between the government and pressure groups, and the relief of over-loaded

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Ministers and departmental heads from detailed administrative problems which were becoming increasingly complex. The former motive is exemplified by the Railways Board, whose approval was necessary before new lines could be constructed, and the Mortgage Corporation, which was designed to operate on commercial principles, thereby relieving political pressure from debtor electors or intending borrowers. The latter is exemplified by the Transport Coordination Board and the Unemployment Board.

A further important trend has been in the composition of the various Boards. In the Mortgage Corporation and the Reserve Bank, the directorates included Government Nominees, Treasury Officials and representatives of shareholders, the former being in the majority. The trend was set in the direction of a combination of private and public enterprise. In other cases, boards were comprised jointly of private citizens operating in a part-time capacity and of government officials. The Unemployment Board and the Executive Commission of Agriculture have full-time members drawn in the main from outside the public service, with the Minister as Chairman.[32]

5. Progress Towards Recovery

The government programme was based on the view that the combined effects of exchange depreciation and cost reduction operations would be to reduce substantially the disparity in prices which had developed, and so provide a foundation for recovery.

The following table compares prices in 1932, the year prior to the depreciation of the exchange and in 1934 and 1935:

After all allowance is made for imperfections in index numbers, it is clear that the disparity between export and internal prices has been substantially reduced. This applies especially to a comparison of wholesale export prices with retail prices and the index number of farm expenditure, which are the prices most directly concerning the farmer. There can be little doubt that the government's programme helped materially in the process of adjustment. Internal prices would have fallen somewhat in the absence of

[32] During the election in November, the Labour Party and the newly established Democratic Party strongly criticized the creation of boards, and were unsympathetic to the policy of administrative devolution. The new Labour Government has already abolished several Boards and bought out the shareholders in the Reserve Bank and the Mortgage Corporation. Emphasis appears to be placed on direct Ministerial and Departmental control and administration, thereby reversing the policy of the previous government.

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TABLE 9. PRICES IN NEW ZEALAND IN 1932, 1933, AND 1934

(Base 1914 = 1,000)

	1932	1934	Per Cent Change over 1932	1935	Per Cent Change over 1932
Wholesale Export (Pastoral and dairying)	870	1,089	25	1,072	23
Wholesale (Locally produced)[a]	1,298	1,319	2	1,437	11
Wholesale Imported	1,296	1,345	4	1,322	2
Wholesale (all commodities)[a]	1,297	1,330	3	1,385	7
Retail (all commodities)	838	808	− 4	837	0
Farm Expenditure	1,250	1,150[b]	− 10	1,150[b]	− 10
Nominal Award Wages	1,418	1,375	− 3	1,411	− 1

[a] Prices of products exported would be included in these and would account for some or all of the rise.
[b] Approximate.

government action, but at the expense of a much greater strain on the economic system. Even so, it is extremely unlikely that there would have been so substantial a narrowing of the gap.

It was argued against the depreciation of exchange on London that this would lead to a reduction in imports and a large accumulation of funds held in London. The government policy was based on the assumption that such effects would be temporary and that after a period of disturbance, there would be little, if any, difference between the position with exchange at parity and at the depreciated rate of £ N.Z. 125 = £ Sterling 100. The following table gives the value of exports and imports expressed in sterling 1931-2 to 1934-5.

In 1932-3 and 1933-4 there was a slight fall in imports below the level of 1932, the year 1934-5 showing a substantial recovery. Present indications are for further substantial increases in imports.

In 1931-2 and 1932-3, the balance of trade was little more than sufficient to meet interest obligations in London. The balance in 1933-4 was very much greater, owing to a marked increase in the value of exports. In 1934-5 the favorable balance was less than sufficient to meet overseas interest, and there are grounds for be-

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TABLE 10. EXPORTS AND IMPORTS FOR YEARS ENDED JUNE 30, 1932 TO 1935

(Values in £ millions sterling)

	Exports	Imports	Difference
1932.....	31.5	22.4	+ 9.1
1933.....	31.5	21.6	+ 9.9
1934.....	39.3	21.4	+ 17.9
1935.....	34.5	27.5	+ 7.0

lieving that the position is now more or less adjusted to the new level of exchange.

Accumulation of exchange funds in London was much greater than the trade position would warrant. On September 24, 1934, the Reserve Bank's holding of exchange funds totalled £24.5 million in New Zealand currency or nearly £20 million in sterling. This represented approximately the accumulation of funds taken by the government under the Bank Indemnity (Exchange) Act. Total exchange funds held by all the banks were £ N.Z. 40.3 million at that date and £ N.Z. 40 million a year later. Meanwhile, however, the Reserve Bank had sold gold valued at approximately £ N.Z. 3 million, so that there was some reduction from other causes during the year. Present indications are for further reductions.

The accumulation of funds must be ascribed mainly to persistent controversy over exchange policy and to frequent rumors that the premium was to be lowered. As the result, importers delayed orders, payments were held on deposit in New Zealand instead of being transmitted, and funds were transferred from London in the hope of a speculative profit on re-transfer when the premium should be lowered. When, in 1934, the Government and the Reserve Bank announced that the rate would be held for some time, these tendencies were checked and exchange accumulations ceased.

The improvement in economic conditions during the past two or three years is shown by the following indices of business prosperity, the lowest and the most recent figures being compared.

It would be too much to attribute the considerable recovery

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TABLE II. RECENT BUSINESS INDICES

(Lowest figure and most recent figures available. Values expressed in million £ N. Z.)

	Lowest	Latest Available
Value of Total Production (1931–2)	£ 83.6	£ 98.8 1933–4
Value of Farm Production "	£ 49.2	£ 63.3 "
Value of Exports "	£ 34.7	£ 43.9 1934–5
Value of Imports "	£ 24.7	£ 34.3 "
Bank Debits (1932)	£541.7	£683.5 1935[a]
Wages and Salaries Paid (1933)	£ 58.9	£ 65.1 "[b]
Gross Farm Income (1931–2)	£ 39.3	£ 50.8 1933–4
Unemployed on Register Feb. 18, 1933	50,356	32,384 Feb. 1936
Index N. Z. Share Prices Feb. 1932	682	1,023 " "

[a] Year ended September.
[b] Estimated.

evidenced in the above table, and by the fact that the Budget has been balanced for two consecutive years, entirely to the recovery programme. Nevertheless there is small room for doubt that this programme removed serious impediments to recovery, and was a substantial factor making towards improvement. Causal relationships cannot be proven by an examination of statistical series; but the above conclusion is re-enforced by the fact that the trend of events followed closely the arguments advanced in support of the policy at the time it was formulated.

III. COMPARISON WITH THE ROOSEVELT NEW DEAL

A comparison of the recovery programmes in the United States and New Zealand requires brief reference to the main characteristics of the two economies. In 1930, the population of New Zealand was about 1,500,000 and the area 103,415 square miles, about the same area as the State of Colorado. In the same year, the population of continental United States was 123,000,000 and the area over 3,000,000 square miles. Such magnitudes as these latter enormously complicate the problem of administration, the difficulties of which appear to increase in geometrical proportion with area and size of population.

In addition, economic organization in the United States is much more complicated and varied. New Zealand has been shown to

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possess a simple economy based largely on a small range of exportable farm products. Products of the soil provide over half the national income and almost the whole of the export trade. The value of agricultural exports is about three-fifths of the value of farm production and one-third of the national income. Manufacturing industries are generally of small size, exhibiting little tendency towards monopoly in production.[33]

In the United States, the estimated national income produced was $81,034,000,000 in 1929.[34] The estimated gross value of farm production was $11,941,000,000[35] or about 14 per cent of the national income as against 54 per cent in New Zealand. The added value of manufactured products was $31,885,000,000[36] or about 40 per cent of the national income produced, as against about 16 per cent in New Zealand. These figures are not susceptible to rigid comparison and are subject to wide margins of error, but the differences are so marked as to be significant despite statistical aberrations.

The export trade is relatively much less important in the United States than in New Zealand, the value of exportable products exported being 9.8 per cent of the total in the United States in 1929, as against 44 per cent in New Zealand. For the period 1926-30 agriculture provided about 36 per cent of the total exports, as against about 94 per cent in New Zealand. Somewhat over 10 per cent of the gross value of farm products was exported as against over 60 per cent in New Zealand. In 1929 total exports were about $42 per capita, as against about $185 in New Zealand.

Although differences in economic interests exist in New Zealand between different classes of the community—between town and country, debtor and creditor, employer and worker—these seldom develop in acute form. The economic outlook is overwhelmingly petty bourgeois, and class-conscious cleavages are not marked. In particular, there is nothing of the regional consolidation of conflicting interests such as emerges between the industrial, commercial and financial East and the farming Middle West.

[33] There are, of course, administratively fixed prices in many lines, as for example patent medicines, tobacco and the like, and attempts at the regulation of competitive practices by Trade Associations, but these have not impressed the imagination in the same way as the trusts, monopolistic discrimination and price wars in the United States.

[34] *Statistical Abstract of the United States*, 1934, p. 263.

[35] *Ibid.*, p. 570.

[36] *Ibid.*, p. 697.

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A fairly clear cut programme could be put into operation, certainly not without the lobbying and protests of pressure groups, nor free from political danger to the government,[37] but uncomplicated by serious regional conflicts, or conflicts between State and Federal rights, and free from the impediment of a system of checks and balances and the over-riding inhibitions of the constitution.

These differences furnish some guide to the differences in policy. Others will emerge in the following brief comparison of the New Zealand programme with the Roosevelt New Deal.

The Roosevelt programme may be conveniently considered in certain main aspects, which are not mutually exclusive but are interwoven. For example, the intention to increase purchasing power permeates the whole programme as a dominant motive. These aspects are: (1) The Settlement of the banking crisis and Banking and Financial Reform; (2) Expansion of Purchasing Power; (3) Rehabilitation of Agriculture; (4) Rehabilitation of Industry; (5) Budget Policy; (6) Relief and the Extension of Social Security.

1. The Banking Crisis: Banking and Financial Reform

The Roosevelt Administration was heralded by the banking crisis which threatened the financial structure of the country through the run on deposits which occurred. The President's first act was the declaration of a bank holiday which checked the run and gave a few days' breathing space; and the placing of an embargo on the export of gold. On March 9th, less than a week after inauguration, the Emergency Banking Act was passed to be followed by the Banking Act of June 16. These acts, together with other recovery measures, were designed to liquidate the effects of the crisis in banking, provide against the recurrence of a similar collapse in the future, remedy certain weaknesses and abuses which had become apparent, strengthen control by the Federal Reserve Banks, and provide the basis for an expansion of credit and purchasing power.

The emergency Banking Act of March 9th invoked the power of the President, to license and prohibit transactions in foreign exchange, or the export, hoarding or melting of gold and silver,

[37] The Government was overwhelmingly defeated at the elections in November and the Labour Party was returned to power with a large majority.

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empowered the exchange of gold and gold certificates for other forms of coin and currency and the imposition of regulations under which the member banks might be required to transact business. Conservators were appointed who were virtually receivers of embarrassed banking institutions. With a view to strengthening the capital of national banks, they were empowered with the approval of the Comptroller of the Currency, and a majority of the shareholders, to issue preferred stocks to which the Reconstruction Finance Corporation might contribute. The provisions under Title IV extended the basis of the note issues of the Federal Reserve Banks, by making additional types of security eligible as cover, thereby making possible an expansion of currency. The powers of the Reserve Banks to make advances to member banks were extended, and advances to individuals, partnerships and corporations permitted.

The Banking Act of June 16th set out to strengthen member banks by the establishment of a Deposit Insurance Corporation to purchase, hold and regulate the assets of closed banks and insure bank deposits on a contributory basis. Attempts to remedy weaknesses or safeguard against abuses took the form of an increase in minimum capital requirements, and various limitations on the types of business which might be conducted. These included the prohibition of loans to a bank's own executives, or to affiliates, and the investment in stocks, bonds or other securities of affiliates; prohibition of affiliation with an issuing house, and the divorcement of investment from deposit banking.

The powers of the Federal Reserve banks were strengthened by various provisions. Reserve banks were empowered to take account of the purposes for which accommodation was required by member banks, with a view to increasing control over speculative transactions. Eligibility for membership of the Federal Reserve System was extended, and each Reserve bank was required to inform itself of the purposes for which the loans and investments of member banks were made.

A Federal Open Market Committee was established to enable more effective control to be exercised over open market operations, while under Title III of the Emergency Farm Relief and Inflation Act, power was given to the President to enable the Federal Reserve Board to conduct such operations in obligations of the United States or corporations in which the United States is a majority

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shareholder. Under the same Title, reserve banks might purchase and hold treasury bills and other United States obligations to the extent of $3,000 million. The graduated tax on reserve deficiencies arising from such operations might be waived. By these means and by the authority to vary the reserve ratio against time and demand deposits, the power of the Federal Reserve Board to exercise control over currency and credit was substantially extended.

There was little comparable legislation in New Zealand, except in the establishment of the Reserve Bank in 1934, which for the first time created a non-profit making institution to control currency and credit.

The reasons are not far to seek. In the United States, there are thousands of banks, many of them of small size, and many providing fixed capital for agriculture or involved in investment operations in industry. With the fall in prices, the deterioration in trade and the collapse in confidence, there was a widespread withdrawal of deposits. Many banks found themselves with frozen assets and with capital and reserves inadequate to meet the situation.

The New Zealand banking system consisted of six banks with widespread branches. Hence they were not so seriously embarrassed by the deterioration of business conditions in any particular area, losses being spread over the whole system. They were conservatively managed, and had built up adequate reserves. Although they were closely involved in the fortunes of agriculture, long-term advances to farmers were not normally favoured, and probably formed a much smaller proportion of the total business than among the smaller country banks in the United States. In the same way, investment banking as it is known in the United States had not developed. Since there is no highly organized speculative market in securities in New Zealand, and since securities did not reach the peak of boom prices which preceded the Wall Street crash, nor collapse so dramatically, there was much less danger to the banks from the depreciation in the value of securities. Some difficulty was experienced, however, through the fall in the prices of export commodities against which advances had been made. The reserves against note issue were adequate to permit of a manifold increase should this be necessary. Exchange funds on London were also stated by the banks to be adequate to meet all requirements, though special Government demands towards the end of

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1931 brought about the temporary control of exchange under a licensing system. In the absence of a Reserve bank until August 1934 and of a short-term money market susceptible to open market operations, there was no parallel to the measures designed to increase the control of the Federal Reserve Banks.

A closer parallel is to be found in the regulation of the security market. The Securities Act of 1933 was designed to establish more effective control over the issuance of securities. The New Zealand Companies Act of 1933, modelled on the English Act, fulfilled a similar purpose, while legislation following the report of the Commission on Company Promotion in 1934 and 1935 had the same object. The most important recommendations in this direction have not yet been given effect to.

In both countries restrictive or regulatory legislation arose from similar causes—the revelation through the impact of depression, of serious defects and malpractices in the promotion of investment or arising from the financial set-up of business corporations.

2. Expansion of Purchasing Power

Perhaps the most characteristic feature of the American programme was the attempt to increase demand by increasing the means of payment in the hands of consumers and investors. The expansionist technique consisted, not of a single expedient, but of a variety of devices.

Reference has already been made to several provisions which might be expected to operate in the desired direction. The strengthening of the banking structure might of itself make expansion possible by improving the resources of the banks and increasing confidence in their stability. Prohibition of the hoarding of gold increased the gold basis for credit expansion, while extended foundations for the note issue removed the possibility that expanding credit might be limited by a shortage of currency. Extension of the open market powers of the Reserve Banks, and the centralized control of open market operations, as well as powers given to vary reserve requirements not only increased the potentiality of the Reserve Board in checking excessive credit expansion, but also increased its capacity to support an expansive movement.

The permission which might be granted to Federal Reserve banks to hold treasury bills and other United States obligations up to an additional $3,000 million provided an enormous inflation-

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ary reservoir out of which to finance the deficit-finance policy which was probably the most effective expansionist weapon of the Government. If the Reserve banks proved unamenable to the policy of the Government, the issue might be forced by printing up to $3,000 million greenbacks, introducing a bimetallic standard, or reducing the gold content of the dollar by up to 50 per cent.

Currency and banking policy was supported by other measures to the same end. Through the Reconstruction Finance Corporation, the Government made substantial advances to banks, trust companies, railroads and other types of enterprise and to public bodies and private organizations for public works and to agriculture through the Commodity Credit Corporation for the holding of stocks and the facilitating of orderly marketing. The sum of $4,000 million, spent in refinancing farm and home mortgages, was intended to cheapen finance and encourage the movement of funds by liquefying frozen securities. The financing of a large public works and relief programme out of borrowed money was calculated to increase consumer purchasing power. The agricultural programme, designed to increase agricultural prices by restrictive measures financed out of processing taxes, could hardly be regarded as a means of directly increasing the sum total of purchasing power, but it was considered as essential to recovery because it was expected to remedy a maldistribution of income which was regarded as a basic element in depression. The price controlling aspects of the N.R.A. codes and attempts to raise wages under the codes were also largely motivated by an expansionist philosophy—though here the philosophy lapsed into some confusion and ambiguity—while the shortening of hours was designed to adjust income distribution by spreading work.

Finally, the devaluation of the dollar directly affected the price system by increasing the prices in United States currency of exportable commodities and indirectly and potentially made for a considerable expansion of credit by immediately increasing the dollar value of gold reserves. The act of devaluation automatically increased the value of gold stocks from $4,000 million to $7,000 million. The gold basis was further increased by substantial gold movements from abroad.

Except in the depreciation of exchange, of which the arguments used in support have already been stated at some length, New Zealand policy was in marked contrast. There was no reserve

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bank which might be used as an inflationary—or re-flationary weapon—and an expansionist programme could only have been put into effect through Government spending and deficit finance. In fact, the policy of the Government was directed to a not-too-long-delayed balancing of the budget through economies and increased taxation. Relief was financed entirely out of taxation, and public works expenditure was sharply curtailed. Except for minor subsidies to agriculture, the Government did not give direct financial help to agriculture, industry or finance, and relief to mortgagors consisted, not in making provision for re-finance, but in a statutory reduction of interest, a moratorium and finally, provision for the reduction of excessive liabilities on farming property.

In both countries the policy was largely influenced by the point of view of the political leaders and their advisers. With different political parties there might have been less emphasis on the internal expansion of purchasing power in the United States, and more in New Zealand. Nevertheless the different economic set-up in the two countries established presumptions exerting a strong influence on those in power. Because Hoover has flagellated the new deals, and the Labour Government of New Zealand is committed to a policy of expanding internal purchasing power it does not necessarily mean that they would have acted very differently from those in power had they held the reins of office. It is the privilege of oppositions to oppose, and having opposed they must at least offer something different.

If there is any economic justification for attempting to raise prices and money incomes by internal credit expansion as a method of adjustment, this is all the stronger in a country whose export trade is a small proportion of total production and whose domestic demand for home products is of such predominant importance as in the United States. This especially applies if potent inflationary instruments are to hand. The case is enormously weaker in a country such as New Zealand with its close dependence on export trade as a source of income. Under the simple conditions of the New Zealand economy, the importance of cost-price relationships in the basic industries is brought into clearer light—the disparity concept of the A.A.A. notwithstanding—and the plight of farming industries through the disturbance of such a relationship is brought into greater emphasis. The absence of expansionary measures other than the depreciation of exchange is explained

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largely because it was realized that such measures would run counter to the attempts to reduce costs in the basic export industries.

3. Rehabilitation of Agriculture

In both the United States and New Zealand, the disparity between agricultural and other prices and incomes was regarded as one of the most serious causes and effects of the depression. In both countries, the concept of a parity between agricultural prices and costs was an important factor influencing policy. There are, however, certain differences in interpretation.

In the United States, the objective was to restore the purchasing power of individual agricultural commodities to the level which existed at some previous period—usually the years immediately before the war. The objective was not clearly defined, and was capable of several interpretations. In New Zealand, there was a clearer and more direct emphasis on cost-price relationships. Emphasis was placed, not on the cost-price relationships of individual commodities, but on a general index covering all farm prices, and indexes which were regarded as roughly measuring changes of farm costs in general. The years 1928-29 were taken as the norm, since it was assumed that farming industries were enjoying conditions of reasonable prosperity in those years, but the restoration of any *particular* relationship between price indexes was never explicitly advocated. Rather, the fact of a disparity was accepted, and measures were taken to reduce it and to relieve farmers for whom the gap was still too great by a reduction in mortgage principal. For the rest, the final margin of adjustment necessary would be made by the individual efforts of farmers through improved methods and increases in production and, it was hoped, by some rise in world prices.

Chief emphasis was placed by the Agricultural Adjustment Administration in the United States on the raising of agricultural prices through restrictions in the production of a wide range of products defined as basic commodities in return for rental or benefit payments financed by processing taxes. The imposition of processing taxes necessitated countervailing duties on competitive commodities and imports. In the case of cotton, tobacco, and sugar, market quotas were resorted to as a more effective means of restriction. Crop loans were also given to producers of certain

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commodities, partly as a measure of emergency relief, partly to enable them to enjoy the benefit of the higher prices which were expected to follow from production control, through the avoidance of excessive forced and premature deliveries on the market.

In respect of milk, milk products, and certain minor commodities not subjected to restriction, marketing agreements under a system of licensing were resorted to, on the theory that prices and quality could be improved by the adoption of collective methods of orderly marketing regulating the flow on to the market. Surplus purchases of certain products, notably hogs, were made, partly by way of relief to the unemployed and indigent, partly to sustain prices more especially while restriction programmes were being worked out.

The reorganization of farm finance was regarded as an integral part of the agricultural programme. This was intended, partly to place the financing of agriculture on a more satisfactory permanent basis, partly to "unfreeze" mortgages and reduce mortgage costs, and partly to facilitate orderly marketing, and thereby help to sustain prices.

The Agricultural Marketing Act of 1929 had already established the Federal Farm Board as a unifying controlling body, and declared the policy of Congress to be to promote orderly marketing and to control surpluses. To further this purpose, stabilization corporations were established for wheat and cotton. Embarrassed by the heavy fall in world prices which followed their establishment, their efforts were far from successful, and the difficulties and dangers involved in buying up surpluses on a falling market without production control were brought into sharp relief.[38]

The Farm Credit Act of June 1933 rounded off the credit system by establishing Production Credit Corporations (whose main function was to organize and assist Production Credit Associations), Banks for Cooperatives and a Central Bank for Cooperatives. The Production Credit Associations were to obtain their finance from the Intermediate Credit Banks. The general intention was to improve facilities for production credit and increase the marketing strength of cooperatives.

Under Title II of the Emergency Farm Relief and Inflation Act of May 1933, provision was made for the refinancing of farm

[38] See "Stabilization Operations of the Federal Farm Board" by E. S. Haskell in *Commodity Control in the Pacific Area*, Stanford University Press. 1935.

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mortgages at lower rates through Federal Land Banks and for financial assistance to joint stock land banks conditional on the deferring of foreclosure proceedings on mortgaged farms. Funds were also made available for the orderly liquidation of distressed joint stock land banks, and for the refinancing of indebtedness on improvement projects such as drainage.

The nearest approach to the mortgage relief and adjustment legislation of New Zealand was the Frazier Lemke Act which was directed to the writing down of excessive capital liabilities. This Act appears to have relied more on voluntary arrangements plus financial inducement from public funds than the New Zealand legislation. This latter encouraged voluntary agreements, but failing such agreements, relied on compulsion through a specially constituted Court. The Frazier-Lemke Act was rendered inoperative by an invalidating decision of the Supreme Court.

A similar invalidation of essential aspects of the Agricultural Adjustment Act in 1935 led to the passing of a measure which had substantially the same objectives as the restriction programme of the A.A.A. A change of direction was given in that restriction of acreage was coupled with soil conservation, benefit payments being given in return for taking out of cultivation certain crops and replacing them with soil conserving and soil building crops. The necessary funds were to be found out of general taxation and not out of processing taxes earmarked for the purpose.

Subsidiary aspects of the agricultural programme were land reclamation projects and the establishment of "subsistence homesteads" with a view to absorbing "those who are no longer 'needed' in urban industry or commercial farming, into a type of life in which rural living will be combined with occupations of an industrial, handicraft, or other character."[39] In New Zealand these were paralleled by the reclamation of deteriorated lands and the establishment of small farms with the assistance of the Unemployment Board.

Finally, the devaluation of the dollar was largely motivated by the desire to increase the prices of agricultural products and, in some quarters, the commodity price-level as a whole, thereby reducing the extent to which other measures would be required to remove price disparities.

[39] See Joseph C. Davis, "Planned Agricultural Adjustment in the United States 1933-34," in *Commodity Control in the Pacific Area.*

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In no aspects of the two recovery programmes are the influences of economic and political conditions more clearly emphasized. In the United States, the depression in agriculture was regarded as being greatly intensified by the presence of agricultural surpluses, whose existence was made physically apparent by huge carry overs in such basic crops as cotton and wheat. Similar carry overs also developed in the case of wool, a major export from New Zealand, but not in respect of other exports, which in the main are more perishable. Even in the case of wool, the surpluses were not on the spot but were held overseas. The existence of surplus stocks as distinct from surplus production no doubt influenced the American attitude. Marketing policy in New Zealand was not directed towards the removal of existing surpluses but to improve the seasonal flow of produce to the London market, to obtain the best bargain with Great Britain during the negotiations at Ottawa and after, and to insure against possible restrictions by seeking new markets. The Executive Commission for Agriculture, which should prove useful in these directions, has also devoted its attention to eliminating the competitive price war of cooperative dairy companies on the New Zealand market and over-lapping in supply to dairy factories.

Of greater significance was the relative importance of domestic and export demands in the two countries. The overwhelming importance of domestic demand in the United States lent support to measures designed to raise domestic prices. If this could be done, such prices being divorced from world prices, large benefits were expected even though America's share in world trade might eventually be prejudiced. Any increase in domestic prices in New Zealand would be of much smaller relative importance, since it would affect only about 40 per cent of production, and restrictions on exports would react mainly to the benefit of competing countries. For similar reasons, exchange depreciation was regarded as being a much more vital part of the programme in New Zealand than in the United States. Prices of three-fifths of farm output would be directly affected and the rest would rise in sympathy.

Except by measures calculated to operate at the point of export, there was no really effective way of increasing the prices of New Zealand farm products. Hence the greater emphasis on cost reductions than in the United States. Since the balancing of the budget within a short period was an essential element in the Gov-

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ernment's policy, the use of Government funds to cheapen and liquefy mortgage finance was inexpedient, except to the extent of the relief given by the establishment of the Mortgage Corporation when the budget was already balanced and could stand the cost. The alternatives were direct cost reduction operations and mortgage relief. These could go further than in the United States, because there were no constitutional difficulties in the way.

The reorganization of mortgage finance through the establishment of the Mortgage Corporation, and the provision that the board of the Corporation should eventually control the Intermediate Credit System, are comparable with the reorganization of farm finance in the United States; but there was not the same urgent need to provide finance for orderly marketing, since the commercial banks are in large measure organized for the purpose of providing credit for marketing overseas. Many farmers in difficulties were "carried" by stock and station agents during depression, but here New Zealand might have followed the United States with advantage, and strengthened facilities for the provision of production credit.

The general trend in the United States was towards greater Federal participation in farm finance. In New Zealand, except for a small measure of assistance given by the Executive Commission for agriculture for improvements, the trend was towards the withdrawal of the Government from direct participation in farm financing through the establishment of the Mortgage Corporation.[40] One may offer as a speculative interpretation of this difference in constitutional and other difficulties in cost-reduction measures in the former country and in the latter their political practicability and the greater emphasis on budget stability.

4. Rehabilitation of Industry

The industrial policy of the President was to be found in the National Industrial Recovery Act, more especially in Title I of the Act. Title II dealt with public works and construction projects, and Title III with amendments to the Emergency Relief and Construction Act and Miscellaneous provisions.

The intentions of Congress as stated in the Act itself were: (1) To remove obstructions to commerce; (2) to promote cooperative

[40] This trend will be reversed by the new Labour Government which has abolished share-holder directors in the Mortgage Corporation, so that it reverts very much to the position of the State Advance Department.

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action among trade groups; (3) to induce and maintain united action of labour and management under adequate governmental sanctions and supervision; (4) to eliminate unfair competitive practices; (5) to promote the fullest possible utilization of the productive capacity of industry; (6) to avoid undue restriction of production (except as may be temporarily required); (7) to increase consumption by increasing purchasing power; (8) to reduce and relieve unemployment; (9) to improve labour standards; (10) generally to rehabilitate industry and conserve natural resources.

The remainder of Title I indicates the chief means whereby this ten-point programme is to be put into effect. The powers conferred on the administration are very wide and general, and are nowhere specifically defined in detail. The Act provided for the establishment of codes of fair competition, which might be submitted by any trade or industrial group and made operative if approved by the President. As a condition of approval the President might impose conditions for the protection of consumers, competitors, employees and others. Failing submission of a code in any trade or industry, the President might prescribe one. Such a code became the standard of fair competition for the industry concerned. Codes were to safeguard the right of employees to collective bargaining without interference from employers, and to comply with maximum hours of work, minimum rates of pay and other conditions of employment as prescribed by the President. The President might require the licensing of enterprises and these licenses might be revoked.

Price agreements under the codes were based on the view that price cutting was frequently unfair and endangered industrial stability. The limitation of hours was intended to spread work and thereby reduce unemployment. The fixation of minimum wages with provisions for wages above the minimum was calculated to promote consumer demand by increasing purchasing power. Codes were used as a substitute for legislation to improve labour standards. Attempts were made to encourage collective bargaining and promote cooperation between labour and management. While labour complained that it was not given an effective share in the formulation of codes and that the provisions relating to labour conditions and collective bargaining were not adequately enforced,

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there was a substantial accession of strength—in numbers at least —to the trade union movement.

There was no similar legislation in New Zealand, though there was a suggestion of the code idea in proposals advanced by influential manufacturers in 1935. These desired the establishment of a system of licensing to avoid excessive competition through the entry of new concerns which would saturate the local market, to exercise control over quality and encourage commodity and regional specialization and the coordination of effort among the individual firms. Although rebates, trade discounts and other forms of competitive price cutting have not been unknown in New Zealand, they have been less apparent than in the United States, and there has been no very active movement to prevent them by legislative action. In so far as the Government has been concerned with this problem, it has been inclined rather to discourage price agreements than to facilitate them.

For reasons already indicated, the general policy has been in the direction of wage reduction to reduce costs and not to increase wages to augment internal purchasing power. Similarly, emphasis on cost reduction has militated against the shortening of hours, though there was some discussion of the matter in 1935 and the new Government proposes to introduce a forty-hour week.

In New Zealand, the company union has never raised its head to perturb the trade union leader and there has been no impediment to collective bargaining, other than such as might be inherent in an industry. On the contrary, trade unionism was encouraged by the operation of the Industrial Conciliation and Arbitration Act. As has been pointed out, the amendment to this Act in 1932 as a means of facilitating further reductions in wages tended to weaken the power of trade unions in collective bargaining.

While the labour laws are far from satisfactory in many respects, they are far in advance of those in the United States, and there was therefore less need for action. Had any marked changes occurred they would have been in the form of new laws or amendments to existing laws, and not of industrial codes.

5. Budget Policy

In the United States, as in New Zealand, there were some attempts to reduce public expenditure by economies and to increase revenue by imposing new taxes and increasing tax rates. For ex-

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ample, the United States Economy Act of 20th March, 1933, provided for salary cuts in the civil service and the tightening of pensions. The drinking of alcoholic beverage was no longer a crime, but became a fiscal virtue, and income taxes, customs and excise and other taxes were raised.

"The crux of the problem," writes Gayer[41] with special reference to public works expenditures out of loan moneys, "lay in the question whether the beneficial direct effects upon activity and employment of increased expenditure were likely to be greater or less than the injurious indirect effects that they were in danger of producing." The answer to this question is by no means unequivocal, but it seems that both countries chose the better answer in terms of their respective economic set-ups. By expanding public works and relief out of borrowed moneys, and spending profusely in ways indicated in previous sections, the United States chose unbalanced budgets, and pushed further away the restraint of the gold standard by devaluation.

Deficits in the United States were not entirely accounted for by emergency items. For example, the budget of 1932 showed a deficit of $1,500 million exclusive of emergency items totalling $1,300 million.[42]

Public works especially became, not simply a direct means of increasing employment and providing relief but also an indirect device for stimulating further activity in capital goods and consumer industries. Opinion in the United States was not unfamiliar with the "multiplier" theories enunciated by Kahn and propagated by Keynes.[43] Public Works and other deficit inducing measures were definitely accepted as part of the reflationary technique.

For reasons already reiterated, New Zealand trod the more puritanical path towards early budget equilibrium, while reducing

[41] Gayer, *Public Works in Prosperity and Depression,* National Bureau of Economic Research, New York, p. 16.

[42] The following figures for 1932 are from Gayer, *op. cit.,* p. 273 *et seq.* Some 43 per cent of ordinary expenditure was met by borrowing.

Total expenditures, in millions, chargeable against	
Ordinary receipts	$5,000
Emergency items	1,300
Regular items	3,100
Total ordinary receipts	2,100
Deficit on Regular Items	1,500

[43] See Keynes, *The General Theory of Employment, Interest and Money,* and R. F. Kahn, "The Relations of Home Investment to Unemployment," *Economic Journal,* June 1931.

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public works expenditures and financing relief out of special taxation. It may be that each country pushed its policy somewhat too far, but this will always be the subject of difference of opinion.

Between 1930 and 1934 the gross debt of the United States Federal Government increased from $16,185,000,000 to $27,053,000,000,[44] an increase of $10,868,000,000. Between the Fiscal years 1930-31 and 1934-5 the gross public debt in New Zealand increased from £276 million to £280.5 million, but this was less by £2 million than in 1932-3.

A substantial proportion of the increase in the United States debt was by way of Treasury Bills or other forms of short-term debt. Thus between the end of 1933 and the end of 1936, short-term debts increased from $2,880 million to $7,511 million, the increase in all debt being from $14,992 million to $23,080 million.

Except to finance the purchase of surplus exchange funds after February 1933, the use of treasury bills in New Zealand was confined mainly to meeting the normal seasonal delays in revenue receipts and the financial year 1934-5 closed with no floating debt and a small reduction in permanent debt. The surplus exchange was sold to the Reserve Bank for Reserve Bank notes and these were used to pay off the Treasury Bills held by the Commercial Banks.

In the United States, the Federal Reserve system was utilized to absorb substantial amounts of the Federal issue of securities ensuing from increased deficits. Between the end of December 1929 and 1934 holding of U. S. government securities by the Federal Reserve System increased from $511,000,000 to $2,430,000,000,[45] while in 1933 and 1934 nearly half the debt was held by the Federal Reserve and member banks.[46] The debt became a potential basis for credit expansion in ways which have already been described.[47]

The consensus of opinion among American economists is that the fiscal and monetary increases of the Government did not, in fact lead to any substantial expansion of demand or investment. Apart from the direct effects of public works, relief and other

[44] Gayer, *op. cit.*, p. 18 *et seq.*
[45] *Ibid.*, p. 278 *et seq.*
[46] *Ibid.*, p. 283.
[47] See above. Note also the Glass-Steagall Bill which became law in February 1932. This authorized the substitution of bonds for gold as reserve for Federal Reserve Notes over and above the minimum requirement of 40 per cent.

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expenditures, expansion depends not only on the willingness of banks to lend, but also on the decisions to borrow and expand production made by a multitude of individual traders and industrialists. In fact a large proportion of the new securities found their way into the investment portfolios of the banks, with little positive influence on new borrowing and lending. Other countries which have resorted far less to expansionist measures have proceeded as far or further along the road to recovery.

The truth of the matter appears to be that business confidence was so disturbed by the extreme severity of the crisis and by many of the measures directed toward recovery, not excluding deficit finance itself, that expansion was inhibited. Nevertheless, it is not unlikely that the fiscal policy of the government helped to avoid further regression and that its positive effects would have been more marked had the remainder of the programme been based on a more logically consistent foundation.

It is also true that fiscal and monetary policies in the United States have provided the basis for a considerable inflationary movement in the future when confidence recovers further. In New Zealand the same result is possible through the existence of large exchange balances which are the basis of reserve bank credit. It will be unfortunate if fears of inflation check further recovery, more especially as both countries have considerably strengthened the instruments of credit control during the depression.[48]

6. Relief and Social Security

Efforts towards relief and an improvement in social security in the United States were partly embodied in special measures especially directed to these ends, partly in measures designed more specifically towards promoting recovery. Thus, combined relief and recovery motives are to be found in the public works programme, in surplus purchases of agricultural commodities, the refinancing of mortgages on farms and homes, and the reductions in hours of work under industrial codes. Similarly the reform or strengthening of economic, social or political institutions might be embodied in sections of the programme designed primarily to promote recovery. In some cases, as for example, the reorganization of farm finance, and of banking, there was a clear pre-

[48] The new Labour Government in New Zealand has embarked on an expansionist policy which adds to the danger, but the situation is unlikely to be permitted to get altogether out of hand.

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sumption that measures calculated to bring about a permanent improvement and make towards greater stability in the future, would at the same time assist recovery in the present. In other cases, the depression appears to have been made the excuse and the occasion for permanent reforms which were badly needed, but which would hardly expedite recovery. Thus it is doubtful whether the strengthening of trade unions and of control over investment could be regarded as making any substantial contribution towards recovery, but they might be amply justified on general social grounds. The same applies to the Federal Social Security Act of 1935, which was the most important measure designed to increase in the future the welfare of the economically weak. The primary purpose of this act is to induce the States to establish old age pensions and unemployment insurance schemes by means of grants-in-aid.[49]

In New Zealand there was a similar intermingling of recovery, relief, and institutional reform, but not to the same extent. Cost reductions, mortgage relief and exchange depreciation represented an authoritarian redistribution of income as well as a means to recovery, and so may be considered in part as being measures of relief. The cost-price philosophy emphasized that the spreading of the burden of depression and removing price-disparities were different aspects of the same problem. The establishment of the Mortgage Corporation and the Reserve Bank were designed primarily to strengthen and stabilize the financial structure, but they also promoted recovery by reducing production costs or Government expenditures. Since public works expenditure was reduced, direct relief was given mainly through payments to the unemployed, financed not out of borrowing but out of taxation.

Except for some extension of the range of pensions to discharged soldiers, there was nothing comparable with the old age pension and unemployment provisions of the Federal Social Security Act. This is because New Zealand had already a well-established system of old age pensions, and for the time being at least, unemployment taxation took the place of a contributory unemployment insurance scheme.

During the early stages of the depression most pensions were reduced more or less in line with reductions in civil servants'

[49] For a critical estimate of the legislation see Paul Douglas, "The United States Social Security Act," *Economic Journal*, March 1936.

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salaries, later to be restored with them. This was in conformity with general budget policy. It is a matter of some significance that during the election in November last, each of the three major parties promised schemes covering compulsory contributory superannuation, health insurance and housing.

IV. CONCLUDING REFLECTIONS

We may now summarize, make one or two further points of comparison or contrast, and offer some concluding reflections.

Both countries suffered acutely from the world depression. In both countries, capitalism was found to have developed rigidities which prevented it from conforming to its own tests of a rapid adjustment to changes of demand, supply and price. Hence it was necessary to force adjustment by devising new and experimental methods or increasing the use and extending the range of old.

The specific methods adopted were based on philosophies conditioned mainly by the economic and political framework of the two countries. The direct and clear cut pattern of policy in New Zealand was due not to superior wisdom on the part of political leaders and their advisers, but to the simple type of economic organization which the policy was designed to modify. This policy could be put into effect because, although differences in economic interest existed, they were less acute than in the United States and were not regionally consolidated. New Zealand was fortunate in possessing a political leader who was prepared to put policy through and who was strong enough to carry the government with him, even though he knew that his party might be shattered by sectional resentments, but he was at least spared the necessity for adjusting regional pressures or State and Federal rights, and had no Supreme Court to torpedo his programme.

The problem in each country required action on a national scale for its solution. One of the outstanding lessons which emerges from comparison is the grave impediment to effective action which faces a Federal Government circumscribed by a constitution. In New Zealand the policy could be pushed through even though at the risk of reversal by a following Government. In the United States, the line of attack had to avoid the defences of the constitution or run the risk of being checked by the artillery of the Supreme Court before the objective was carried. This risk was all the greater because there were interests powerful enough

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to provide the ammunition. A foreign observer cannot but be impressed with the danger, that, in a crisis of similar intensity in the future, an unamended constitution will prove, not a safeguard against unwise legislation, but an explosive which widens economic and social cracks. It is not sufficient to reply that such a danger may be avoided by amendment when the crisis comes; for amendment takes time, and the generation of the necessary public support is likely of itself to consolidate opposing factions and exacerbate feeling.

The contrast between the two policies requires only brief reiteration. The predominant importance of exports of agricultural origin caused New Zealand to rely on exchange depreciation to raise export receipts and on various measures to reduce costs, and to refrain from attempts to expand purchasing power by an expansion of internal borrowing. The successful attempts to achieve a balanced budget, the reduction in loan expenditures for public works and the financing of relief out of taxation were motivated by the desire to avoid impeding the cost reduction programme. The government avoided expansionist measures for the same reasons. Such consideration as was given to limiting expansion in agricultural production was forced by changes in British policy. It was realized that independent restrictive actions would react mainly to the benefit of trade competitors. In New Zealand as in the United States attention is being directed to an expansion of foreign trade by means of trade agreements, but so far without conspicuous results.

There was a smaller admixture of social reform in the New Zealand programme, partly because of the intense absorption of the Government in reducing price disparities as a means to recovery, partly because more had already been done than in the United States.

The greater relative and absolute size of the domestic market and the smaller dependence on exports in the United States, lent greater support to the case for an expansion of purchasing power by internal credit expansion and raising farm prices by restriction in production. Less emphasis seems to have been placed on currency devaluation than was placed on exchange depreciation in New Zealand. Restrictive programmes and the reform of agricultural financing were both influenced by surplus stocks and by the belief that there was over production quite independent of the

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depression. The greater relative importance of industrial production encouraged attempts to rehabilitate industry. The codes under the N.R.A. were partly designed to assist the expansionist policy, partly to check practices which were regarded as being abuses impeding recovery, partly to strengthen collective bargaining and establish a new partnership between the Government, trade unions and employers, and partly to improve labour standards which badly needed improving. Budget policy and large expenditure out of borrowed moneys for public works, and for relief, and the modifications in the banking law were all part of the expansionist technique.

The apparent confusion and inconsistency in the Roosevelt programme arise partly from the greater complexity of the problem and the necessity for action on many fronts and partly from failure on the part of the administration to see the problem clearly in all its aspects.

This complexity and the area to be covered and the magnitude of the forces to be controlled, added enormously to the difficulties in administration. New Zealand made very little addition to its administrative staff, for the simple patterns of the programme did not demand detailed control and supervision. In certain cases, as for example the control and coordination of transport, involving some detailed regulation and direct judgements affecting the self-interest of individuals, the administration ran into trouble, and this particular problem cannot be said to have been satisfactorily settled.

The American programme under the AAA and the NRA involved detailed oversight of the actions of a large number of individuals or groups. The consensus of opinion is that the administration of the AAA was unexpectedly efficient, largely because a competent administration force was already in existence under the Department of Agriculture. No such force was in existence to administer the NRA codes, which raised problems of an undreamt of complexity and variety. Nor did the participation of business men in determining their own destiny lend much support to the slogan: "More business in Government."

Administrative questions centering around encroaching control by Government are among the most important to be faced if such encroachment continues. New Zealand and the United States were both feeling their way towards new methods and agencies of con-

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trol. An adequate comparison of these would carry us too far afield; but the administrative problem posed by the crisis must be regarded as one of the most vital to the future of democracy. The experience of the AAA shows that complex controls can be exercised with a considerable measure of success. The experience of the NRA suggests that a new administrative personnel cannot be created overnight, and emphasizes the need for eschewing detailed supervision as far as possible, and endeavoring to discover strategic points of control, rather than cut across a multitude of detailed economic and technical problems.

Certain it is that successful social direction of economic forces involves a willingness on the part of democratic assemblies to confine themselves to broad questions of policy and frequently to delegate administrative powers to *ad hoc* bodies. It appears to involve an increasing recognition of responsibility on a national scale coupled with the acceptance of the principle of administrative devolution. From this point of view, it may prove unfortunate that the new Government of New Zealand, which may be expected to extend the range of social control, should mistakenly assume that Democracy demands the supremacy of Parliamentary Government even in matters of administrative detail; and beguile itself into believing that Ministers, already overloaded with legislative routine, can pile up more legislative problems and at the same time give the best service as administrators. The fact of the matter is that different types of problems demand different forms of administration, and administrators with different types of outlook, training, and experience.

Success in experimenting with new forms of administration, and imagination in the training and selecting of administrators and advisers may well prove to be among the most important factors in determining future social trends; for forms of control which are economically and socially desirable may fail because they are ill conceived or because of defects in administration. Such failures may prematurely discredit democratic forms of Governments directing evolution towards a better social order and force less desirable alternatives.

This presupposes the view that the general trend will in fact be towards the increasing social direction of economic affairs. Although the methods of reconstruction and the devices adopted in the United States and New Zealand were different, they are

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indicative in both countries of a similar response to fundamental economic forces. It must be re-emphasized that the aesthetic appeal of a self adjusting capitalism lost all power when it was found that such a society did not exist outside the pages of the equilibrium economists. This is true of the rest of the world, not simply of the United States and New Zealand. Nor can the depression phenomena be regarded as temporary diversions from a movement whose general direction is set away from "economic planning." In both countries, and indeed in the world at large, the trend was clear enough before the depression. In New Zealand, there were decades of social interference; and depression policy was in line with tradition even though the immediate objectives were peculiar to it and raised the ire of those who gazed back in worship at Seddon and Ballance and Pember Reeves. The new Government is set even more definitely and clearly on the planning road, and its policy of guaranteed prices for exports may well force it even further than it intends or appreciates at the moment.

In the United States, Roosevelt was by no means the pioneer of controlled production in agriculture, or holding agricultural surpluses, or expanding purchasing power, or of "interference" with industry. The McNary-Haugen Bill and the domestic allotment plan were precursors of the AAA. The Federal Farm Board was operating to finance the holding of surplus stocks before 1933. The pre-election speeches of Hoover in 1932 claimed credit for the efforts of the Government in sustaining purchasing power, and emphasized the responsibility of the Federal Government to "support our institutions against forces beyond their control."[50] There was a history of regulation in industry to curb practices which were deemed to be unfair or undesirable, long before the N.I.R.A.

There are important economic and social reasons why the trend has been towards increasing interference, regulation, control or the direct exercises of economic functions by Government. There is an increasing range of socially desirable economic activities which will not be undertaken by private enterprise because they cannot show a money profit. Competitive economic freedom destroys itself because it both implies freedom to combine and encourages combination by the waste which it creates. Individuals or groups in combination find that policies of price or supply control

[50] See Lippman, "The Permanent New Deal," *Index*, June 1935, Vol. X, 6, No. 114.

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pay better than following the market. It becomes a question, not of freedom versus control, but by whom and in whose interests is control to be exercised?

Economic progress involves change, and it is the theory of competitive equilibrium that the reflection of change in movements of relative prices provides an indicator which is sensitively followed by changes in supply and demand. But economic change injures individuals or groups and so generates a social resistance which leads to protective action either by the groups themselves or by the State on their behalf. Economic adjustment no longer follows the price indicator.

Increasing movements away from free competition, and increasing rigidities have already removed the assumption on which pre-war capitalism was theoretically based.

In these conditions, and because striking inequalities in the distribution of income are regarded as somehow wrong and promote action in the direction of redistribution, a returning trend towards *laissez faire* seems unlikely. This is especially true when an economic system is disturbed by action abroad, such as may happen to New Zealand from changes in British agricultural policy. Modern communities are not likely to return to *laissez faire* because they are not prepared to bear the cost of competitive adjustments. Trends in such dissimilar countries as the United States and New Zealand point this moral very clearly.

If this judgement is true, there are many questions which call imperatively for an answer. For example, there must be an evaluation of economic and social ends, and the discovery of the proper means to achieve these ends. The competence of democracy either to agree on ends or to select the proper means to reach them is by no means self-evident; for it is not always the wise prophets who gain the following, and even the economic doctors disagree. What, to exemplify, can Democracy do about the misguided devotees of false currency Gods? Can truth emerge from the hustings when Keynes and Hayek preach such different gospels?—and both differ from the gospel according to Major Douglas? Administrative techniques must be devised which are appropriate to these ends and which permit of resiliency and rapid adjustment to change. It may be that planned capitalism under democracy cannot answer these and other questions because it cannot ensure continuity; for any measure of control or planning arouses the opposition of this group or that, and opposition overturns governments.

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