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**The Genesis and Early Evolution of
New Zealand Income Tax: An Examination of
Governor Fitzroy's Experiments with Taxation,
1843 - 1845**

A thesis presented in fulfilment of the requirements for the degree of

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In

Economics

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Abstract

This thesis focuses on the genesis and development of direct taxation in early New Zealand. During the study period (1843-45), both taxpayers and tax were new to the colonial settlement and this study traces the early history of the two trying to accommodate each other. Between 1843 and 1845, subject to the politics of tax, the fiscal future of the colony was decided.

The thesis begins by contextualising the study. It critically examines the revenue and expenditure record of the Crown Colony period and then details the antecedents of New Zealand fiscal policy in general and specifically tax policy (our shared English heritage). Thereafter, four interesting events in New Zealand tax law are discussed: (1) Schedule E of the British *Land and Income Tax Act, 1842* (arrived in New Zealand 1843); (2) *The Property Rate Ordinance, 1844*; (3) the proposed *Amendment* to the *Property Rate Ordinance, 1844*; and, (4) the proposed *Dealers' Licensing Ordinance* in 1845. After analysing the period's individual direct tax laws, the thesis elaborates on the political process which determined the development of this body of tax laws. Thereafter, the thesis develops a conceptual model to explain the tax reform process of the study period. The thesis finds that tax policy during the study period was driven by four key influences: crisis (internal/external and economic); political considerations; the application of sound nineteenth-century economic policy; and importantly, the precedent of another nation's experience with tax policy development.

To have knowledge of such events in economic history (the past record of tax law), how and why they occurred, matters. Just as a nation's financial accounts are built on the foundations of the previous fiscal year, future taxation policy will be based on current taxation policy; tax laws which were developed from past (historic) tax practices. Therefore, knowledge of how New Zealand formulated tax policy in the past and why it did so, is of interest to fiscal policy makers today. Future tax policy is simply a derivation of past tax laws; the development of New Zealand's taxation policy began in New South Wales in 1839, and thereafter began, what this thesis suggests, was a predictable, evolutionary process.

Dedication

This thesis is dedicated to the memory of Jieun Jung - otherwise known as JJ - my friend, mentor and confidant who, sadly, is no more.



(Miss Jung)

October 1, 1979 – April 29, 2009

How Shall I Remember Her

With love and affection – always;

Kevin

Special Thanks

There are many in the Department of Economics and Finance (past and present) to whom I am indebted, and there are a few who deserve much more than a simple thank you. Professor Anton Meister and Dr. Leanne Smith offered me the opportunity five years ago to join the academic faculty of the department both as a tutor and a doctoral student. This enabled me to be apprenticed to three remarkable teachers - scholars: Dr. Neil Campbell, Dr. James Alvey and Professor Srikanta Chatterjee. To these five named persons, I dedicate the work and say special thanks.

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Part A

Introduction

The first goal of Part A is to introduce the topic and to then discuss why the research has been undertaken. The second goal of Part A is to critically examine the relevant literature. The third goal is to establish the methodology and to define the mechanics of the thesis. To date, very little is known of the genesis and foundations of income tax in New Zealand. Therefore, this thesis seeks to contribute to the less-than-extensive New Zealand tax history literature. Subject to a methodology of political economy and the structural framework of a fiscal timeline, the thesis will investigate the early evolution of direct taxation in New Zealand between the years 1843 and 1845, and it will do so by way of five separate economic frameworks. Research of this kind is important because history does matter, and therefore, in order to assist in the development of future tax laws, it is first necessary to have some knowledge of the foundations of New Zealand's current tax law, viz. how tax policy was developed in the past (Hawke, 2002).

Chapter 1

Thesis Introduction

Contemporary public policy is a product of history, and the evolutionary story of New Zealand taxation is no exception. History matters in taxation just as it does in most other areas of economic life. Consequently, current taxation policy is the product of earlier tax practices, and past tax law is the foundation of the present system of raising revenue. In order to better comprehend New Zealand's present system of taxation, and to promote understanding of how future tax policy might develop (Hooper et al, 1998), current policy makers need a degree of *a priori* knowledge about how, and why, New Zealand taxed in the past (Hawke, 2002). The problem is that there is a paucity of published research which details and explains New Zealand's early experience with taxation and, therefore, an investigation of any aspect of New Zealand's very early tax history is a significant contribution to existing knowledge. This thesis investigates the genesis and the early development of income taxation in colonial New Zealand.

The substance of this thesis lies in the large amount of forgotten or previously unknown information which it contains. From improved knowledge of how New Zealand taxed itself in the past further light may be shed on the important role that fiscal policy has always played and, still does play in the economic development of New Zealand. In the first instance, it is possible to think solely in terms of fiscal expenditure and public provision. However, before any institution or ruling authority can spend money, it first needs to raise sufficient revenue, viz. taxation either in the present or if expenditure is debt funded or deficit financed, it will have to do so in the future. Thus, the first factor of any ruling authority or institution's fiscal policy is its tax policy and, only thereafter, can the path of economic development be determined.

The early foundations of New Zealand taxation policy, the early tax laws which laid the foundation for New Zealand's current system of taxation, are not difficult for researchers to discern. The foundation for all forms of taxation in New Zealand, were laid in the period 1839-1842. Indirect taxation began with the imposition of customs duties from New South Wales in 1839/40. The history of the New Zealand Customs Department has

been extensively covered by McGill (1991) and, therefore, customs duties, the principal form of early New Zealand indirect taxation, are not discussed in any detail in this thesis.

For direct taxation the story begins with the Treaty of Waitangi (1840), and thereafter, with the introduction of Fees, Fines, and Other Charges (1840-42). The relationship between the Treaty of Waitangi and taxation is a matter that has already been brought to the attention of interested scholars by Hooper et al (1998) and Hooper and Kearins (2003). To expand on their work would require, at the very least, a thesis of its own, so it is not attempted here. The introduction of Fees, Fines and Other Fixed Charges in early New Zealand, is a story that should form an integral part of any extension to the work of Hooper and Kearins (2003), and therefore, within this thesis they are assumed to be fundamental applications of direct tax law, and thus, need little explanation¹. However, what does require some explanation is the development path of tax law after 1842.

The development of tax law between 1843 and 1845 is a subject briefly discussed by Cowie (1994). In his work he clearly identifies that the period (1843-45) promoted the use of direct taxation rather than indirect taxation. However, the explanation for how and why this occurred is not detailed and leaves many unanswered questions. Furthermore, the most recent addition to the New Zealand tax history literature (Goldsmith, 2008) has not discussed the work of Cowie in any detail. Therefore, an opportunity exists to expand on the foundations of Cowie (1994) and, thereafter, to fully explain the development of tax policy during the period 1843-45.

This thesis will examine those direct tax laws that were (a) identified by Cowie (1994), and (b) missed by him, and are of relevance to the development of tax policy between the years 1843 and 1845. This approach narrows the focus of the thesis to an investigation of a single element of early nineteenth century property taxation²; the income tax. Thus, knowing that income tax was applied in New Zealand during the study period (its implementation and subsequent repeal is mentioned in virtually every

¹ Taxation such as the Raupo Hut tax and, the Auctioneers' License of 1842 are implicitly included in the general heading of Fees, Fines, and Other Charges. The Raupo Hut tax is however, noted on the illustration of the fiscal timeline in Chapter 3. The reason for its inclusion is that, it stands out from the other fundamental direct taxes of the period and, it may well have a close connection to the foundations of what today can be termed, local body taxation.

² An early nineteenth century understanding of property tax naturally included income. The term was applied liberally when discussing direct taxation during the study period

published New Zealand economic history), this thesis will address the following three questions: (1) how and why was income tax applied in New Zealand during the study period? (2) Why was it repealed? And (3) what can be learnt from New Zealand's early experimentation with income tax? These questions address the objectives of the thesis which are first, a discerning of the genesis of income tax in New Zealand, and second, of describing and explaining how income tax came to be developed during the study period (1843-45).

Meeting the objectives of this thesis is a matter of structure and method, and therefore, to aid in answering the questions that are asked above, the following approach is adopted. First, the work will be divided into four separate parts: A, B, C, and D. Thereafter, each part will, in a sequential order, focus on the issues as indicated below:

Part A is an explanation of the means of perception, and thus, contains the introduction, a literature review, and, is also the part where the methodology, structure and methods of the thesis are discussed. Part B focuses on the contextualisation process, wherein, the necessary background and contextual information for the thesis are established, viz. the fiscal history of Crown Colony New Zealand, 1840-52, and thereafter, British tax history of the period 1600-1850. Part C conducts disaggregated analysis of previously researched data in two successive and complementary chapters. The four identified tax policies (two tax laws and two proposed tax laws) of the period will be examined and, in addition, both chapters will begin the process of identifying interest groups, power, ideology and the final distribution of economic value. Part D, summarises the work of previous chapters when it subjects the identified interest groups, the battle for power, the dominant ideology, and the final distribution of economic value to critical examination in two highly focused 'final' chapters. The first of those two chapters will extensively examine the political development process of the identified tax policies of the period. The second of Part D's two chapters will examine the political method that was adopted by policy makers and is assumed to have driven the development and the determination of tax policy between 1843 and 1845.

Further, in addition to the above statements pertaining to the structure and general approach of the thesis, a brief comment is required to explain the structure of the individual chapters contained within the separate parts of thesis. Each of the analytical

chapters (Chapters 4 through to 9) of the thesis were structured, and thereafter, written in the style of individual (stand alone) journal articles. The analytical chapters of this thesis each contain their own literature review and unique discussion of their methods. The core chapters of this thesis are therefore, well capable of standing alone. However, linked together, all of the analytical chapters of the thesis form a single coherent story - that story is the record of an investigation of the genesis and early development of income taxation in New Zealand. Finally, the thesis has several hypotheses all of which are formally stated below:

The first hypothesis is that the tax laws of 1843-45 and the story of tax policy development between 1843 and 1845 are foundational events for New Zealand income tax. The second is that the tax events described in the study show that New Zealand's early system of taxation was imported from the United Kingdom. Sometimes the importation was piecemeal, and sometimes it comprised an entire tax system. The third hypothesis is that the decision-making process for public policy in Crown Colony New Zealand, and the actual importations of policy templates were heavily influenced within New Zealand by the politics of tax and the economic constraints of a less-developed emerging nation.

Before concluding this introduction it is necessary to outline the remaining chapters. Chapter 2 contains the literature review and Chapter 3 a discussion of the thesis framework. The foundational macro-economic data of Crown Colony New Zealand are discussed in Chapter 4. Chapter 5 contains the antecedents of New Zealand taxation. Chapter 6 discusses the concept of the transference of economic thinking, and presents the first forgotten event in New Zealand taxation history. Chapter 7 continues the transference theme and focuses on a well-documented tax event, and also on two less-well-known proposed tax laws. In Chapter 8 the politics of tax associated with the period's economic reforms is discussed; Chapter 9 presents an abstract model to explain the tax reform process of the period. The conclusion to the thesis follows in Chapter 10.

Chapter 2

Literature Review

When this research project on past New Zealand taxation began, the first and most important finding was the extreme paucity of literature, and the total lack of any real “economic” studies of early New Zealand taxation. Only one published article was found that could be termed relevant to this thesis’s subject matter. The subject of that publication, however, was (1) outside of the intended study period of this thesis, and (2) it could hardly be termed an extensive coverage of New Zealand tax history. Nonetheless, together with the aforementioned article, also found were four books, two unpublished theses, and two published papers, and these are discussed below. Since completion of this thesis, Paul Goldsmith published a political history of New Zealand taxation (Goldsmith, 2008). Reference to his work, where appropriate, is made throughout this thesis, and, his recent contribution to the discipline is fully acknowledged.

2. 1. New Zealand Tax History Literature

This very recent development in the New Zealand tax history literature, viz. the publication of the work of Goldsmith (2008), has come to provide a welcome backdrop to studying taxation issues pertaining to New Zealand. The work is a long term study, beginning in year 1840 and ending in the year 2007. The method adopted by Goldsmith is similar to that of McGill (1991), and to the method used in the comparative tax history literature – a chronological timeline, and a biographical narrative. Goldsmith comments that he has “provide[d] some historical context for the modern tax dilemmas, a fresh insight into one of the key drivers of our social and economic history” (Goldsmith, 2008, p. 11), and this thesis finds no grounds for disagreement.

Goldsmith’s work reinforces the importance that this thesis places on New Zealand’s English (British) inheritance³ (see Chapter 5), and the conceptual method of transference, detailed in Chapter 6 and 7 of this thesis: “The infant New Zealand was

³ The term is that of Hooper et al (1998, p. 17).

fortunate in being able to import elements of Britain's very successful taxation regime, which evolved over centuries alongside the rise of parliaments and hard-fought political freedoms" (Goldsmith, 2008, p. 17). This transference of past and current ideas and concepts in taxation of one nation has been an important factor influencing the development of another nation's tax policy. For example, Goldsmith obliquely connects the 1842 British Income Tax Act to New Zealand's - a matter also raised earlier by Harris (2002). Moreover, the title, subject matter, and the central theme of Goldsmith's work - the politics of taxation, is common to parts of this thesis also. For example, Goldsmith states that "the politics of tax draws on cynicism, delusion, pragmatism and principle, and it is the interplay of these ingredients that makes it such a fascinating topic" (Goldsmith, 2008, p. 8) and, this is the subject matter of Chapter 8 of this thesis.

Nonetheless, Goldsmith's work does perpetuate the data selection mistakes of previous authors and is less than fully comprehensive. (1) It does not extensively cover the Crown Colony years, and (2) it does not specifically concentrate on the hypothesised foundations for direct taxation in New Zealand during the study period of this thesis, 1843-45, or (3) discuss the tax laws of that period in any detail. (4) The data set chosen for the Crown Colony years is a questionable choice. Therefore, ample scope still remains for both a qualitative and quantitative study of New Zealand's early tax policy development. We now return to an examination of the literature existing prior to May of 2008 when Goldsmith's study was published.

The first to be considered is a publication that is not specific to New Zealand; instead it may be termed a general study of past Australasian taxation (Harris, 2002). A combination of chronological timeline and historical narrative is used by Harris to discuss primarily, Australian economic history. Within Harris's study, New Zealand plays a secondary role only. However, his work does contain some observations of value, and these pertain to the focus of this thesis. Harris mentions the 1842 British Income Tax Act, linking *the Act* to the Australasian Colonies and, thereafter, he asserts that the 1842 Act is the foundation of all current Australasian direct tax systems. Harris's study period however, begins in 1866 and, thereby, he misses several early colonial tax laws of importance to both countries. Notable by omission is the partial transfer of Schedule E, part of the 1842 British Income Tax Act to all of the colonies of the Empire (in 1843), This event, the transmission to the colonies of an integral part of

an important British tax law, is considered by Daunton (2005, in Nehring and Schui, 2005, p. 3), to be important in the development of tax systems and therefore, Schedule E is the subject of Chapter 6 below.

The second article of interest and, possibly, the only work that is truly applicable to the discussion is Facer (2006)⁴. It draws on the author's 2004 Honours thesis from Auckland University. Furthermore, Facer's focus is on the period 1878 to 1891, a fiscal period that is well *after* the study period of this thesis. Facer's work focuses on a single tax law, the New Zealand *Land and Income Tax Assessment Act, 1891*.

Facer suggests that the crucial turning point for the direct taxation of incomes in New Zealand, the *Land and Income Tax Assessment Act, 1891*, was the tax law which preceded it, the *Land Tax Act, 1878*. Facer implies that the enactment of this legislation made possible the *Land and Income Tax Assessment Act, 1891*. This assertion could constitute a single-event theory i.e. a single social/political or legislative event adequately explains the development of tax systems⁵. In fairness, Facer does discuss many other influential factors which impacted tax policy decision making during the development of the 1891 income tax Act, for example, electoral change. However, the acceptance of a single tax act, or even two separate but closely connected tax laws, as foundational events for the development of income taxation in New Zealand are unlikely to yield a robust long-run explanation for the development of direct taxation in New Zealand between 1840 and 2008.

The *Land Tax Act, 1878* may be an important turning point for direct taxation in New Zealand but, it was not foundational. A single-event theory does not fully explain the relevance of legislation such as the *Land Tax Act, 1878*, or the multiple acts which, beginning in 1840, preceded it in the life cycle of policy development. Nor does it explain why, and how, tax changes occur when they do. Nonetheless, Facer's single

⁴ Luke Facer's supervisor was Michael Littlewood of the Auckland Faculty of Law. Dr Littlewood "specialises in tax. In addition to New Zealand tax, his work has mostly been in the areas of Hong Kong tax, Chinese tax, international tax, comparative tax, tax planning, tax policy, and the politics of taxation, tax history and constitutional aspects of taxation. His work has been published in the US, the UK, Hong Kong, China, the Netherlands, Australia and New Zealand" (Littlewood, 2008). Furthermore Michael Littlewood is mentioned in the acknowledgements of Paul Goldsmith's recent tax history publication (Goldsmith, 2008).

⁵ It is possible to view Britain's 1797 income and property tax, the foundational tax law for modern income tax, as a single event. To do so however, would be to deny the very real existence of almost eight hundred years of tax law development and this development came before the 1797 income tax.

event approach to tax policy development can also be found in the work of Le Rossignol (1909).

Before discussing Le Rossignol's work in more detail, the relevance of his study to the thesis topic needs to be stated. Le Rossignol's work does consider direct taxation in New Zealand. Furthermore, early New Zealand tax laws are not the focus of his study either and therefore, the *Property Rate Ordinance, 1844*, and other peripheral events, are only briefly discussed. His account of 1844 opens with a brief mention of the Colonial Office's instructions, a directive to impose a land tax in the colony. He then continues with a comment that Fitzroy was "an ardent advocate of free trade" (Le Rossignol, 1909, p. 9). Thereafter, he also makes a few remarks on the *Property Rate Ordinance, 1844*. For example, "the settlers ignored and evaded the law which soon failed as a means of raising revenue. No further attempt [at direct taxation] was made [for many years]" (Le Rossignol, 1909, p. 9)

Examination of the official secondary source data (*Parliamentary Papers*, and the *New Zealand Gazettes*) casts a small shadow of doubt on Le Rossignol's findings. In fact, official secondary sources suggest that the *Property Rate Ordinance, 1844* was not ignored. While a percentage of Fitzroy's taxable population may have managed to evade the tax law, it did raise considerable revenue and this thesis suggests that exactly the opposite occurred; very few are thought to have evaded the tax. However, more important is the knowledge that further attempts at direct taxation were made following the success of the property rate. Chapter 7 will extensively discuss these matters; however, for now, the discussion will simply note Le Rossignol's findings and re-emphasise the common connection between Facer (2006), and Le Rossignol (1909), the less-than-plausible single event/person theory which is suggested, drives the development of tax policy.

Putting aside the single event/person hypothesis for the moment, the discussion will now focus on the other brilliant hypotheses that are contained in Facer's work. The following comments are taken from Facer's introduction and are reconstructed within the framework adopted in this thesis. In 1891 New Zealand, "general taxation policy....at the time, protected the conservative interests of land owners". The *institutional change* which occurred following the general election of 1891, when

combined with fiscal need and economic crisis, opened a window which allowed “a *new radical idea* for tax reform – a land and income tax – to find general acceptance” (Facer, 2006, p. 44). There was also an *ideology* of protection for colonial industry and land settlement (the latter means the breaking up of the large estates in New Zealand). The ongoing disequilibrium (crisis) was a large public debt which (supposedly), was established primarily to advance progress and to engage in conflict with Maori (Facer, 2006). This approach to the development of tax policy denies the existence of a single event/person explanation and is very close to the argument the present thesis develops and explains in Chapter 9.

Facer’s hypotheses however, are not specifically the subject of this thesis and, are left for others to pursue. However, a further item of interest in Facer’s study is the structure of his work. Facer (2006, p. 69-70) uses a similar method to that of Casey (1953)⁶, viz. a political and legislative framework. Furthermore, the method of both authors is not too distant from that used in *New Institutional Economics* or, for that matter, *Public Choice Economics*. It is worth noting however, that much of the *New Institutional Economics* literature was published after Casey (1953).

Returning to the work of Facer (2006); he further suggests in his study that the political institutions, and the rules of fiscal policy which they supported, provided for land taxation from the late 1870s rather than an income tax. Furthermore, when the liberals ousted the conservatives and became the brokers of political power, tax policy in New Zealand changed. This change in New Zealand was supposedly a consequence of technological progress, increased democracy, increasing political emancipation, and a recovering of an economy that had been in recession since 1876. Facer is describing the existence of a critical-juncture event, something the present thesis builds on and, specifically focuses on in Chapter 9.

In his conclusion, Facer (2006, p. 70) completes his study by returning to his single event/person theory when he suggests that the then premier John Ballance is owed a debt for introducing income tax to New Zealand. This finding is a very debatable

⁶ The work of Casey (1953) concerns Maori trusts and their income tax liability during the nineteen fifties. I do not consider it highly relevant to the thesis topic. In terms of method however, it is close to the approach of Facer (2006) and therefore, I make mention of it here.

proposition, given a more extensive coverage of the entire period, 1840-91. Facer also suggests that Ballance is the father of a fiscal model which forms the basis of our current system of taxation. This is a real point of difference between Facer's work and this thesis. There are clearly (as this thesis will show) many other important elements which have played a significant role in both slowing and advancing the cause of direct taxation (if not indeed, all taxation) in New Zealand, and many important developmental events in tax law did occur prior to 1878, and even prior to 1852.

The narrow focus and the short period of early New Zealand history that Facer discusses has left many tax issues unexplained, and raised more questions than the work answered. Goldsmith (2008) has recently attempted to shed light on some of those issues, however, none of the authors mentioned herein - Goldsmith (2008); Facer (2006); Le Rossignol (1909), or Casey (1953), however brilliant their work may be, has firmly established the genesis of the New Zealand income tax, and none has even attempted an adequate explanation for New Zealand's very early experimentation with income tax, or, for that matter, the fiscal policy of the period (1843-45).

2. 2. Related New Zealand Literature

Seeking insights, with respect to New Zealand's fiscal foundations means turning to the related fiscal policy studies. The finding is that there are few, published, fiscal policy studies of any relevance to this thesis. There are, however, at least two that are worthy of note and these are discussed below, in conjunction with two peripheral works of interest.

The first of these is that of McGill (1991) who presents a story of early New Zealand indirect taxation; the history of the *New Zealand Customs Department*. His book is informative, and can rightly be termed comprehensive. Further, the applied method he uses is a standard in the discipline, a biographical narrative which follows a chronological timeline. McGill (1991) does not, however, address the issue of direct taxation or of income tax.

The second study of interest, Hooper et al (1998), is not a fiscal or tax history study; it is an instructional publication which focuses on the principles of taxation. Hooper et al (1998) begin their work with an overview of the origins of taxation and, thereafter,

provide a brief summary of taxation's development within the New Zealand context. They do not discuss the genesis or early development of income tax in New Zealand. However, when discussing the past taxation of other nations, Hooper et al (1998) briefly discuss the English connection to New Zealand, viz. its tax laws, and the provision of a fiscal foundation. A connection is also made to the British Income Tax Act of 1842, but, aside from hypothesising that the Treaty of Waitangi is like a founding tax law, there is little to explain the fiscal activity of that period (1840 onwards). They do, however, provide some direction for this thesis, and have indirectly influenced the comparative literature review found in Chapter 5 of this thesis.

The most recent work is that of McKinnon (2003) who discusses the history of the New Zealand Treasury. But, again, there is very little that relates to early New Zealand taxation. However, McKinnon does acknowledge, in his introduction, the debt that is owed to Great Britain and to English history. This familial and temporal connection is recognised as being responsible for the manner in which this country and its government departments operate. Similar statements may be made regarding New Zealand's method of fiscal management and tax policy development, and furthermore, the inference is also clear in Cowie (1994), and also in Hooper et al (1998). Additionally, the transference of public policy and ideas on taxation from one country to another is a constant theme in Goldsmith (2008).

Policy, rather than ideas, is an important aspect of a recent *Accounting History* paper by Hooper and Kearins (2003). Their work encompasses the study period of this thesis and it therefore has relevance. Hooper and Kearins (2003) discuss important issues such as the franchise, and taxation as it affected Maori during the years 1840 to 1859. The authors utilised a genealogical methodology adapted from the work of Michel Foucault (Hooper and Kearins, 2002), and set out in chronological order their analysis of primary source data and "popular and revisionist contemporary histories" (Hooper and Kearins, 2003, p. 102). Thereafter, they focused on the conditions of the emergence and development of a tax regime, and the disempowering effects this had on Maori. Their study is of relevance to any discussion of New Zealand's hypothesised first direct tax initiative, viz. the one embodied in the Treaty of Waitangi, and this is mentioned in the thesis introduction. Aside from recognising the Treaty of Waitangi as pertinent to the history of New Zealand direct tax law their study contains little of use for this thesis.

However, another aspect of their work does raise interest. Their choice of questionable Crown Colony New Zealand revenue and expenditure data and their selective use of data points to reinforce a qualitative argument; a pattern found quite easily in a number of New Zealand history publications.

2. 3. New Zealand History Literature

There is one very important study emanating from the academic discipline of history, and it is quite possibly, the only existing work that offered any real insights for this thesis. It is the MA thesis of David Cowie (1994). His work, a study in New Zealand history, is comprehensive and extremely informative. The focus of his work is Robert Fitzroy, and the events surrounding his tenure as Governor of New Zealand (1843-45), a theme similar to that of Moon (2000). Cowie's work provides valuable contextual material, for any economic study of the Crown Colony period. Furthermore, Cowie highlighted for tax historians the many areas that required further examination. He states, for example, "more attention will be spent on Fitzroy's failed attempt to raise revenue and cut expenditure and on his ideological pressures and precedents" (Cowie, 1994, p. 102). This is something that this thesis is very focused on achieving. In addition, Cowie identified seven key areas that had potential for future research. Those key areas are accommodated in the work of this thesis. The identified seven are described below as points of interest, and they are numbered sequentially from one to seven.

Point (1), "[the] financial sources left for study are contradictory and inconsistent" (Cowie, 1994, p. 123). Cowie identifies four different sources of financial data for Crown Colony New Zealand during his study period (1843-45). I might add that this does not excuse his selective use of questionable early Crown Colony data in his study. Nevertheless, as the financial data of the Crown Colony period provides the essential context and background to any tax history study of the era, this finding is, a significant judgement and one worthy of further discussion. Therefore, the existence of multiple and conflicting data for the period is the subject of Chapter 4 in this thesis.

Point (2) "Fitzroy took many preconceived ideas to New Zealand" (Cowie, 1994, p. 14). Many of Fitzroy's ideas connect to a term that this study has adopted from the work of Hooper et al (1998), viz. New Zealand's English inheritance; the story of Britain's past

fiscal policy development is made the focus of Chapter 5. Point (3) “There is ample evidence that Fitzroy had an ideological agenda prior to arriving in New Zealand (one he promoted in 1844)” (Cowie, 1994, p. 17). Point (4) “Study of the finance and monetary events of 1844-45, is not only revealing in understanding the problem [Fitzroy] faced but, also allows an insight into his ideology, and at times, rather radical policy” (Cowie, 1994, p. 100). Points (3) and (4) above are ideas discussed in much detail in the Transference and Tax Laws section of this thesis (Chapters 6, and 7).

This thesis will attempt to show that Fitzroy’s ideas were not radical. However, as Cowie observes above, Fitzroy was ideologically driven. Further, Fitzroy did have an agenda prior to arrival, and many of his pioneering attempts to raise revenue in the colony did fail. What did not fail however, was Fitzroy’s property rate, a topic that is the focus of attention in Chapter 7.

Point (5) “The *Property Rate Ordinance* was New Zealand’s first system of direct taxation” (Cowie, 1994, p. 116). *The Ordinance* was, in fact, a single tax law only, and not a direct tax system. It was, however, New Zealand’s first indigenous income tax, and this is discussed in two successive chapters (Chapter 6 and Chapter 7). Point (6) “with the [supposed] failure of the property rate, and while the settlers were waiting for the Crown grant to arrive, Fitzroy proposed an *Amendment* to the *Property Rate Ordinance* and a new tax, the *Dealers’ License*” (Cowie, 1994, p. 120). All of these taxes are extensively discussed in Chapter 6 and Chapter 7 of this thesis.

Finally, there is Point (7): “Fitzroy’s demise [in 1845] fundamentally shifted the powerbase of New Zealand [something that] has never been adequately explained” (Cowie, 1994, p. vii)⁷. The identification of this very important power-shift in early New Zealand politics has relevance in two areas of this thesis: in Chapter 4, with respect to the selection of an appropriate data set for research purposes, and in Chapter 9, where the subject matter is *fundamental* tax reform and major economic change. The important power-shift in early New Zealand politics is reflected in the construction and compilation of some of the Crown Colony’s early fiscal data and while not directly discussed to any extent, this power-shift should be observable in the analysis sections of

⁷ The inference is that the power shifted from the Missionaries and Auckland business interests toward the New Zealand Company after 1845.

Chapter 4. Furthermore, while Chapter 9 does not directly focus on the very important power-shift in early New Zealand politics, the chapter is the beginning of a plausible explanation which may assist scholars to understand the critical-juncture event (the power-shift) identified by Cowie (1994).

To conclude this short section on general New Zealand history publications, there are many other published works containing tax history information which may interest scholars, and perhaps a dozen or so that are of real worth. However, they are, in the main, either general economic history studies or, works which relate to specific applications of taxation. Most of these are outside the study period and not particularly relevant to the thesis topic, for example, the work of Wakefield (1878). Thus, the peripheral historical material has not been discussed in this chapter.

2. 4. Comparative Literature

In the absence of a systematic body of New Zealand tax history literature, attention is focused on the comparative literature in an attempt to seek further insights into methodology, structure, and analytical method. Initial research found only two “recent” journal articles which could be termed tax history studies, and thus pertinent to this thesis. Those studies are: Hampus-Lyttkens (1994), and Hansen (2001). Neither of these two articles considers the evolutionary history of tax, in respect of the countries concerned. Furthermore, their coverage of taxation is not extensive, although, the analytical framework of each study is worthy of comment.

The theoretical foundation of Hampus-Lyttkens (1994) is derived from the work of Levi (1988) and North (1991). The theoretical underpinnings of Hampus-Lyttkens focus on predatory rule, something often understood as a tendency by the ruler or a ruling authority to maximise state revenue, subject, of course, to their relative bargaining power and any inherent transaction costs. The work of Hansen (2001) also places emphasis on a similar framework; it is however, specific to North’s earlier, *Theory of the State* (North, 1979). The theory of the state is used by Hansen in order to ascertain the constraints to fiscal policy and how a state might recognise them prior to, and after, the implementation of tax policy.

The use of these already well-developed frameworks from the *New Institutional Economics* literature can be highly rewarding. However, *a priori* application of standard theoretical constraints - for example, revenue maximisation, political competition and transaction costs, in an exploratory tax history study has the potential to restrict, rather than enhance, analysis, and even direct findings rather than provide insights. Therefore, blind application of a complete analytical method from *New Institutional Economics* is not the desired approach of this thesis. However, this statement is not meant to dismiss all of *New Institutional Economics*; in fact, it raises our awareness of the many approaches within the discipline that are of interest and, having identified their consistent use in current tax history studies, it is appropriate to consider them further. This is something that is attempted in Chapter 3. The discussion will now turn to the largest source of tax history literature which is thought to be highly relevant to any thesis on early New Zealand tax history.

General tax histories are not in short supply in the ancestral homeland of most early New Zealand settlers, viz. Britain. As a study-resource for tax history students, the amount of literature which discusses British tax history is substantial and very informative. In the absence of a body of New Zealand tax history literature to examine, this thesis has extensively utilised this resource (the comparative British tax history literature). There are many authors, both past and present who have contributed to the British tax history discipline, and listed below are many of those that appear in Chapter 5, the study's comparative literature review. The principal authors who have contributed to Chapter 5, and their works are: Martin, (1833); Dowell, (1885); Kennedy, (1913); Coffield, (1970); Matthias and O'Brien, (1976); Adams, (1993); Douglas, (1999); Daunton, (2001); Horstman, (2003); Kozub, (2003). Chapter 5 is a critical examination of, the literature which deals with New Zealand's fiscal foundations and is entitled *New Zealand's Fiscal Inheritance*.

As the structure of the aforementioned comparative literature has heavily influenced this thesis, a few points need to be mentioned in connection with the primary methodology of the studies mentioned above. The principal method of the aforementioned tax histories, for the purist, can be ascertained with reference to the period of their publications, or even the generation to which a particular author belonged. Irrespective of any debate within the history discipline as to what a narrative is, for simplicity's

sake, this thesis recognises that the methodology of the aforementioned publications is a combination of chronological timeline and a historical narrative. The identified methodology of the comparative history literature is adopted as the structural framework of this thesis.

Further, while recognising that some tax history publications adopt, as a dominant method, a biographical narrative - for example, McGill (1991) and Goldsmith (2008) - this thesis does not consider that to be the appropriate method for an exploratory analysis of early New Zealand tax history. In this thesis the chronological timeline takes precedence, and it does so for two very good reasons. First, the time period of this thesis is too short to lend itself to, or benefit from, adopting a biographical narrative. Second, the biographical narrative does not always adhere to the chronological timeline, often alternating between time periods within the same chapter and confusing the reader. This thesis will explain and inform, and thus, the historical narrative is considered to be the more appropriate choice. The aforementioned general observations have now closed this subsection, and the conclusion to this literature review is stated below.

2. 5. Summary and Conclusion

The literature review chapter has clearly reinforced the view of Stephen Burnell, head of the Department of Economics and Finance Victoria University. He suggested in conversation, in 2003, that the history of New Zealand taxation was a book yet to be written, adding, that almost anything on the subject would be a contribution. While the first finding of this literature review agrees with Stephen Burnell, a second finding is that the process of filling the large void in the literature has been underway for some time. There are many past economic history studies on New Zealand which contain tax history information. However, this thesis finds that the foundational literature for a uniquely New Zealand body of tax history literature rests elsewhere. Those foundations can be found in pioneering contributions of McGill (1991); Hooper & Kearins (2003), and Facer (2006). Furthermore, in May of 2008, Paul Goldsmith published what is New Zealand's first long-run tax history study (Goldsmith, 2008).

For those anticipating future enquiry, aside from the primary and official secondary sources, there is the extensive New Zealand history literature to explore. Numerous historical works contain contextual, peripheral and often explicit mention of New

Zealand taxation, and their existence has been put to use in this research. Examples of these are: McLintock, (1958); Pritchard (1970); Cowie, (1994); and Moon, (2000). The historical literature has not been discussed in any detail, other than the exciting work of Cowie (1994). However, the methods of analysis of the other works in New Zealand history are not considered appropriate for an exploratory economic tax history thesis and aside from Pritchard (1970) they all contain very questionable early Crown Colony data. Putting the question of questionable fiscal data aside until Chapter 4; the review undertaken herein has indicted a need to look elsewhere for guidance on the issue of methodology. Nonetheless, the contributions of many New Zealand historians are well discussed within the core analytical chapters of the study, namely, Chapters 4, 6, 7, and 8.

The discussion conducted in this review has noted the absence of a consistent body of New Zealand tax history literature. That literature would normally have provided the foundation, the rigour, and the methodological guidance for the thesis. Without a consistent body of New Zealand tax history literature however, it was important that an extensive examination of the comparative tax history literature was conducted. In fact, an extensive examination/review of the British tax history literature has been undertaken and, in a condensed form, this work is presented as a component part of the thesis (see Chapter 5). The review above does not discuss it in great detail however, the review has identified the analytical method of the comparative British tax history literature. The chronological time and the historical narrative are widely used, widely accepted, and are ideally suited to providing a robust structural framework for this thesis.

After examining the few, other published tax history studies that are available, it was clear that their methodological approach was inappropriate for this thesis. Furthermore, their preferred methodology, the blanket application of a standard methodology from *New Institutional Economics* - a body of work within which this thesis comfortably sits, would be far too restrictive. However, there are many theoretical concepts contained in *New Institutional Economics* that are thought be of considerable value to this thesis, for example, the methodology of *Political Economy*. The thesis methodology - *Political Economy*; the structural framework of the thesis - the chronological timeline and

historical narrative; and the analytical method of the individual chapters are all extensively discussed in Chapter 3.

Chapter 3

Thesis Methodology, Structure, and Method

This chapter has multiple objectives; first, to clearly define and explain the dominant methodology of the study. The second objective is to describe the structural framework of the thesis, and the third is to introduce the subordinate methods of the individual chapters. Furthermore, in addition to clearly defining the foundations of this thesis, the chapter needs to clearly establish a link to the literature and also to the main hypotheses of the thesis.

3. 1. Introduction

The discussion below will detail how the study has successfully addressed a fundamental problem associated with the analysis of economic history. That problem is: “how to raise awareness of the moral debate which underlies most economic issues [i.e. the importance of the topic], and still maintain a critical engagement with economic theory” (Anderson, 2004, p. 2). The challenge of this thesis was to find an appropriate economic method, or methods of analysis for the markedly different sections of the thesis, while, at the same time, ensuring that three quite separate intended outcomes did eventuate. The first requirement is that the historical story remains intact, and the second, that it remains in context. The third requirement was perhaps the most challenging of the three separate and desired outcomes. The events that are contextualised in this thesis need to be relevant to contemporary, and possibly, future tax policy development. The approach discussed below seeks to achieve all of these objectives.

3. 2. Conceptual Methodology: Political Economy

The thesis adopts, as a conceptual methodology, principally, the work of Colignatius (2005). His understanding of *Political Economy* is considered to be a valid and appropriate way to comprehend the work of this thesis. *Political Economy* provides the philosophical principle which underpins the present thesis’s selection of a structural framework and the analytical method of each core chapter. Colignatius’s precise definition of *Political Economy* which is pertinent to this thesis is quoted below:

The General Theory: Political Economy is the science of management of the State. More in general, 'economics' is Greek for 'management theory'. Marshall already explained that 'economics' is wider than 'political economy', see his Principles of Political Economy (1947: 43): The proper definitions are: Economics 'in a narrow sense' puts the approach, methods and tools of the discipline central, and looks at a variety of subjects. Political economy puts the subject, the management of the state central. Economics 'in a broad sense' joins the narrow sense and political economy. One way to view these distinctions is to visualise a matrix with the sciences in rows and the subjects in columns. The common economist may to some extent neglect the inputs of the other disciplines, but the political economist must draw on the resources of philosophy, history, law, sociology, politicology, social psychology, biology, physics and so on. Political Economy is, just by definition, the study that tries to integrate all human knowledge about the management of the State. Political Economy is, in that respect, the proper continuation of ancient philosophy on that subject matter. (Colignatus, 2005, p. 11)

To extend the understanding that is derived from the above quote, the discussion turns to Anderson (2004) and, attention is focused on his (Anderson's) approach to *Political Economy*. Anderson provides a flexible framework which conceptually underpins the methodology of Colignatus (2005). However, it has also influenced the structural layout (approach) of this thesis. Anderson's framework consists of four headings: (1) deferment of judgment; (2) contextualisation; (3) disaggregation, and (4) identifying interest groups, power, ideology, and the resulting distributional arrangements. The concepts of Anderson (2004) provide a flexible structure, and they have been used as a guide to the analytics of this thesis. First, there is no single theoretical basis in this thesis against which all testing will be attempted; this analytical approach adheres to Anderson's deferment of judgment: a subject briefly explained below. Second, the thesis topic requires a large amount of contextualising, which is done in Chapters 4 and 5. Third, the disaggregation and analysis of individual qualitative data (tax laws) is a

key component of the discourse, and something which is achieved in Chapters 6, 7, 8, and 9. The last four chapters of this thesis contain information pertaining to the identification of, interest groups and the residence of power in the colony. They also provide the basis and substance of early colonial ideology, and the final distribution of economic value (winners and losers) in the Crown Colony, *as per the guidelines of Anderson (2005, p. 4-6)*.

Anderson's structural headings will not be discussed in any further detail in this thesis. Nonetheless, the layout of the chapters in this thesis, their content and their individual approach to economic analysis closely mirror Anderson's conceptual structure. For example, the first structural element concerns the deferment of initial judgment and this approach is ideally suited to a study, such as the present thesis, which has little contemporary support material in the literature of any discipline, and about which little is presently known. Having commented on Anderson's involvement, the discussion will return to the dominant methodology of the thesis, viz. Colignatius's idea of *Political Economy*.

In accordance with Colignatius's definition (quoted above), economic method, is not a focus of this thesis. Furthermore, economic method itself does not constitute one common (method of analysis) for this thesis. This thesis understands method as being the means by which critical analysis is conducted and, in specific chapters, the approach of this thesis is, to adopt a secondary analytical framework, where appropriate. This approach to using method is necessary to accommodate a complex and changing story. However, there is still a strong later connection amongst all the chapters of the thesis. For example, Chapters 5, 6, 7, and also 8 are linked by the transference method, and all chapters connect to the work of Chapter 4, the fiscal background chapter of the thesis. Nonetheless, for the record, this thesis has adopted a *Political Economy* approach to understanding tax policy development in the unique setting of early New Zealand.

3. 3. Thesis Structure: Chronological Timeline and Historical Narrative

Besides providing methodological flexibility, the cognitive approach and way of thinking are adopted from Colignatius (2005) enables the flexible structure of Anderson to determine the approach of the thesis and the physical layout of the work. However, a structural framework for the practical side of the thesis was still required and, the

structural framework which is commonly found in the comparative tax history literature is thought to be the most appropriate. That structure is the historical narrative, subject to the chronological timeline. This flexible structure allows the work to utilise differing economic methods where appropriate, i.e. in different chapters, while ensuring a coherent story is told. The structural framework's historical narrative can then be explored in some detail by way of multiple economic methods, each of which enable the thesis to bring single tax laws and the policy process of developing a body of tax law, into sharp focus. It does so to help present a sequential and evolutionary view of events⁸. As the narrative moves from one tax law to the next, during the period 1843-45, the analysis is guided by the framework of New Zealand's fiscal imperatives of the time.

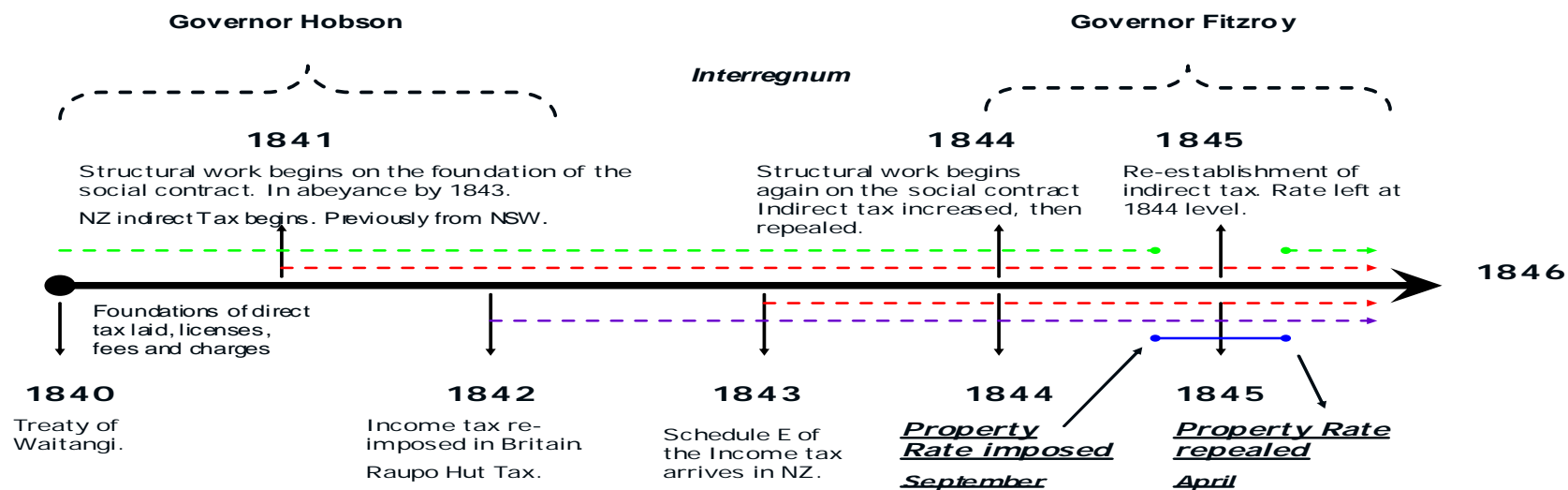
The timeline depicted in Figure 3. 1 below places New Zealand's earliest direct tax laws in the context of the period. However, three important events in New Zealand tax history are missing from the timeline. The first omission concerns the imposition of indirect taxation from New South Wales in 1839, and its subsequent re-enactment by the Crown Colony's Administration in early 1840. These events represent indirect taxation and are therefore, outside the scope of a thesis that focuses on direct taxation. The second and third omissions from the timeline (the *Amendment to the Ordinance* and the *Dealers' License*), were omitted because they were *proposed changes* only, not actual, legislated, tax laws. They did not therefore, warrant a place. They are, however, very important to the story as a whole, and are extensively discussed in Chapter 7. Let us now return to the structure of the timeline itself.

The fiscal timeline 1840-46 (Figure 3.1 below) visually demonstrates the chronological structure of the thesis. This is the organization which binds the subject matter of the thesis together and guides the entire work. This thesis, an economic study of early New Zealand fiscal history, focuses on the genesis and early development of direct taxation and it moves chronologically from one tax event of interest to the next. This structural

⁸ Evolution simply describes a process of change from one thing to another however, the final resting place, equilibrium, is never the same as when the process started. At each incremental (small), or large alteration, a residue is left which influences the final form (i.e. new equilibrium position). In terms of tax law, new tax law builds on all the information contained in previous tax laws and thus, whether incrementally, or in some greater manner, change to the new equilibrium is reflective of past tax law, and is therefore, psychically contained in the new tax law, even if it is a return to past tax law. There will always be some alteration even if it is only visible in language or intangibly in public and political attitudes toward taxation.

approach to the analysis of economic history and tax history is quite common in the comparative tax history literature, and can readily be found in the work of many authors; for example, McGill (1991), and Goldsmith (2008).

Figure 3.1 The Fiscal Timeline, 1840-46



INDIRECT TAXATION	
Customs Duties	(1839-40)
Customs Amendment	(1844)
Repeal of Customs	(1844)
Customs Duties	(1845)

Figure 3.1 (above), is a graphical depiction of the thesis framework, the chronological timeline (1840-46). Also detailed are the main tax laws for each year, including those tax laws which are the focus for each of the analytical chapter's historical narrative. The horizontal and broken coloured lines depict individual tax applications, their start and their duration (finish).

DIRECT TAXATION		
Treaty of Waitangi	(1840)	—
Fees, Fines, Other Charges	(1841)	- - -
Raupo Hut Tax	(1842)	- - -
Schedule E	(1843)	- - -
Property Rate	(1844)	● —
Property Rate Repeal	(1845)	— ●

3. 4. Subordinate Methods

After determining that the methodological approach of this thesis should be *Political Economy*, and that the structural framework of the thesis should be the *Chronological Timeline* and the *Historical Narrative*, the field was open to use multiple and innovative analytical methods in this thesis. Therefore, this thesis conducts critical analysis in six distinctly unique but, not mutually exclusive, chapters, and it does so by using six different analytical methods. Each of those six analytical methods is extensively discussed within each chapter. Some brief comments on each of the six subordinate methods are presented below.

The first of the thesis's core chapters is Chapter 4, which is the first of two chapters in Part B, the contextualisation section of the Thesis. Chapter 4 uses the criterion test of Layton (1951) as its analytical method. The intention is to select from competing sources, the appropriate quantitative data that are required to substantiate the qualitative arguments of this thesis. The format of the criterion test is extensively discussed in the appropriate section of Chapter 4. Chapter 5 uses, as its analytical framework, the approach of the comparative literature, the chronological timeline and the historical narrative. However, because the chapter is as much a review of the literature as it is a critical examination, the method of analysis is not extensively discussed in its introduction. The chronological timeline and the historical narrative are however, extensively outlined earlier in this thesis.

Moving on to Chapters 6, and 7, the two chapters of Part C, the method of both chapters is that of Nehring and Schui (2005). The transference framework of the two chapters discusses the transmission of ideas and concepts in taxation from one country to another. In addition, Chapter 6 also adopts the development economics framework of Musgrave (1969), which it does to provide additional insights from the results of the transference analysis. In the introductory sections of both Chapter 6 and Chapter 7, the transference framework of Nehring and Schui (2005) is discussed in more detail, and the development economics framework of Musgrave is very briefly introduced in the discussion sections of Chapter 6.

The first chapter of the results section (Part D), Chapter 8, is where the component schools of thought that belong to *New Institutional Economics* come to the fore. Aspects

of *Public Choice Economics* (Olson, 1965), for example, are gradually introduced into a theoretical politics of tax framework that has been developed, principally, from the work of Pollack (1998). In the introduction to Chapter 8, the politics of tax framework is discussed in extensive detail. The method of the second chapter (Chapter 9) is the process of inductive analysis, a method which makes full use of the information contained in the earlier chapters. The theoretical basis of the chapter is derived from the extensive *Crisis* literature⁹, that forms part of the *Political Science* literature¹⁰, and also of the *Social Science*¹¹ and the *Tax Policy* literature¹². More details on all of Chapter 9's theoretical foundations are provided in the chapter. Its analytical method - the inductive analysis - is extensively covered in the analytical section of the chapter.

3. 5. Summary

This chapter has clearly shown where the study fits in terms of the discipline of economics, viz. *Political Economy*. Furthermore, the adopted structural framework of the thesis, is the analytical structure of comparative British tax history, which is a *Historical Narrative*, and is therefore, subject to a *Chronological Timeline*. This combination of methodology and structure has allowed the historical story that is contained in this thesis, to remain intact and in context.

If the thesis is to achieve its third desired outcome, being relevant to contemporary tax policy evaluation, and possibly, even to the development of future tax policy, the analytical methods of its individual chapters have an important role to play. Listed below are the principal analytical frameworks used in this thesis, and also, their sources: the *Criterion Test* of Layton (1951), the *Development Economics* Framework of Musgrave's (1969), the *Politics of Tax* Framework of Pollack's (1998), the *Transference* Framework of Nehring & Schui's (2005), and the *Historical Narrative* and the *Chronological Timeline* of the comparative tax history literature. These five methods are ably assisted by the theoretical work of many authors, principally the following: Lewin (1951), Feldstein (1976), Peters (1991), James (1997), Fauvelle-

⁹ See Kuhn (1962); Feldstein (1976); Ben-Porath & Bruno (1977); Goldfinch (1998); Tommassi (2002); and Thorndike (2004).

¹⁰ Hogan (2006) and, Doyle & Hogan (2006).

¹¹ Lewin, (1951)

¹² James (1997 and 2002).

Aymar (1999), James (2000), Thorndike (2004), Hogan (2006), and Doyle & Hogan (2006).

Concurrent use of the above mentioned analytical methods in this thesis is seen as an appropriate approach to conduct research in an environment where little is currently known. Exactly what is unknown is how New Zealand taxed itself in the past. The analytical approach of the core chapters, individually, and in combination, are designed to ensure that the focus of the thesis remains sharp, and also to encourage what might be new interpretations of past events in New Zealand's economic and fiscal history, to surface. Thereafter, having shed light on the genesis and the development of income tax in early New Zealand, from the perspective of, the politics of tax and political economy, it is more than likely, that the findings of this thesis will be relevant to contemporary and future New Zealand tax policy development both which are heavily influenced by the politics of tax process and the machinations of political economy.

This chapter ends Part A of the thesis. From this point, attention will focus on Part B (Chapter 4 and Chapter 5). The economic analysis of New Zealand's past experience with taxation begins in Chapter 4 by applying a criterion test to the multiple fiscal records of Crown Colony New Zealand. The fiscal records are an account of the early colonial Administrations which governed Crown Colony New Zealand and their performance. Indirectly, the fiscal record is also an account of the colony's population responding to the needs of successive Administrations and, of successive Administrations responding to the needs of their population. An examination of the four successive administrations' early fiscal data assists in filling out the structural elements of the thesis's framework and to help to firmly place the topic in context. Adopting this approach enables two important issues associated with the governance of early New Zealand to come to the fore. First, the reality of the expenditure needs, and second, the difficulties of finding sufficient revenue to meet that need.

Part B

Background and Context

Part B is concerned with establishing the very important contextual and background detail of the study. With the almost total absence of any New Zealand tax history literature the nature of the task needs to be approached in an exploratory way. Therefore, Part B contains two analytical chapters. First, Chapter 4 provides understanding in an area where before there has only been puzzlement: the fiscal record of Crown Colony New Zealand. Second, Chapter 5 examines in some detail the background of New Zealand's fiscal ideas, concepts and applications prior to 1840: New Zealand's English inheritance. The second is pioneering, to my knowledge, not previously attempted in a New Zealand tax history study, and the first, is something that has waited more than one hundred years for someone to attempt, and therefore, is revolutionary.

Chapter 4

Revenue and Expenditure of Crown Colony New Zealand

The aim of this chapter is, primarily, to provide a broad fiscal canvas for those unfamiliar with the economic history of New Zealand. The chapter will indirectly place the fiscal timeline of the study in the larger context of the Crown Colony's overall fiscal performance. In addition, the chapter will present the quantitative data that is required to substantiate the qualitative arguments presented in Chapter 6, 7 and 8. To achieve these objectives, the chapter will critically assess the fiscal data of Crown Colony New Zealand. The problem for the chapter is that, to date, there has been a great deal of uncertainty surrounding the fiscal record of early New Zealand. The chapter aims to fill this gap with its analysis of the fiscal record of Crown Colony New Zealand.

4. 1. Introduction

Our knowledge of New Zealand's early fiscal performance, the financial activities of the Crown colony Administration and of the general population, in terms of qualitative data, relies, in part, on officially published accounts. Those accounts are the public finance record of successive Colonial Administrations over the period (1840-52). They are readily accessible from several reputable sources and have a long history of use by scholars of early New Zealand. However, some caution is advisable when using published Crown Colony statistics. The principal concern is the multiplicity of conflicting records. And recent scholarship has noted this fact as: "Financial sources left for study are contradictory and inconsistent" (Cowie, 1994)¹³. To date, no systematic attempt to understand or explain the issue has been made.

Many early colonists and eminent contemporary researchers, such as Brodie (1845), Fox (1851), Thomson (1859), Pritchard (1970), Diamond (1986), Moon (1998 and 2000) and Hooper and Kearins (2003) have used these statistics, either selectively, or in their entirety, in their studies. One of their findings, namely, that the Crown Colony

¹³ Cowie (1994, P. 123), identifies four different sources of fiscal data for the years 1843-44.

period had moments of financial difficulty, is not in question. All the macroeconomic data presented in this chapter do, in selected years, record fiscal deficits. What is questionable about these multiple records is the veracity and validity of the figures they contain, and therefore their relevance to the larger economic picture is also questionable. Conclusions can be highly dependent on the user's choice of data set. If the appropriate data is not selected, then irrespective of how the data set or selected numbers from within it are used, interpreting events that occurred one hundred and fifty years ago can become difficult.

Difficulty of interpretation was only one of the problems facing Cowie in 1994. He used only the expenditure data for the year 1844, and then provided only a singular figure from each (conflicting) record to support his qualitative argument. This chapter, will not at this stage, disagree with his analysis, or his approach. Cowie's use of data is simply utilised as an example and to make a point on the misuse of old statistical data in history studies. Returning to the focus of this chapter, multiple data sets, the four different sources of fiscal data that Cowie (1994) identifies are interesting, and this chapter will indicate why, and, to do so, his sources will be labelled and numbered as per the following: primary, official-secondary, secondary, and third-hand sources; numbered 1, 2, 3, and 4 respectively, those sources being. (1) *The Blue Book*, 1844; (2) *Minutes of the Legislative Council*, 1845; (3) *Statistics of Crown Colony New Zealand, 1840-52*, and (4) *The Story of New Zealand*.

Number (1), apparently, is the official record of 1844; number (2) is the official secondary source from that record, dated 1845; number (3) is the work of Simkin & Hardie (1954), and it is derived, apparently, from number (1), and other sources such as number (2). Number (4), is supposedly, derived from unknown official sources, and this fact is stated by Thomson (1859), the author of number (4). Thus, there really is only one source and that is the *Blue Book*. Therefore, this chapter will strongly support the view that, in addition to different methods of calculation, "there are also numerous other reasons" for inconsistent and contradictory data sets (Cowie, 1994, p. 123).

Furthermore, the problem with selecting and commenting on single datum points or, at best, two or three years (Cowie, 1994, and Hooper & Kearins, 2003), only compounds the difficulty for the commentators. Whether the subject is Fitzroy's debentures, which

are recorded as revenue for 1844 and 1845, or the continued collection of the income tax in 1846 and 1847 (Cowie, 1994), a long-run approach and informed overview is required¹⁴. This is something that Goldsmith (2008) ably demonstrates in his recent publication. Returning to Cowie's work, the information pertaining to both debentures and tax collection is in the record, and all that is required is that researchers apply sound research techniques to the available quantitative and qualitative data¹⁵ to extract the information they are seeking. This thesis has not followed the account of Fitzroy's debentures and clearly their story is as misunderstood as is Fitzroy's approach to fiscal policy in 1844. However, as Fitzroy's tax policy is the subject of this thesis, a comment is required in respect of the income tax. When the *Property Rate Ordinance* was repealed in 1845, the new ordinance made the arrears recoverable, and these show up in the record for 1846 and 1847.

Returning to the study at hand, New Zealand's statistical record contains many long-term datasets which provide a clear overview of the relevant period. Many of these however lack credibility, and when real detail is required recourse should be to the original primary or the official secondary sources. However, aside from Pritchard (1970) quite often scholars take the easier route and select from notable secondary reference works which contain early New Zealand statistical data. The following reference works are all highly reputable and easily accessed from any University or major city library yet, the early Crown Colony data they contain are questionable. The relevant works of interest are: (1) *The New Zealand Official Year Book* (relevant years); (2) *The British Parliamentary Papers* (1835-52); (3) Bloomfield (1984), and (4) Mitchell (2003). They all have one thing in common; they are all in conflict with another subset of secondary reference works.

¹⁴ In fairness to Cowie (1994), his study records many excellent findings not the least of which is his explanation for the construction of past New Zealand economic history. History is written by winners and the power-shift which took place after the dismissal of Governor Fitzroy in 1845 allowed the winners to change the record and successive generations have perpetuated the myth surrounding much of early New Zealand's past. I highly recommend his thesis to any student of early New Zealand history.

¹⁵ I might add that Goldsmith's recent publication takes a very different approach to the use of statistics. His use of the past fiscal record is similar to that of the comparative tax history literature. Goldsmith does however use the incorrect, in my view, data set for the period 1840-52. However, given the extensive period his study covers, the necessity of finding an adequate and consistent long-run data series left him with little option other than *NZOYB*.

The other subset of secondary reference works is just as easily located and as with the first group of reference works, highly reputable. However, there is one key difference. The works mentioned here are all official secondary, or in the case of number (6) only, taken from the primary sources. The works in question are: (5) *The New Zealand Government Gazettes* (1840-49). (6) Simkin and Hardie (1954), and (7) *the Appendix to the Journals of the House of Representatives of New Zealand* (1888).

Without this clarification regarding the datasets in question, there is little else to guide a researcher seeking information for study purposes. Furthermore, even a very recent scholarly work in this area, Briggs (2003), does not contain a section on the public finances of the Crown Colony Administration. While *Statistics New Zealand* maintain a long-term data series (LTDS) for the period 1840-52, the record is incomplete (and derived from secondary sources), and there are sparse explanatory notes, or guidelines that might be helpful when it comes to selecting from the multiple reference sources that are available.

For analytical purposes, it is assumed that all of the conflicting records identified above¹⁶ could, potentially, be reconciled. Therefore, three alternative, but not mutually exclusive, hypotheses which could assist in the reconciliation are derived. First, differences in accounting methods explain the disparate data sets. Second, provincialisation¹⁷ is a possible explanation of the observed variance amongst the data sets. Third, some other political economy¹⁸ factors of the period, such as the discontent of a British Parliament; the return of British taxpayers' funds expended in New Zealand for defence; British opposition to the methods and attitudes of the ruling minority in New Zealand. In short, the politics of tax could have driven the publication of at least one of the revenue and expenditure records.

The discussion now proceeds to subject the conflicting records that were identified above and, some of their structural elements, to a criterion test. This is a method that is extensively commented upon by Layton (1980, p. 30), and conforms to one of his five

¹⁶ It is worthwhile to consider, at this point in the thesis, that there may even be more data sets around than those which this thesis and the work of others has identified. For this thesis the search is conclude with the comment, to the best of my knowledge, to date.

¹⁷ This term describes the separation of responsibilities and tasks among the Provincial Councils of New Zealand.

¹⁸ See Colignatus, (2005, p. 11), and the discussion in Chapter 3.

possible analytical approaches for evaluating historical statistics. The other four methods are essentially statistical techniques which require additional statistical data, for example, population; GDP; price series; or exports/imports, data which are statistically, still open to question.

This chapter is designed to do two things: First, keeping the earlier hypotheses in mind, it seeks to increase our understanding of the multiple records that are available. Second, it seeks to assist in deciding which data set is the appropriate choice for future research and why it is selected. To date, no published information has come to light which would suggest that anyone has made a thorough study of the fiscal data of Crown Colony New Zealand: Therefore by undertaking such a study in this chapter, the forensic research of this chapter will make a real contribution by attempting this task.

This chapter of the thesis will examine the construction of what are multiple and conflicting records, all of which, purport to be facts. In the work of this chapter, those engaged in future study of the Crown Colony period may find the information which may help reinforce their qualitative research in this area. In addition, the chapter will also identify a valid long-run data series for further quantitative study of past New Zealand fiscal policy and of, the past process of governance.

The structure of what follows is: Section 4.2 introduces the method of analysis. Section 4.3 contains the data analysis, including identifying the multiple records and also discusses ‘other’ economic influences. The results of the testing process are presented in Section 4.4. Section 4.5 presents the preferred option for future research and contains a brief statistical summary of that option. This is followed by the conclusion in Section 4.6.

4. 2. Method of Analysis

An uncomplicated criteria test of the various available data sets and of their fundamental elements is the chapter’s chosen method of analysis. There are six main criteria and they are: *assumptions*, *data set characteristics*, *accounting methods*, *series validity*, *data validity*, and *political economy considerations*. These main headings are further divided into fifteen sub-criteria which look closely at component parts of each

criteria heading. After each analysis, each data set is given a grade of pass or fail - numerically, 1 being a pass, and 0 a fail: the highest possible score is fifteen.

4. 2. 1. Individual Criterion

This subsection will provide a brief discussion on the six main criteria. At least a paragraph will be devoted to each. The discussion begins with the first of the six criteria; *Assumptions*.

(1) *Assumptions*: two assumptions will be investigated. The first assumption concerns the accounting period. If all time series are not alike in this respect (January to December), comparative analysis would be worthless. The second assumption is that all data sets adhere to a common public finance format. This second assumption subsumes that the method of accounting is an implicit, and a necessary, benchmark for analysis.

(2) *Data Set Characteristics*: Here, each data set is checked to see whether it is an unbroken compilation. Does the method of compilation change part way through the series? Consistency in method also relates to the source of the data. How many sources are each series compiled from?

There is a second aspect of this criterion which is of interest. Here is created a subheading entitled *Descriptive Analysis: Statistical and Graphical*. Do descriptive statistics indicate any reason for concern? Do they raise any early warning signs of inherent problems in a data series? When series are compared, does a data set stand apart from the others, and, if it does, what might be the basis for that difference? A data set should not contain an atypical pattern by comparison with its alternatives.

(3) *Accounting Method*: Under this heading a series of questions must be asked. Is the method decipherable and can the aggregate values be verified via primary sources? Are there any aggregate values which do not meet the standard? If so, why do they not meet the standard? Lastly, do any of the tables provide a foundation for an extended times series?

(4) *Series Validity*: Under this heading there are three main concerns. The first concern relates to the references attached to the series. Second, is there a connection from this

series to a primary source document? Finally, is each data set authenticated by a recognised early New Zealand government official?

(5) *Data Validity*: This criterion examines the issue of variability in the absolute datum values between series. Within each series the procedure will be, to check for major breaks (changes) in their compilation. Furthermore, the already observed major break in all the series is hypothesised as being related to provincialism. It is discussed from the view point of the early years, 1840-45 and thereafter 1846-52.

(6) *Political Economy Considerations*: This last criterion begins from the assumption that a data set should not contain an atypical pattern by comparison with its alternatives. If it does, are factors other than method required to further explain the anomalous characteristics? If this is the case, then what might be a plausible explanation for an atypical pattern? Analysis will check for the influence of the politics of tax has influenced the production of a particular series.

4. 2. 2. Limitations and Qualifications

Before analysing the data sets, subject to the above, a few preliminary remarks are needed. A criterion test cannot tell us if the tables presented below are wrong or right. Nor can it clarify doubts over an absolute datum value. Is it right, wrong, or two decimal points out? On the basis of the preset benchmarks and clearly established criteria however, the reader can be told which (in this instance) table of data has met the most number of specified standards.

A major qualification about what follows in this chapter should be noted at this point in the discussion. The public finance record of the Crown Colony provides a narrow view of the financial condition of the colony. Published public accounts do not reflect the contents of the complete ledger book and do not detail each and every transaction. Furthermore, published public accounts are not a record of all the economic activity in a nation and this last comment is an important point. Thus, it is assumed that none of the accounts examined in this chapter would reflect the full cost of establishing and maintaining the colony; this would be especially true if a part, or parts, of the economy were externally controlled and funded. This external control and funding would not be

an unusual circumstance in British Crown Colonies. Further, the economic activity of the colony's private sector is not discussed in the chapter.

4. 2. 3. Assessment and Conclusion

Subject to the above assessment, and mindful of the qualifications, the criteria test will determine the most appropriate data set for my current research purposes. It will be chosen on the basis that one or other of the disparate records has, after testing, satisfied at least most of the criteria discussed above. The stated criteria provide an elementary framework against which the data sets will be tested. Their findings will be commented upon in the Subsection 4.4, and the relevance of those findings in relation to the hypotheses, stated in the introduction, will be commented on in the conclusion to the chapter.

4. 3. Data Analyses

The existence of mutually inconsistent data sets was recognised many years ago. In *New Zealand's Jubilee, 1840-1890* (1890, pp. 17-18) it was noted that the Audit Office and Registrar General's figures were in conflict with those of the *New Zealand Official Year Book (NZOYB)*. There was no explanation offered however for the apparent differences. After inspecting the record and taking note of comments in Cowie (1994, p. 123), the statement recorded in *New Zealand's Jubilee, 1840-1890*, cited above, was found to be correct, and the problem they highlighted is still worthy of consideration more than one hundred years later.

4. 3. 1. Accounting Methodology: First Criterion

It is possible that, as suggested by Cowie (1994, p. 123), the disparate data sets may simply reflect their compilation, and thereafter a different purpose can lead to the construction of very dissimilar accounts. For example, a business may be intent on discerning its profit or loss while an official institution's only requirement might be to account for financial transactions. If such is the case before us then of course compilers would have utilised differing methods. Therefore, in order to understand nineteenth-century public accounts, some contextual knowledge is required of the then prevalent accounting methodologies.

4. 3. 2. Public Accounts

This subsection begins by stating clearly that all data sets are posited as reflecting the activities of the period's official Administration. They are not the record of a business entity, and should adhere to the practice of public accounting familiar to the study period. Furthermore, the accounts which are subject to examination are simple records of total revenue and expenditure; they are not highly detailed ledger books (double entry accounting) and, on that basis, there is not expected to be, any great puzzlement about the period's accounts, or of their compiler's distinction between what was expenditure and what constituted revenue.

Assumption 1: In the nineteenth century various accounting methods were used but, there were two methods common to the period. The cash approach is colloquially known as the single-entry method and the double-entry system is referred to as the mercantile system¹⁹ (Edwards, et al (1997). Commercial or *private* accounts sought to recognise changes in wealth over a set period. Presented below, will be a series of tables, each of which purport to represent the public accounts of the period, namely, Table 4.1, Table 4.2, and Table 4.3. The tables presented are not expected to be examples of the commercial approach to account keeping.

In contrast, public accounts were primarily concerned with providing those responsible for *public* monies with a record of transactions: only receipts and payments were recorded. This cash accounting system was also subject to a nineteenth-century *Charge/Discharge* methodology traditionally utilised in estate management and public finance. When an administration received funds, from whatever source, they were duly acknowledged as revenue, and similarly when money was paid out, expenditure was recorded.

Integral to *Assumption 1* is the awareness that, in practice (such as in the early years of the Administration), there could be limited distinction between current and capital items in accounts; both would appear as parts of total revenue/expenditure²⁰. For example,

¹⁹ This accounting system must be distinguished from the system of economic thought or set of economic polices associated with merchants, and a system of accounting often associated with commerce.

²⁰ For the years 1840-52, Simkin and Hardie (1954) do disaggregate their financial data into current and capital accounts. Their work is the exception among all of the three data sets presented in this chapter. Their contribution to Table 4.2 is limited to 1848-52 and their method is not found to be consistent with

Receipts in Aid (a capital revenue item), would be recorded as they were received (current account) and were a *charge* against the revenue of the administration. Thus, as the colony's liability is *discharged* and there are outgoings of those monies, it is recorded in expenditure; however, one would not expect to see such a transaction recorded in a summary account as expenditure from Receipts in Aid, obviously. This system of record keeping, cash accounting subject to the *Charge/Discharge* approach is the method which is expected to determine the early administration's financial accounts.

4. 3. 3. Accounting Period

The accounting period is the crucial piece of information required before analysis can begin. If all data series are not for the same period, then comparative analysis is worthless. Therefore the assumption does need to hold for all data sets examined.

Assumption 2: The accounts of the era (1840-52) do commonly contain, after the date period, phrases such as, *for the year/s* and *inclusive*. It is accepted that the accounts cover the calendar year (January-December). In the *Accounts of Colonial Receipt and Expenditure*, under the heading, *Instructions to Governors of Colonies*, Section 48 states: "The Year of Account is to be in all cases from the first of January to the 31st of December" (Edwards, et al, 1997, p. 297). These characteristics are found to hold for all data sets under consideration in this thesis.

4. 3. 4. Data Set Characteristics: Second Criterion

Three data sets are presented below and they are presented as, Table 4.1, Table 4.2 and Table 4.3. All recorded values are in £ Sterling and the values are acknowledged to be in nominal form. As yet, there is no reliable price series established with which to deflate the nominal values.

4. 3. 5. The Data Sets

Table 4.1 (below) is only a small part of a much longer time series, 1840-88. It is found in the *Appendices to the Journal of the House of Representatives of New Zealand* (1888, 1: B12). In his work, James Edward Fitzgerald, Controller and Auditor General,

the companion sources. The difficulty of changing those sources is commented upon in the explanatory notes of *Appendix to the Journal of the House of Representatives* (1888). It has not been adopted as the method used when constructing the more detailed series presented in the penultimate section of this chapter (see Section 4.5).

“endeavours...to tell in a brief and intelligible form the financial history of New Zealand...” up to that time (*AJHR*: 1888, 1: B12). Preceding the statistical information is found three pages of explanatory notes. While this publication is compiled from other official government primary sources²¹, it is actually a secondary source²². There are problems with his series relating to consistency of method prior to 1845 and to the accounting periods after 1853.

Table 4.2 (see below) is a compilation of data from two primary sources and one secondary source. The data for the years 1840-45 are taken from Appendix E, in the 1846 edition of the *New Zealand Government Gazette*. The data values for the years 1846-47 are from the *New Zealand Government Gazette, Province of New Ulster* (1849). For the period 1848-52, data are from Simkin and Hardie (1954, pp. 66-75)²³, a highly disaggregated reference work. These three sources, while connected, are different data sets in their own right. Consequently, consistency of the three series is questionable. Further the entire series only extends for thirteen years.

The third data series, Table 4.3 (below), is from a publication that has a very creditable profile, the *New Zealand Official Year Book* (1893). The series is not difficult to locate and forms the basis of two internationally recognised reference works containing early New Zealand macroeconomic data. For the uninformed reader, Table 4.3, mentioned previously, is found in a fold-out Statistical Summary in the *New Zealand Official Year Book* (1893), and is available in successive years thereafter. It is not a primary source and there is doubt that it was originally compiled from a primary source. It is from Thomson (1859, Table, XI, p. 327)²⁴, which, according to its author, is derived from official government sources and, in places, is only approximate. The series appears to be consistent, if the nearly-fourfold increase in the expenditure variable from 1845

²¹ Data that is published by the same organisation that collected it are called primary source data (Keller and Warrack, 1997, p. 158), viz. the Bluebooks belonging to the Colonial Administration of early New Zealand are a primary source.

²² Secondary data refers to data that is published by an organisation different from that which originally collected and published it (Keller and Warrack, 1997, p. 158). Namely data that is not directly published by the early colonial administration is secondary data.

²³ The tables of Simkin and Hardie (1954, p. 70 and p.72) contain data summation errors with respect to Total Net Expenditure (1841) and Total Net Revenue (1843).

²⁴ Dr. Arthur Saunders Thomson was attached to the 58th Regiment stationed in New Zealand during 1847-58. On completion of his tour of duty, he served in China. Thomson was in command of a force wintering at Tientsin (Tianjin) during the year 1860. Unwell for some time, he died there (probably on) 4 November 1860 (Belgrave, 2007). To my knowledge he completed a short series of published statistical papers on New Zealand, one natural history paper and one general economic history.

onwards is ignored. Despite this anomaly, the series does extend unbroken for eighteen years.

The Conflicting Record of Crown Colony New Zealand's Public Finances: 1840-52 (Inclusive)

Table 4.1
Revenue & Expenditure for the Crown Colony of
New Zealand, 1840-52

(AJHR)

£	Revenue	Expenditure
1840	20,857	21,740
1841	49,961	40,101
1842	49,331	51,697
1843	35,796	41,127
1844	45,698	38,627
1845	52,748	38,841
1846	61,525	48,587
1847	80,694	87,722
1848	101,589	89,500
1849	65,976	66,849
1850	67,509	64,991
1851	79,115	75,276
1852	90,480	88,737

(Appendix to the Journal of the House of Representatives of New Zealand, 1888).

Table 4.2
Revenue & Expenditure for the Crown Colony of
New Zealand, 1840-52

(NZ Government Gazette)

£	Revenue	Expenditure
1840	20,857	21,740
1841	49,961	40,101
1842	49,331	51,697
1843	35,798	41,137
1844	45,698	38,627
1845	52,746	38,841
1846	63,090	53,375
1847	81,017	88,644
1848	98,037	96,573
1849	84,000	85,819
1850	82,261	68,668
1851	81,528	79,863
1852	94,518	92,740

(1840-45: *New Zealand Government Gazette*, 1846),
(1846-47: *New Zealand Government Gazette*, 1849),
(1848-52: Simkin and Hardie, 1954).

Table 4.3
Revenue & Expenditure for the Crown Colony of
New Zealand, 1840-52

(Dr. Thomson)

£	Revenue	Expenditure
1840	926	926
1841	37,390	81,541
1842	32,589	51,509
1843	21,398	39,053
1844	13,949	54,546
1845	12,899	212,899
1846	26,645	252,318
1847	43,265	234,055
1848	47,482	239,135
1849	50,408	221,863
1850	52,298	232,128
1851	67,049	197,649
1852	75,764	177,364

(*New Zealand Official Year Book*, 1893-1908)

Descriptive Statistics and Graphical Analysis of the Conflicting Records

Table 4.4
Descriptive Statistics for Table 4.1

	Revenue	Expenditure
Mean	61637	57984
Standard Error	6254	6221
Median	61525	51697
Standard Deviation	22549	22429
Minimum	20857	21740
Maximum	101589	89500
Sum	801279	753795
Count	13	13

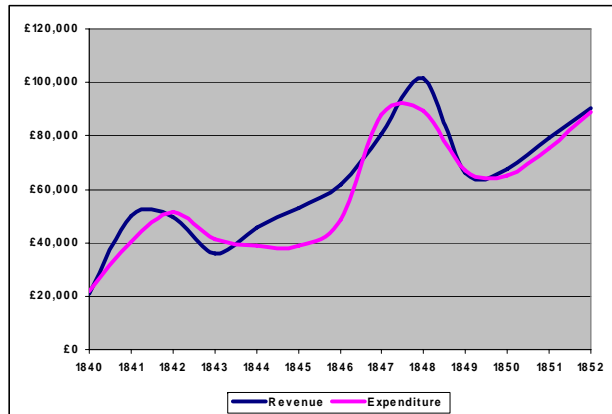
Table 4.5
Descriptive Statistics for Table 4.2

	Revenue	Expenditure
Mean	64526	61371
Standard Error	6674	6968
Median	63090	53375
Standard Deviation	24062	25124
Minimum	20857	21740
Maximum	98037	96573
Sum	838842	797825
Count	13	13

Table 4.6
Descriptive Statistics for Table 4.3

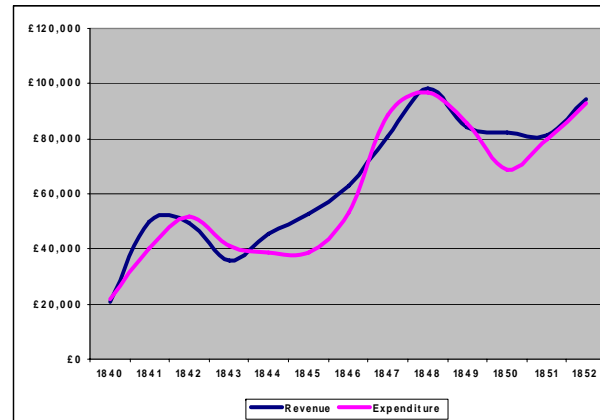
	Revenue	Expenditure
Mean	37082	153460
Standard Error	6072	25600
Median	37390	197649
Standard Deviation	21894	92304
Minimum	926	926
Maximum	75764	252318
Sum	482062	1994986
Count	13	13

Figure 4.1
Revenue & Expenditure for the Crown Colony,
1840-52: Table 4.1



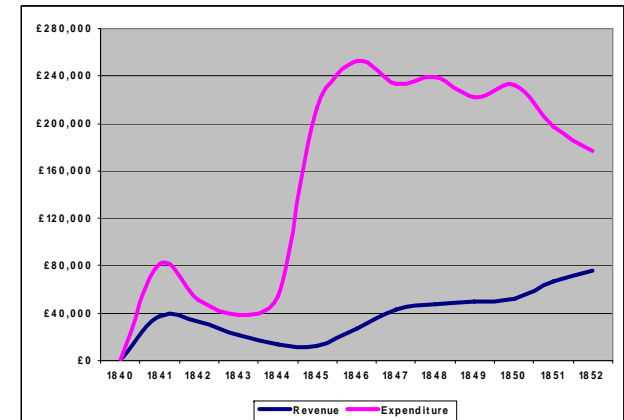
(Appendix to the Journal of the House of Representatives of New Zealand, 1888)

Figure 4.2
Revenue & Expenditure for the Crown Colony,
1840-52: Table 4.2



1840-45: *New Zealand Government Gazette*, 1846),
(1846-47: *New Zealand Government Gazette*, 1849),
(1848-52: Simkin and Hardie, 1954).

Figure 4.3
Revenue & Expenditure for the Crown Colony,
1840-52: Table 4.3



(*NZOYB*, 1893-1908)

4. 3. 6. Descriptive Statistics

The descriptive statistics of the three data sets are appended below the data tables. When all of the tables are compared, the following issues are raised with respect to differences between them. The *mean* statistics for revenue and expenditure indicate that a large variance exists (two and a half times the average) between Table 4.6's value and the values for Table 4.4 and Table 4.5. The *standard error* and *standard deviation* for each series is interesting and the following comment concerning expenditure are made. Table 4.5 exhibits more variance than Table 4.4 and, Table 4.6 is markedly dissimilar to both of its companion tables.

The *minimum* values recorded for Table 4.6 are twenty times lower than those listed for Table 4.4 and Table 4.5. On the other hand, the *maximum* value for revenue in Table 4.6 is 34% lower than that in Table 4.4 and, 29% lower than that in Table 4.5. It is expenditure however that is of most concern. The *maximum* value of expenditure, in Table 4.6, is 2.8 times greater than in Table 4.4, and 2.6 times greater than in Table 4.5. Both Table 4.4 and Table 4.5 show a surplus of revenue over expenditure during the Crown Colony period, while Table 4.6 indicates the opposite, a large deficit.

4. 3. 7. Graphical Analyses

When compared, Figures 4.1 and 4.2 do exhibit the expected similar pattern for the years 1840-45. After 1845, there is a discernible variation, which continues for the duration of the series. It covers a period of seven years, six of which encompass the initial period of provincialism.

Figure 4.3 displays a pattern similar to Figure 4.1 and Figure 4.2 for the years 1840-43. Expenditure in the years 1844-52 deviates radically from those seen in the other data series. Throughout the series shown in Figure 4.3, the revenue values appear consistently lower than those in Figure 4.1 and Figure 4.2. Expenditure in Figure 4.3 is considered uncharacteristic by comparison with the displayed alternative series. Recourse to the underlying data values in Figure 4.3 indicates that, for expenditure, the 1840 and 1841 values show extreme variance with their alternative series. There is also an increase in expenditure during 1844 in Figure 4.3, while the alternative series show a decrease. The pattern and values for expenditure in Figure 4.3 after 1844 are anomalous

and atypical when compared to Figure 4.1 (see Table 4.1) and Figure 4.2 (see Table 4.2).

The summary rationale of the statistical and graphical analysis is to emphasise the significance of selecting one series over the other. Table 4.3, informs the reader of a state of fiscal affairs that is markedly different from that depicted in Table 4.2 and Table 4.1. Table 4.2 also has a point of difference from Table 4.1 and it occurs at, and around, the time of provincial separation in New Zealand. Thereafter, the datum values show variation with the official central government values and this would need to be factored into any analysis. Selecting an appropriate data series therefore, is extremely important, and as suggested in the chapter's introduction, can influence any conclusion drawn.

4.3.8. Accounting Method: Third Criterion

For the years 1840-45, the data of Table 4.1 and Table 4.2 are from the same primary source (*New Zealand Government Gazette*, 1846). Both data sets are found to comply with the posited assumptions with respect to the time period and to the methodology. The more disaggregated source data available for these early years (Simkin and Hardie, 1954; a data series compiled, in part, from primary source information) is also found to accord with *Instructions to Governors of Colonies* (Edwards, et al, 1997, p. 296). Table 4.3 is found to differ with respect to both revenue and expenditure; indeed, the difference is shown to be considerable when the revenue and expenditure figures are examined more closely. This examination will be undertaken in the next two subsections – Subsection 4.3.9 and Subsection 4.3.10.

4.3.9. Expenditure

The expenditure figures of Table 4.3 contain values that are very different from alternative data series, and the expenditure totals of Table 4.3 are made up from data values that were not able to be identified by cross referencing to other official secondary sources. The main cause for concern is the outlay on military and naval defence: the Commissariat Chest. They should not appear in the colony's public account summaries as, technically, they are not a charge against the revenue of the colony. It is well known that the expenditure of the Mother Country in the colonies on the military, naval forces

and the civil service²⁵ was a charge against the taxation (revenue) of the Mother Country (Purdy, 1863, p. 359)²⁶. New Zealand public servants, therefore, were not accountable for these monies. On that basis, they should not enter into the accounts of the colony in question.

There is mention of the Commissariat Chest in the primary sources used in Table 4.1 and Table 4.2 but the values given in these tables do not match the values recorded in Table 4.3. Items that relate to the Commissariat Chest were usually (with odd exceptions such as the New Zealand Fencibles²⁷ establishment²⁸) for smaller sums. Those smaller sums, the Colonial Administration would meet in the short term and then draw back from the Imperial Chest. There is support for this having been the method adopted by the colonial administration and evidence of this is found in the archived Outwards letters to Naval and Military officers: 1847-54 (Archives New Zealand: ACHK 16588 G33/1).

According to the *Accounts of Colonial Receipt and Expenditure*, under the heading *Instructions to Governors of Colonies*, Section 42 states:

In all cases where there are grants of Parliament in aid of colonial funds, the Accounts are to include all bills drawn, or any sums in any other manner received, (such as from the Commissariat Chest), on account of grants.

This is followed by Section 43:

In all cases of bills drawn, they are to be immediately handed over to the Treasurer or other chief Accountant, who is to enter them to their full amount as a receipt in his cash book on the day on which he receives them. (Edwards, et al, 1997, p. 296)

²⁵ There was a short period during the tenure of Governor Fitzroy (1844) when a part of the civil list became a charge on the revenue of the colony. This anomaly was corrected under Governor Grey.

²⁶ It is possible that in the later years of the Crown Colony that there was a change in management and that the Commissariat Chest was either managed differently or that defence expenditure was the responsibility of the Colonial Administration however; as there is no matching expenditure in the competing tables I do have reason to doubt such an event did in fact occur it is however, possible.

²⁷ The Royal New Zealand Fencibles was a body of veteran soldiers from the UK who were converted into military settlers in 1847. They were to provide protection for the southern frontier of the Auckland Settlement. As late as the 1860's a debate raged over who was going to pay for the Fencibles (Cowan, 1955).

²⁸ Simkin and Hardie (1954, p. 70) records under the head 'Revenue on Capital Account' the income received from the Commissariat Chest on account of the Fencibles.

If, Table 4.1 and Table 4.2 do show that this was the procedure followed in early New Zealand accounts, then there does appear to be an anomaly. The parliamentary expenditure of Table 4.3, if legitimate, should in some manner be discernible in the revenue. In fact it does not appear to be, and therefore, this does throw some doubt on the authenticity of Table 4.3's expenditure values.

4. 3. 10. Revenue

The revenue figures offer more scope for analysis because Table 4.3 separates this component by heading. In Table 4.1 and Table 4.2 there is a clear, decipherable, and verifiable method used in the construction of the revenue figures. The method used in to construct Table 4.3 is not easily deciphered and, even after considerable effort, this research has not been able to replicate them.

The revenue data in Table 4.1 and Table 4.2 are all total revenue figures and they sum the three primary headings. Total revenue is the sum of current revenue: customs, fees fines and other charges²⁹ plus land sales³⁰ and capital revenue. The capital revenue is derived from Receipts in Aid or Parliamentary Grants or Crown Colony Bills and Debentures. This is verifiable from the accounts in the *New Zealand Government Gazette* (1846) and in the tables of Simkin and Hardie (1974, pp. 65-75).

Subject to the explanation above of total revenue and its compilation, consistent irregularity of method in Table 4.3's revenue data has been found. For example, the first and only revenue entry is direct taxation, made up of fees, fines and other charges (*British Parliamentary Papers*, 4: p. 49); its source states incorrectly that this entry is customs revenue. It is well documented that there was revenue provided for expenditure purposes, a repayable advance of capital from the colony of New South Wales to establish the Crown's administration in 1840 (Simkin and Hardie, 1974, p. 64). This sum (the repayable advance from New South Wales), and the transaction part of the aggregate value, are recorded in Table 4.1 and Table 4.2³¹.

²⁹ Alternatively, this was known as ordinary revenue, a term more familiar in compilations of later years.

³⁰ This was recognised in later years as territorial revenue and it encompassed gold revenue and gold duty; this is why these items do not show up in the records of taxation or appear as itemised current revenue. For the year 1852, gold revenue does appear as taxation revenue in the current account (Simkin and Hardie, 1954).

³¹ This transaction is an early example of both capital and current account confusion mentioned earlier in the chapter.

The second and third entries for revenue found in Table 4.3 are not consistent with the method used to derive the first entry. If they are meant to be total revenue figures, they are thousands of pounds short of the recorded values found elsewhere. The method of revenue calculation then appears to change again with the figures for 1843-45. They are similar to the figures reported in primary sources for current account revenue, as distinct from total revenue. The method (or methods used) in Table 4.3 are not clear; they are difficult to decipher; and they are not easily verified.

There is reason to suggest that the values of Table 4.3 have been derived from original material, such as can now be found in the *Parliamentary Papers* collection. It does appear however that the issue of discerning and distinguishing the actual revenue of the administration during the Crown Colony period was a challenging task for those outside of the official Administration even forty years later. “Sir Julius Vogel was asked if he could find his way through the tangle, but Sir Julius after spending several days over the matter, gave it up in hopeless perplexity” (*New Zealand’s Jubilee: 1840-1890*, 1890, p. 17). Unlike Vogel, the research conducted for this chapter has taken much longer than a few days.

4. 3. 11. Series Validity: Fourth Criterion

The pedigree of a data set is usually verified by the name of the person responsible for their compilation; their office is also appended. It is usual also to find reasonable references attached to tables. For each of the tables presented, this is found to be the case. Therefore, each table requires a closer inspection of its pedigree.

4. 3. 12. References and Sources

For Table 4.1 and Table 4.2, the early years of each series (1840-45) were compiled from the *New Zealand Government Gazettes* (1846 and 1849). These publications and the official statistical *Blue Books* are the early official record of the Crown Colony. The cited references (as is expected) bear a close relationship to the work of Simkin and Hardie (1954, pp. 65-75) which cite the following sources: the Colonial Secretary’s correspondence, the *Government Gazettes* and *Blue Books*³². Not by coincidence, data found in a home government periodical, “Her Majesty’s Colonial Land and Emigration

³² The *Blue Books* are the Statistical Summaries which were prepared at regular intervals by the administrations of British Colonies for the use of the Colonial Office and the home Government.

Commissioners' *New Zealand Colonisation Circular* (1843, p. 44), and *New Zealand's Jubilee: 1840-1890* (1890, p. 18), are consistent with Table 4.1 and Table 4.2. This conclusion is arrived at on the basis of material found in the *Appendix to the Journal of the House of Representatives* (1888, 1: B12), which is based on the material from the *Government Gazettes*, the Audit Office and the Registrar General.

The source citation for Table 4.3 indicates that it was compiled indirectly from sources unknown and by a person outside of government. No substantive relationship to primary sources of the period is found for the material in Table 4.3. When considered in the light of its alternatives and their respective sources, the table lacks a sound pedigree; the figures in Table 4.3 match neither the published accounts for the period, nor those tabled in the Legislative Council which were sent as despatches to the Colonial Office. In addition, a similar impression of the colony's finances to that given in Table 4.3 is not obtained when reading Dr. Thomson's earlier statistical publications (Thomson, 1851a and 1851b).

4. 3. 13. Authentication

The foundational data for Table 4.1 and Table 4.2 was, according to attached references, compiled by an official person charged with financial responsibility for the colony, normally the Colonial Secretary. Table 4.1's latter years were compiled by the Auditor General. On the basis of official authority, Table 4.1 and Table 4.2 have better support than Table 4.3, yet technically, all data sets were authenticated by the same person.

The entirety of Table 4.2 is assumed to have been authorised by the head of the colonial administration for the period 1846-52, Sir George Grey. The years 1840-45 were compiled for the Colonial Office by Sir George Grey, acting on his initial instructions (*British Parliamentary Papers*, 5: 231)³³ to prepare financial statements and send them home as quickly as possible. The authentication attached to the Statistical Summary of the Colony of New Zealand (*New Zealand, Official Year Book*, 1893)³⁴, is unambiguously that of Sir George Grey's. It appears, therefore, that all series have

³³ "It will be your duty to transmit to me, as speedily as possible, a financial statement" (*British Parliamentary Papers* [Despatch No. 25] 5: 231).

³⁴ This is the reference work from which Table 4.3 is obtained.

official validity. This finding of dual authentication is, by assumption, considered to be the reason for common and, widespread use of the more readily accessible Table 4.3.

4. 3. 14. Acceptance and Usage

As suggested above, the authentication of Sir George Grey may be what has promoted the use of Table 4.3. The vague title information and limited explanatory footnotes found in Thomson (1859, Table. XI, p. 327) have not fully informed scholars; further, the footnotes to the Statistical Summary in various *New Zealand Official Year Books* (1893-1908) have compounded the matter. Even the reference information contained in Simkin and Hardie (1954, p. 7, note. 18), Bloomfield (1984, p. 330, note. b and note c), and Mitchell (2003, p. 938, note. 58) are of little help.

The merit of selecting Table 4.1 in its entirety is, by comparison to Table 4.3, and the latter years of Table 4.2, extremely strong. While still a compilation and a secondary source, it was prepared for the *Appendix to the Journal of the House of Representatives*, a publication that can be considered in some circumstances almost a primary source in its own right. This section of the *Appendix to the Journal of the House of Representatives* was authorised by James Edward Fitzgerald, Controller and Auditor General. In the three pages of explanatory information which form part of the statistical information, there are very clear notes on method, the source of the quantitative information, and on the limitations of the data presented. The presentation of the material can be considered detailed and complete for all years 1845-88. For the years 1840-1844 however, the detail is missing, and this does create some uncertainty.

4. 3. 15. Data Validity and Variance, 1846-52: Fifth Criterion

This criterion examines the obvious variability in the absolute datum values between series. Each series is also checked for the presence of major differences in their compilation. Finally, the major break in all series, the move to provincialism, is discussed in detail.

The financial history of New Zealand might be divided into ... separate epoch[s]. The first extends from 1840 to 1847 inclusive, during which time New Zealand was one undivided colony. The second from 1848 to 1852, during which, under

Lord Grey's Constitution Act of 1846, the colony was divided into two provinces³⁵, New Ulster and New Munster³⁶; each having its separate finance and separate accounts (Appendix to the Journal of the House of Representatives, 1888, 1: B.-12).

Table 4.3 has thus far been found to contain irregularities with respect to method and data values; therefore, Table 4.3 is left out of the discussion that follows. Let us now focus on Table 4.1 and 4.2; the early years, 1840-45 are known to be from the same primary source and are therefore identical. However, there is variation in the absolute values of the variables post-1845 and this difference is the focus of this subsection. The task therefore, is to offer a plausible explanation for the difference between Table 4.1 and Table 4.2's latter years.

4. 3. 16. The Latter Years: 1846-52

Early documentation points out the difficulties of taking material “scattered throughout *Gazettes* and compiling an accurate record of the public finances”. The difficulties are “often enhanced by misprints in the figures”, and by “quarterly accounts escaping publication” (*Appendix to the Journal of the House of Representatives*, 1888, 1: B.-12). This source also pointedly noted the methodological difficulties of the provincial period.

To demonstrate the difficulties of data collection and collation, there is found in Thomson (1851b, p. 250) the following comments. “The returns are compiled from materials furnished by a general census taken in August 1848; and from those supplied for the ordinary Colonial *Blue Book* at the end of each year. This will account for some discrepancies in the totals of different Returns respecting the same thing”³⁷.

³⁵ Besides provincialism the period underwent four leadership changes and each leader brought in a new set of institutions. The sub periods are: 1840-42, Governor Hobson; 1842-43, (Acting) Governor Shortland; 1844-45; Governor Fitzroy; and 1846-52, Governor Grey.

³⁶ A third province was also legislated; namely, New Leinster, otherwise known as Stewart Island.

³⁷ As an aside, this statement by Thomson (1851b, p. 250) is word for word what is recorded in the *British Parliamentary Papers* (6: p. 158). The comments are from a memorandum entitled ‘*Statistics of New Munster, New Zealand, from 1841 to 1848*’.

In the *Statistics of New Zealand, for 1853, 1854, 1855, and 1856*, (*Statistics of New Zealand*, 1858) the difficulties of compiling statistical information are commented upon in the *Introductory Memorandum* (1858, p. iii). “The figures have been fixed after careful consideration.... [a]lthough not assumed to be absolutely accurate in every particular, [they] are believed to be sufficiently so for all practical purposes”.

Much difficulty obstructed the compilation of aggregate colonial accounts during the provincial period. Each province had its own means of finance and method of account, as did the central authority of the period, the Administration. One constraint was the separate and conjoint responsibilities; another was the troublesome collection and collation of statistics. Individual datum values and entire sections of a variable are the product of this competitive system; also important was the lack of a timely flow of accurate information (not just to the provincial authority but especially from the provinces to the central authority). This explains why data values can conflict between series and even within the same series, as over time the availability of improved/updated statistical information brought changes in absolute values.

4. 3. 17. Political Economy Considerations: Sixth Criterion

Criterion 6 considers the anomalous characteristics and atypical patterns which testing thus far has not assisted in explaining. The discussion of the first criterion, *Data Characteristics*, raised the issues of variance among tables; one table (Table 4.3) stood out because of extreme variance with its alternatives. Further analysis, subject to the third criterion, *Accounting Method*, highlighted the fact that Table 4.3 did not meet the standard for either expenditure or revenue.

The lower revenue values of Table 4.3 have been discussed in subsection 4.3.10; and preliminary results indicated that Dr. Thomson may have had difficulty discerning the appropriate aggregate values. When this is considered in the context of provincialism, discussed in Subsection 4.3.16, it is likely that his difficulties were compounded. The other issue of concern, expenditure, was raised in Subsection 4.3.9.

“The Receipts in Aid according to the Audit Office, amount to £297,240, whereas in Thomson’s Tables they are set down as £1,517,967”, (*New Zealand’s Jubilee: 1840-1890*, 1890, p. 17). It has been demonstrated that part of this sum should not feature in

the public finance record. According to documentation found at *Archives New Zealand* “During the early years of the Crown Colony the British taxpayer contributed largely to the civil expenditure in New Zealand...and this country [Britain] bore the whole of its [New Zealand] military charges” (AEBE 18507 LE1 33 1861/301, p16).

Confusing the issue, Table 4.3 met the requirements of Criterion (4) *Series Validity*, on the basis of a sub heading, *Authentication* (Subsection 4.3.13). Table 4.3 is officially verified and that criterion test is unable to offer an adequate explanation for some of its variable values for expenditure. Therefore, it is necessary to have recourse to other factors.

Assistance in understanding what these other factors might be is sought from a nineteenth-century Australian periodical which tells us that: “In forming a correct notion of the state of the colony of New Zealand, it is necessary to guard against the impressions that different interested parties seek to convey” (*The Weekly Register of Politics, Facts, and General Literature*, 1845, pp. 160-170). The questions then becomes, was the author of Table 4.3 an interested party and what might he have been intending to convey? This can be termed the interaction of political economy with fiscal reality.

4. 3. 18. Dr. Thomson’s Data

Although the research conducted for this chapter has been unable to locate the source of Thomson’s Military and Naval Expenditure values, there is an interesting article in the *Southern Cross* (February 8th, 1850, p. 3). It suggested that Governor Grey’s expenditure on these items for a single year was between £100,000 and £150,000. The evidence for this claim came via a reprinting of parts of a letter reported as originating from the London *Daily News* (September 20th, 1849). It is cited as being written by an ex-Legislative Council member. The basis of the *Southern Cross* article is assumed to be a letter which raises the issue of the actions of the Administration of Governor Grey. The *Southern Cross* article is found repeated in the official secondary sources (*British Parliamentary Papers*, 6: 119-129). The record suggests that the letter was written by a Mr. William Brown³⁸. In reply, Governor Grey sent a despatch to Earl Grey of the

³⁸ Mr. William Brown (1809-1898) was a merchant, who, by 1855, had become the wealthiest man in Auckland. Although an opponent to the Administration, Mr Brown was called upon to become an

Colonial Office, decrying the attack on his Administration and denying the uninformed financial estimations (*British Parliamentary Papers*, 6: 119-129).

This was not the only instance of a public attitude that was decidedly opposed to the Administration. A Mr William Fox³⁹, in 1852, despatched a lengthy document to the Colonial Office. Among the items listed numerically, by him, in paragraph VIII (*British Parliamentary Papers*, 8: 8), is the military and naval cost associated with New Zealand: £200,000 a year⁴⁰. He also mentioned a sum in excess of £160,000 for two line regiments, a naval presence, and the construction of barracks. It is difficult to avoid entertaining the hypothesis that politics and asymmetric information may be partly responsible for the content and publication of Thomson's statistical tables in 1859.

4. 3. 19. Dr. Thomson's level of Fiscal Knowledge (Table 4.3)

On the basis of Dr. Thomson's published works, he was reasonably well informed on fiscal matters and close to the Crown Administration⁴¹. His studies are recorded in the parliamentary papers (*British Parliamentary Papers*, 7: 51-55, and 9: 7-11)⁴² and his worth is commented upon therein. In Thomson (1851a, p. 231) he references a primary source from which the early years of Table 4.1 and Table 4.2 are compiled: the *New Zealand Government Gazette* (1849). In the footnote of Subsection 4.3.16, the evidence

appointed unofficial member of Governor Fitzroy's Legislative Council. He resigned in 1844 after encouraging fiscal reforms which benefited his political associates. But he returned to serve in the Council during the tenure of Governor Grey before resigning again in 1847. He was also, firstly with the assistance of John Logan Campbell, and later in his own right, the proprietor of an anti-government newspaper in the *Southern Cross*, a newspaper that was very pro "free trade" and pro Fitzroy during the lead up to the repeal of customs duties and the imposition of the Property Rate in 1844 (Stone, 1990).

³⁹ Mr. William Fox (1812-1893) was an enthusiastic disciple of Edward Gibbon Wakefield. In 1843 he supplemented his income by writing for the *New Zealand Gazette and Wellington Spectator*, eventually becoming its editor. He was opposed to the Administration; he was openly a New Zealand Company man. In 1848 Fox became the principal agent of the New Zealand Company and continued the battle against the establishment, mounting a relentless attack on Governor Grey, who he considered had thwarted the settlers' hopes for self-government. He denounced Grey's nominee councils, the Colonial Office, the inefficient and incompetent Administration in New Zealand and the ignorant and untrained magistracy. Fox published *The Six Colonies of New Zealand* (1851) and in the final section of his book he exposed the failings and inadequacies of the Grey administration and the inherent injustice of the Crown colony system of government (Dalziel and Sinclair, 1990).

⁴⁰ Fox does not state the specific year, the quote above is as I found it in the record (*GBPP* 8: 8).

⁴¹ "*The Story of New Zealand*, the country's first major written history, appears to have been largely completed when Thomson left for England in 1858. The book was based on the already voluminous literature on the colony, archival material, and discussions with many of the actors involved. For Maori material, Thomson called on the assistance of the following: the Colonial Secretary, Andrew Sinclair; the commissioner of Crown Lands, Walter Mantell; and Chief Land Purchase Commissioner, Donald McLean" (Belgrave, 2007).

⁴² There are four entries but our entry (*British Parliamentary Papers*, 7: 51-55) is repeated in *British Parliamentary Papers* (10: 290-297), and in *British Parliamentary Papers* (11: 254-261).

of Dr. Thomson accessing information from other official documents is provided: *Statistics of New Munster, New Zealand, 1841 to 1848*.

That Thomson had access to some official information is also evidenced by his statistical publications (Thomson, 1851a and 1851b). Yet his revenue and expenditure figures are at odds with the national aggregates shown in Table 4.1 and Table 4.2. To examine why this might be the case, the discussion turns to one of Thomson's statistical publications.

In Thomson (1851a, p. 234), the education expenditure⁴³ matches the total found in *Appendix to the Journal of the House of Representatives* (1888, 1: B-12). In the Appendix (Thomson, 1851a, p. 248) land revenue for the year 1848 matches that of the *Appendix to the Journal of the House of Representatives* (1888, 1: B-12)⁴⁴. The reason why Thomson's totals match national totals in these examples is covered below in footnotes 43, 44, and 45. Many other totals in his appendix, however, do not match; this could well be because his figures relate only to the Auckland province (New Ulster); his figures are subtotals only of national aggregates.

In addition, there is an interesting comment recorded in Thomson's work: "The people of Wellington consider Auckland [to be] a town existing and flourishing on the military expenditure" (Thomson, 1851a, p. 232). When we turn to the Appendix we find that all that is recorded for military expenditure is £113. This would leave, according to Thomson's values (Thomson, 1859, Table, XI, p. 327) some £155,540 to spend in New Munster⁴⁵. While Thomson had some information that others do not appear to have had, clearly he did not have access to all public finance information. It also is possible that Dr. Thomson did not have full knowledge of his topic. Despite this, he might still have had a reasonable understanding of local events.

⁴³ While the article records the statistics of New Ulster only, it is assumed that this total would be similar to the Administration's total in that year. On the basis of Thomson's statement, that all was spent on the natives (Maori) who were predominately located in the North Island. I conclude that the two figures are the same.

⁴⁴ Again, this can be related to northern economic activity rather than the colony as a whole.

⁴⁵ Spending this large a sum in New Munster is not unreasonable since there was conflict with Maori in that province, 1847-48 (Ryan and Parham, 1986, pp. 33-37). Yet the war in the north only ceased in 1846, and the military presence in Auckland did not stop at that date. The first sum of £113 may represent local Commissariat Chest expenditure; the second figure of £155,540 may be the sum of Imperial defence expenditure and the local Commissariat Chest expenditure.

For information relating to local events, contextual advice is sort in the work of Belgrave (1997). Belgrave informs us that when considering the colonial period “to understand the enduring political and cultural events of the early colonial period, we need to explore contexts, decisions and processes which are peculiarly located” in that period (Belgrave, 1997, p.25). Consideration is given in the section that follows to possible other factors of the period which may have contributed to the content of Dr. Thomson’s publication (Thomson, 1859).

4. 3. 20. Military and Constitutional Aspects of Economic New Zealand

From 1853 onwards, the Mother Country’s Treasury placed much pressure on New Zealand to pay something towards defence costs. External defence costs were not the issue; it was an internal enemy which filled the consciousness of settlers’ and inflated the cost of maintaining the colony during the middle decades of the nineteenth century. Protection from Maori, who were “increasingly marginalised politically after 1853” (McLintock, 1958, p. 388), was a major concern of the European settler population. Regardless of whether Maori were integral to the colony’s economic development or not, the settlers’ felt that they consistently faced “the ever present fear of a general uprising in the North Island” (McLintock, 1958, p.391).

New Zealand, however, also had many other pressing fiscal issues to confront. For example, there was the competitive nature of the provincial council system (McIntyre and Gardiner, 1971). The first General Assembly did not sit until 1854 (McLintock, 1958, p. 378) and the issue of responsible government⁴⁶ was not decided until 1856 (Belich, 1986, p. 77). Quite simply, the early Colonial Governments suffered from the same problem that successive Administrations had: they lacked sufficient revenue. Belich (1986, p. 77), writing in respect of the Maori wars, comments that the Colonial Administration “had little in the way of military or financial resources.... [t]he settlers may have had the motives, but they didn’t have the means”.

⁴⁶ Under the *Constitution Act, 1852*, many functions of government were retained by the Crown (Governor). For example, responsibility for administration and auditing of customs was retained until 1856 (McIntyre and Gardiner, 1971, p. 99) and responsibility for Native Affairs was retained until 1863 (McIntyre and Gardiner, 1971, p. 99). The Constitution Act 1852 was also responsible for the division of colonial revenue among the provinces and the central authority. This issue of financial responsibility was settled on a temporary basis by the Compact of 1856 and finally resolved in 1874. McIntock (1958, p. 374) provides a summary of the financial arrangements that resulted from the enactment of the Constitution Act, 1852.

In the *Appendix to the Journal of the House of Representatives* (1854, 1: A-2), New Zealand's fiscal position in 1853 is clear. There was approximately £120,000⁴⁷ of outstanding public debt and an unsettled financial arrangement of £180,000 to be paid to the New Zealand Company. This financial burden the New Zealanders initially could not pay. Nor did they feel willing or able to increase or implement new taxes to do so. Recourse would be made in 1856 to a loan of £500,000 from the Imperial Parliament.

Thomson (1859) wrote his book during a period of major economic change in New Zealand. By the time his work was published the issue of New Zealand paying its way, especially in respect of colonial defence, was assuming greater significance (*AJHR*, 1858, 1: A-3, p. 2-11). Both past and future military expenditure in the colonies had become a focus of imperial concern by the end of the 1850s and this, it is perceived is fully reflected in Thompson's work.

In the year Thomson wrote his economic history of New Zealand (1859), there was an interdepartmental committee established in London to report on the expense of military defences in the colonies (Schuyler, 1922, p. 30). By 1861 the pressure to get the colonies to contribute towards their own defence and protection was mounting. In respect of New Zealand, an agreement on this matter had been reached as early as 1855.

Agreement or not, from the questions and answers that can be found in the *Evidence Taken before the Select Committee of the House of Representatives on Colonial Military Expenditure, 22nd April 1861* (Archives New Zealand: AEBE 18507 LE1 33 1861/301) two things are clear. (1) The New Zealand Government, and its predecessor, the Crown Administration did not contribute a thrupence to imperial military expenditure in the colony. In fact, they had tied up the Crown for six years (1855-61) in correspondence and debate over the issue. (2) At the sitting of the Select Committee in 1861, New Zealand had still not delivered on its agreement to contribute financially to the Imperial Government on account of defence expenditure in the colony.

⁴⁷ "The Colonial debt is the sum of liabilities to; the Union Bank, on deposit accounts, New Zealand Company fourths, balances due to provinces, outstanding liabilities for native land purchases, surveys, old debentures. Amounting in other matters to above £100,000" (*British Parliamentary Papers*, 10: 147).

To summarise the contents of Subsection 4.3.20, it is appropriate to begin by suggesting that at the time Thomson was writing his book there was immense financial pressure applied to New Zealand. Much of that financial pressure related to past expenditure by the Crown on internal defence for the settlers, assuming responsibility for the debts of successive Administrations and also the cost associated with rescuing the New Zealand Company. The New Zealand colonists could not and would not pay, and, that Thomson, in association with the Administration (the senior representative of the Crown; Governor Grey) are both implicated in the publication of the revenue and expenditure figures which do not accurately record previous Administrations' experience, but, are, nonetheless, quite possibly the very real cost of defending the settlers against Maori resistance to colonial rule. Hypothetically, if New Zealanders wanted to be independent and, to pursue policies which were not the interest of Parliament (or, I might add, Maori), then they would inevitably have to pay for those policies themselves, and furthermore, that Thomson, in association with Grey, was making the colonists aware of that fact. Therefore on the basis of the Criterion (6) the other political economy factors do appear to have a connection to the publication of Thomson (1859); something intimately connected to the colony's early struggles with the politics of tax.

This section has completed the core analysis for Chapter 4; the discussion now turns to a consideration of the results from the criteria assessment. The format adopted is pursuant to the description provided in the introduction to Section 4.2. Below is found a simple table of results and a brief discussion of those results follows.

4. 4. Results of Criteria Assessment

As previously stated, in Subsection 4.2.2, a criterion test does not indicate whether a table or data value is right or wrong. On the basis of preset principles, we can establish which table of data has met the most number of specified standards. The findings of the criteria assessment are displayed below (Table 4.7).

It can be seen from the presentation of results that the table of data which has met the most number of specified standards is Table 4.1. The data series of Table 4.1 scored twelve out of a possible fifteen. Table 4.2 however was not greatly dissimilar, scoring eleven out of fifteen; Table 4.3 met the least number of standards, scoring five out of the possible fifteen. The full results are presented (as mentioned above) in tabular form

below (Table 4.7). To further inform the reader, a commentary on those results is appended in Subsection 4.4.1.

Table 4.7
Criteria Test Results

Criteria		Table 4.1	Table 4.2	Table 4.3
1) Assumptions				
Time period	Calendar Year	•	•	•
Accounting Methodology	Public Finance	•	•	•
2) Data Set Characteristics	Single Series			•
	A Consistent Series			•
	Primary Source			
	Time Series	•		
Descriptive Analysis	Statistics	•	•	
	Graph	•	•	
3) Accounting Method	Expenditure	•	•	
	Revenue	•	•	
4) Series Validity	References	•	•	
	Authentication	•	•	•
5) Data Validity	Early Years, 1840-45	•	•	
	Latter Years, 1846-52	•	•	
6) Political Economy	Other Factors	•	•	
Score	Out of 15	12	11	5

• indicates the amount of a single point (1)

4.4.1. Synopsis of Results

(1) *Assumptions*: For all series, the period of account was assumed to be Jan-Dec, and subsequent analysis found this to be the case. The second assumption that all data sets adhered to a public finance form, was an implicit and necessary benchmark. All data sets are assumed to have met this standard, for the study period, prior to analysis being undertaken⁴⁸ and summarily gifted a first point. Thus, all these tables meet the two assumptive standards.

(2a) *Data Set Characteristics*: Only Table 4.3 is an unbroken series (if the large expenditure variation from 1844 onwards is not considered). Table 4.1 does have a discontinuity between the period 1840-45 and the period 1846-52 (this relates to the disaggregation of the revenue variable in the earlier period). Nevertheless, for practical purposes it can be considered a single series. Table 4.2 is a compilation of three different sources. Thus, there are questions over consistency of method for all data sets. Table 4.1 is from a secondary source. Table 4.2 is from two primary sources and one secondary source and Table 4.3 is from unknown sources. On two counts, Table 4.3

⁴⁸ It is important to note that the extended time series of the *AJHR* series, from which the core of Table 4.1 is obtained, does not meet this qualification for all of its forty-eight years.

alone met the required standards. The time period from which Table 4.1 is drawn is forty-eight years; the corresponding period for Table 4.2 is thirteen years and that for Table 4.3 is seventeen years. Table 4.1 alone meets the time series standard because the extended series does provide the opportunity for future time series analysis.

(2b) *Descriptive Analysis*: The statistical results for revenue compared to expenditure in Table 4.3 stood out. Thus, focus could be directed toward this incongruity when other criteria were deployed in the study. Simple comparison of the statistical results between tables did not raise any issues relating to Table 4.1 or Table 4.2 but Table 4.3 did stand apart from its alternatives. Graphical analysis again highlighted that Table 4.3 stood apart from its alternatives and, by comparison, could be said to contain an atypical pattern for both revenue and expenditure. Table 4.1 and Table 4.2 met the standard; Table 4.3 did not.

(3) *Accounting Method*: For Table 4.1 and Table 4.2 the accounting method is decipherable and aggregate values can be verified via primary sources. Table 4.3 fails on both counts. The revenue and expenditure data values do not accord with values found elsewhere; they could not be easily replicated either. The expenditure values for Table 4.3 are found to be inconsistent with Crown Colony Public Accounts. Table 4.1 and Table 4.2 did meet the standard; Table 4.3 did not.

(4) *Series Validity*: Table 4.1 and Table 4.2 were well referenced and clearly authenticated. Table 4.3 was less well referenced but did meet the standard for authentication. All tables met the standard for authentication but only Table 4.1 and Table 4.2 meet the referencing standard.

(5) *Data Validity*: The early years of Table 4.1 and Table 4.2 are from the same primary source; they are identical. The difference between the series in the latter years was considered acceptable because the timely flow of accurate information necessary to construct accounts was constrained by, and explained by, the fiscally separate nature of provincialism. Thus, Table 4.1 and Table 4.2 met the standard. All the data values of Table 4.3 were seen to require further investigation. Table 4.3 did not meet the standard irrespective of time period.

(6) *Political Economy Considerations*: Table 4.1 and Table 4.2 did not contain an atypical pattern for revenue and expenditure and therefore did not require the consideration of other factors, however, Table 4.3 did. Analysis of method, as an approach, was also found adequate for the analysis of Table 4.1 and Table 4.2 but not for Table 4.3. The anomalous characteristics of Table 4.3 necessitated recourse to “other” political economy factors. Thereafter a plausible explanation for the discrepancy was discussed and the conclusion was that the publication and content of Table 4.3 owed much to the colony’s early politics of tax. Thus, Table 4.1 and Table 4.2 met the standard, Table 4.3 did not.

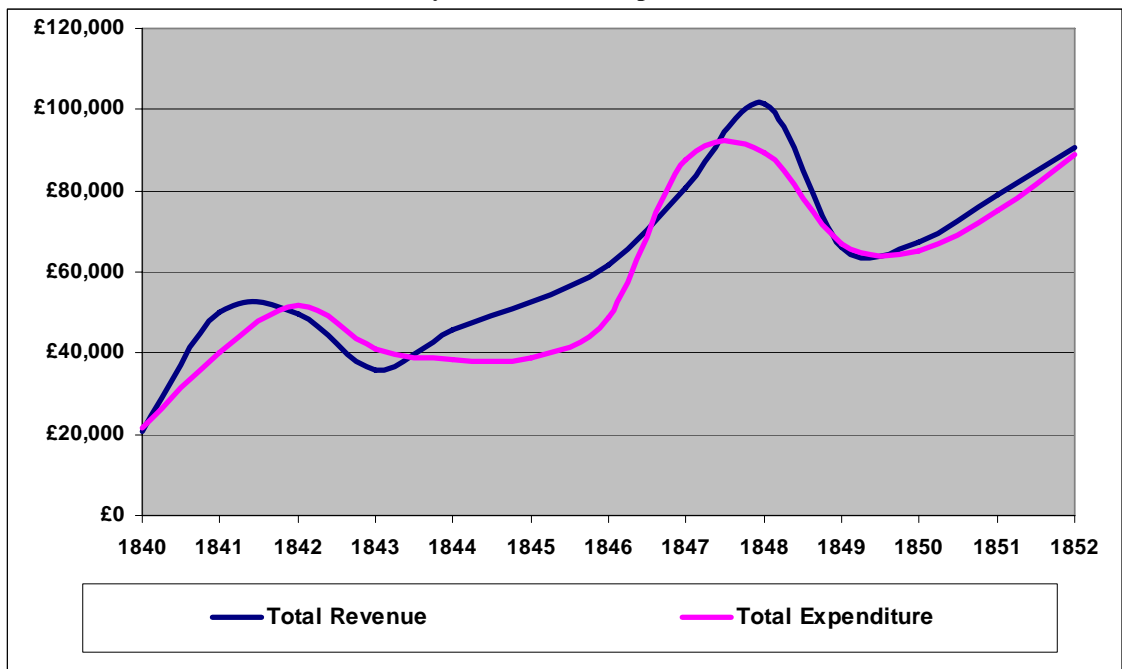
4. 4. 2. Scoring Method for Results

The measurement of the criteria results is given as a score out of fifteen. Having met a standard, the data set in question was awarded a single point. It was given zero if it did not meet the standard. As I mentioned in the section introduction, Table 4.1 received twelve points. Table 4.2 was awarded, in total, eleven points. Table 4.3 was considerably behind receiving only five points. Given these results, testing has shown that Table 4.1 has met more standards than either Table 4.2 or Table 4.3. Therefore, Table 4.1 is selected as the most appropriate choice for any future research which requires quantitative data of the early Crown Colony period.

4. 5. A Statistical Summary for the Crown Colony period

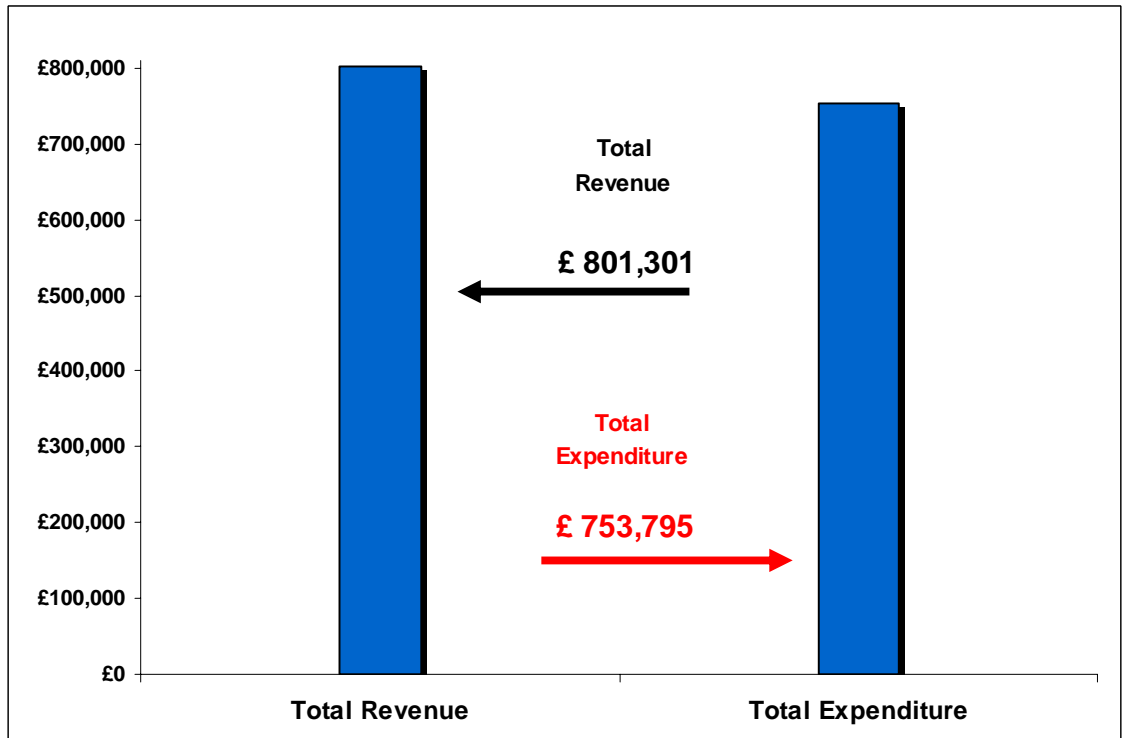
Descriptive analysis has been undertaken for Table 4.1 (displayed as Table 4.4 and Figure 4.1, Subsection 4.3.7). Figure 4.1 is repeated below (Figure 4.4). For aggregate revenue and expenditure (over the thirteen years) correlation is high, at 0.95. Both public heads of account are positively sloped over time. The degree of variability of the two series is high, but marginally more so for expenditure. The average yearly revenue was £61,662 and the average expenditure was £57,984. There was a fiscal surplus in seven out of thirteen years. Taken as an aggregate for the entire period, the administration received £801,301 and accounted for £753,795 by way of expenditure (see Figure 4.5).

Figure 4.4
Crown Colony Revenue and Expenditure: 1840-52



Sources: for the years 1840-45: *New Zealand Government Gazette, 1846*; for the years 1846-47: *New Zealand Government Gazette, 1849*; for the years 1848-52: Simkin and Hardie, (1954); for the years 1840-52: the *Appendix to the Journal of the House of Representatives of New Zealand, 1888*.

Figure 4.5
Crown Colony New Zealand and Aggregate Revenue and Expenditure: 1840-52



Sources: for the years 1840-45: *New Zealand Government Gazette, 1846*; for the years 1846-47: *New Zealand Government Gazette, 1849*; for the years 1848-52: Simkin and Hardie, (1954); for the years 1840-52: the *Appendix to the Journal of the House of Representatives of New Zealand, 1888*.

4. 5. 1. Extensions to Table 4.1

Establishing a foundational series with which to work is only a starting point for analysis. The second step is a detailed (disaggregated) series for the years 1840-52. The third step is the requirement of a consistent and much longer time series. Only one of the tables examined came close to meeting these requirements: Table 4.1. However, the selection of Table 4.1, with respect to the thesis's study period (1843-46), does raise the issue of its limitations subject to the requirements identified above.

Table 4.1 lacks much detail for the years 1840-45, revenue being separated into Ordinary and Lands only. However, this issue provides an opportunity to utilise the complementary nature of an alternative data set: Table 4.2. In essence this may be viewed as a reconciliation of the two top contenders, something commented on earlier in the chapter. The data set of table 4.2 is from an official secondary source, the *New Zealand Gazette* (1846). Further, its subsequent champion, the highly detailed work of Simkin and Hardie (1954) has been used to disaggregate the data for the early years of Table 4.1. Apart from the extended separation among already existing heads, there are two extra variables added to revenue: the Property Rate and Debentures. In all cases, the other data values (if affected) have been altered accordingly. Subject to this, additions to the material found in Table 4.1 were made and thereafter the completed tables are appended below as, Table 4.8 and Table 4.9. This is the logical extension and the preferred option for future research.

4. 5. 2. Descriptive Statistics Table 4.8 and Table 4.9

Table 4.8 and Table 4.9 below, are constructed from the available data shown previously. The graphs which follow the detailed data of Table 4.8 and Table 4.9 are labelled Figure 4.6 through to Figure 4.9. The graphs are merely a preliminary exercise and hereafter, will only comment briefly on what it is that they depict. Let me begin by commenting separately on revenue and expenditure. For revenue, 52.2% was derived domestically, mostly from indirect taxation. 37% came from Parliamentary Grants, Receipts in Aid or from Debentures (6%); the balance came from lesser items. The major item of aggregate expenditure was, the Civil Service, it accounted for 45% of all expenditure. Public Works accounted for another 20% and Miscellaneous received 10% of the funds. The remaining 25% was expended under eleven different heads and in decreasingly, smaller percentages.

A Statistical Summary of the Public Finances for Crown Colony New Zealand: 1840-1852 (Inclusive)^a

Table 4.8 Revenue

Year	1840	1841	1842	1843	1844	1845	1846	1847	1848	1849	1850	1851	1852
£													
Customs Revenue	0	3,073	10,370	13,733	11,905	8,770	21,321	36,474	43,383	35,242	40,548	49,207	49,975
Postal, Fees, Fines, Licenses, Other	2,857	9,252	14,777	8,316	^a 3,285	4,296	3,358	5,571	5,463	6,067	6,940	8,382	10,725
Property Rate					973	797	27	5					
Land Revenue	0	29,136	10,611	4,185	1,077	936	1,173	897	3,492	3,600	8,560	12,325	14,241
Debentures					18,384	28,586							
Parliamentary Grant, Receipts in Aid	18,000	8,500	13,971	9,562	10,094	10,159	35,673	37,752	49,250	21,067	11,500	9,200	15,538
^b Total Revenue	20,857	49,961	49,729	35,697	45,697	52,747	61,525	80,694	101,588	65,976	67,548	79,114	90,479

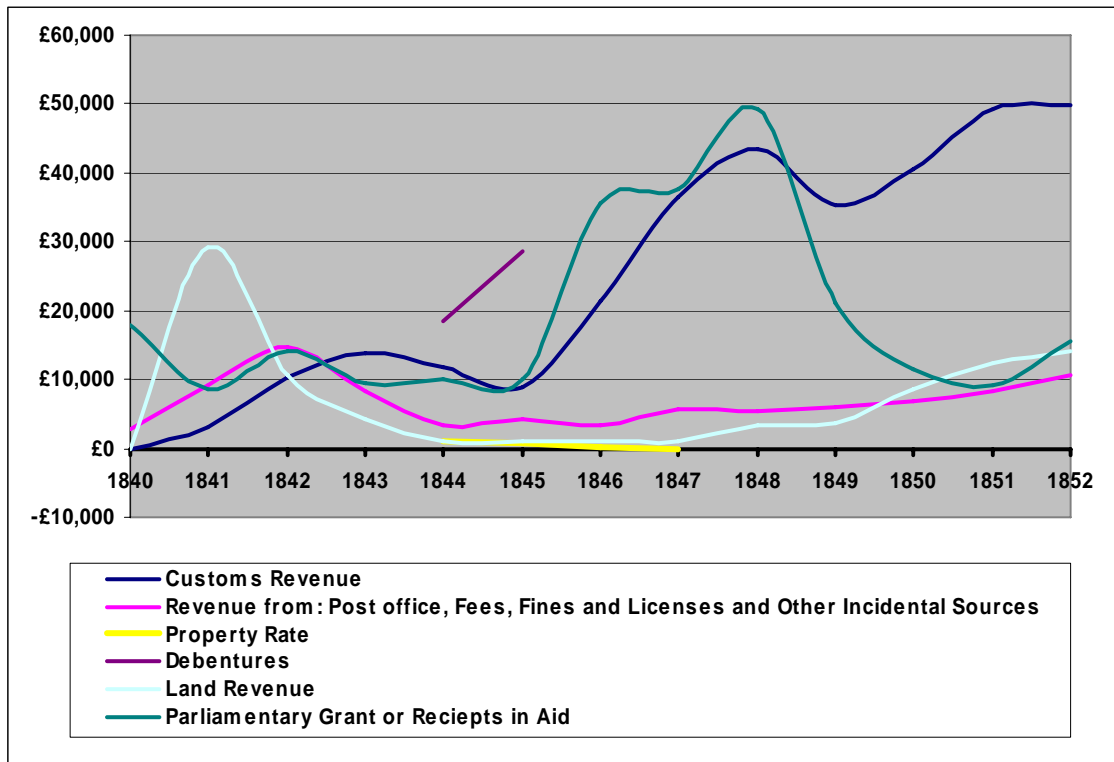
Table 4.9 Expenditure

Year	1840	1841	1842	1843	1844	1845	1846	1847	1848	1849	1850	1851	1852
£													
Civil service	6,551	13,822	22,742	20,896	21,024	17,953	27,773	31,634	36,522	25,045	30,161	35,915	41,862
Native lands	1,152	5,509	8,845	5,594	5,657	2,734	2,008	5,048	4,559	3,134	3,125	2,998	2,231
Native land purchase	1,028	977	1,307	1,972	2,161	2,017	1,569	1,276	1,193	736	1,150	1,590	2,812
Public works	1,152	1,510	1,454	112	1,045	0	470	305	1,402	1,486	1,369	1,060	3,227
Education	4,004	12,123	7,629	2,917	3,467	2,808	2,537	32,381	30,292	18,387	8,794	12,715	15,604
Education	68	209	700	200	200	875	1,253	1,100	3,466	3,722	4,400	2,574	3,614
Miscellaneous	7,783	5,547	5,089	7,698	4,204	4,032	127	1,806	7,411	6,762	5,470	6,988	11,057
Immigration			3,928	173									193
Military					866	7,108	10,256	10,828	705	4,308	7,053	5,568	1,248
New Zealand Company						1,311	323						
Interest							2,012	2,915	2,982	2,151	2,282	2,691	2,533
legislative							252			433	764	658	
Postal								426		589	357	1,474	1,810
Marine										91	62	1,040	2,540
^b Total Expenditure	21,740	40,101	51,697	41,127	38,627	38,841	48,587	87,722	89,500	66,849	64,991	75,276	88,737

^aThe raw data are from *Appendix to the Journal of the House of Representatives of New Zealand* (1888); and the early years have been cross referenced to the; *New Zealand Government Gazettes* (1846 and 49) and Simkin and Hardie (1954).

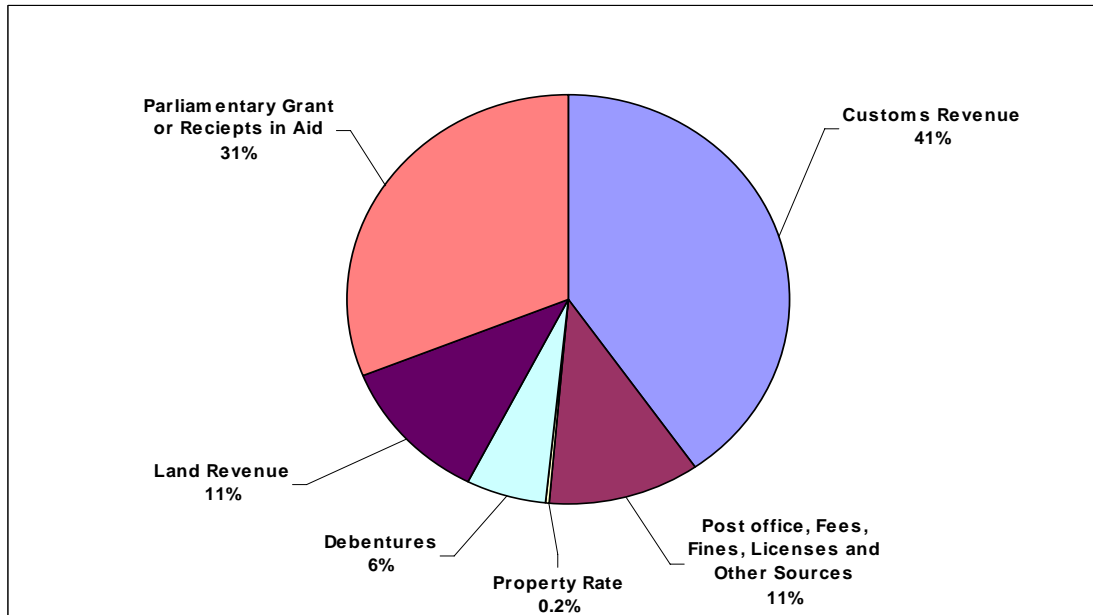
^bDiscrepancies which occur in the totals figures are as a result of counting only pounds and ignoring the shillings and pence.

Figure 4.6
Crown Colony Revenue, 1840-52: By Type



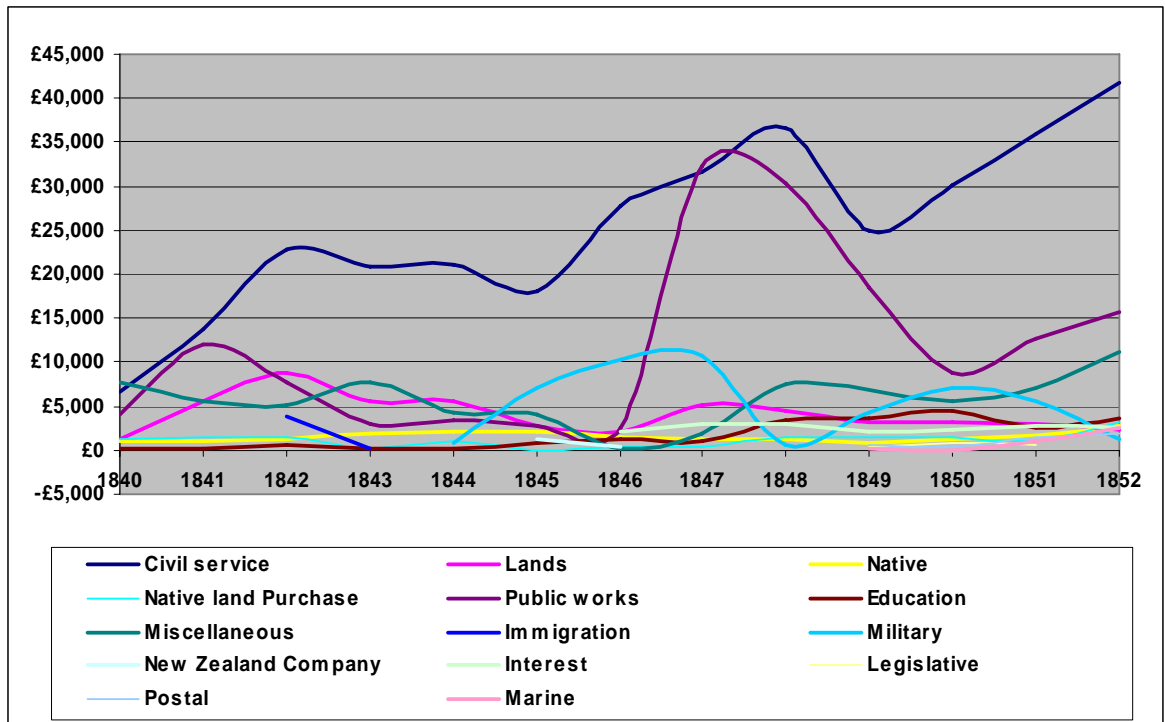
Sources: for the years 1840-45: *New Zealand Government Gazette, 1846*; for the years 1846-47: *New Zealand Government Gazette, 1849*; for the years 1848-52: Simkin and Hardie, (1954); for the years 1840-52: the *Appendix to the Journal of the House of Representatives of New Zealand, 1888*.

Figure 4.7
Crown Colony New Zealand and Aggregate Revenue, 1840-52: By Type



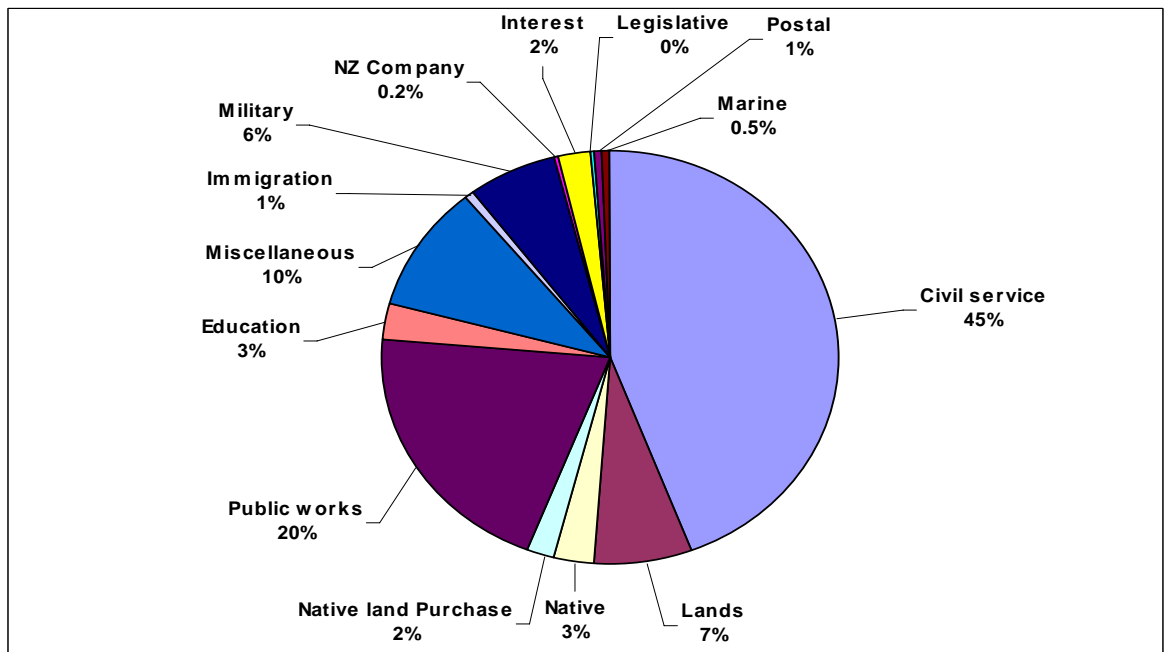
Sources: for the years 1840-45: *New Zealand Government Gazette, 1846*; for the years 1846-47: *New Zealand Government Gazette, 1849*; for the years 1848-52: Simkin and Hardie, (1954); for the years 1840-52: the *Appendix to the Journal of the House of Representatives of New Zealand, 1888*.

Figure 4.8
Crown Colony Expenditure, 1840-52: By Type



Sources: for the years 1840-45: *New Zealand Government Gazette, 1846*; for the years 1846-47: *New Zealand Government Gazette, 1849*; for the years 1848-52: Simkin and Hardie, (1954); for the years 1840-52: the *Appendix to the Journal of the House of Representatives of New Zealand, 1888*.

Figure 4.9
Crown Colony New Zealand and Aggregate Expenditure, 1840-52: By Type



Sources: for the years 1840-45: *New Zealand Government Gazette, 1846*; for the years 1846-47: *New Zealand Government Gazette, 1849*; for the years 1848-52: Simkin and Hardie, (1954); for the years 1840-52: the *Appendix to the Journal of the House of Representatives of New Zealand, 1888*.

4. 6. Conclusion

The intention of this chapter was to provide context and a broad canvas; in other words, the background for the thesis framework. The existence of multiple and conflicting records however, meant that one objective became two. Both are believed to have been more than adequately achieved by the analytical approach chosen; the establishment of a more certain public finance record for early New Zealand. The rigorous analysis of multiple records and the selection of Table 4.1 for future research purposes, and the appended detailed extensions to Table 4.1, have more than achieved both those aims.

The principal matter that came under consideration was the existence of uncertain, conflicting and multiple data sets. Three identified records were subjected to a simple method of analysis: a criteria test. The strengths and weaknesses of each series were ascertained according to the set benchmarks and standards. This approach did highlight the strength of Table 4.1 and did also bring Table 4.3's further deficiencies to the fore. This conclusion will comment on Table 4.3 first before proceeding to comment on Table 4.1.

The main issues of concern with Table 4.3 were its extreme values: the consistently low revenue figures and the high numbers recorded for expenditure after 1844. The existence of Table 4.3 was verified by Governor Grey in the late 1850's and therefore, finding myself unable to authenticate or replicate the values contained in table 4.3, analysis looked closely at the political economy of the period for assistance. After detailed consideration the conclusion was that Dr. Thomson's publication, dated 1859, was written during New Zealand's first troubled decade of self government. There is a strong argument for suggesting that Dr. Thomson did, most likely record, what was an important financial matter for government at the time; the existence of a potentially large financial liability to the British government for expenditure on defence during the crown colony period. This finding is an early indication that in matters of fiscal policy, and taxation, it is quite plausible to consider that political economy plays a large role; this is the politics of tax.

From the analysis undertaken, by a narrow margin, Table 4.1 was found to be the best data set for future research purposes. The material from which Table 4.1 is derived contains a great deal of detail and this is presented in Table 4.8 and Table 4.9. Only one

of the alternative records investigated, Table 4.2, was found, in any substantial way, to be complementary to the material of Table 4.1. Thus, an implicit assumption, mentioned in the introduction to the chapter was that analysis may find some way to reconcile all of the data sets. The implicit assumption is found to hold for Table 4.1 and 4.2 but not for Table 4.3.

The alternative hypotheses of this chapter were not considered to be mutually exclusive and this is found to be the case. Testing has found three things: One, differences in accounting method does assist in explaining the disparate data sets. Two, provincialism is a simple and acceptable explanation of the above variance between Table 4.1 and Table 4.2 after 1846; this does not hold for Table 4.3. Three, political economy factors (such as those hypothesised as being associated with Table 4.3) may well connect to the perception of some sections of colonial New Zealand and the Empire, that New Zealand had a large financial liability. That New Zealand was obliged to pay this financial liability is a less than complete argument but, a plausible case has been made for the existence of Table 4.3.

The chapter has established grounds for contesting the worth of including some early New Zealand data in historical research. It has raised issues concerning data selection which scholars of early New Zealand history may find helpful. One of those issues considers the validity of statistical information which is easily located in reputable sources: *British Parliamentary Papers* (1835-55)⁴⁹, *New Zealand Official Year Book* (various years), Bloomfield (1984) and Mitchell (2003). There are alternatives and these were presented in this chapter.

The alternative series, selected for possible further research, Table 4.1, does not conflict with the key official secondary source (the *New Zealand Government Gazettes*, 1840-49). Nor does Table 4.1 conflict with the highly detailed work of Simkin and Hardie

⁴⁹ The *British Parliamentary Papers* (1835-55), are a special case. While it is not a focus of this chapter and being mindful that these volumes have been used extensively, caution is still required. When using the *British Parliamentary Papers* a reasonable knowledge of the period, including circumstances not recorded in multiple volumes is thought a prerequisite. From the examples utilised in earlier sections of this chapter, it can be seen how the statistical information recorded is taken from material that resembles unsubstantiated media reports and some information should be treated with caution. It records snapshots in time and, often in a disjointed fashion, records parts only of the many wider economic issues.

(1954), two authors whose sources are well documented, verifiable and all from primary or official secondary sources that originated with the Crown Colony Administration. Future scholars might now have some guidance when choosing a data set to complement their qualitative material. Table 4.1, has a degree of certainty, subject to qualifications, that none of the easily locatable and reputable sources have. It is only with a valid statistical base that the qualitative commentators can build a sound superstructure for their research.

The intention of the chapter was the provision of additional information for the thesis's framework; the critical examination of the multiple and conflicting accounts has firmly established the context and the subject matter for the reader. The chapter has highlighted the issues of revenue and expenditure and placed the study firmly in the framework of the adopted fiscal structure. In the chapter that follows the task is to expand the knowledge base in respect of the concepts, ideas and applications in taxation which arrived with the settlers in 1840 and did, potentially, underpin the establishment of fiscal policy (and taxation) during the study period (1843-1846).

Chapter 5

New Zealand's Fiscal Inheritance

In the absence of a body of New Zealand literature on the subject of New Zealand fiscal or tax history, it becomes even more important that the comparative literature is critically examined and this is the chapter's first objective. The second objective is to expand our knowledge base in respect of the fiscal awareness of New Zealand's early settlers. Fiscal ideas, fiscal concepts and the application of taxation in the Mother Country, developed over hundreds of years, and it is this which is believed to have underpinned the establishment of fiscal policy (and taxation) in New Zealand during the study period (1843-1846). Furthermore, the results of early New Zealanders having this knowledge base meant that not only was the fiscal foundation of the nation firmly established but the fiscal path for New Zealand may also have been laid. The problem for this chapter is that, in the context of, the study of New Zealand fiscal history studies, few, if any researchers have attempted to critically examine the contents of New Zealand's fiscal foundations.

5. 1. Introduction

The discussion begins with New Zealand and what is now regarded as the event which founded the nation, the Treaty of Waitangi. The Treaty, quite possibly, represents our first social contract⁵⁰ and the beginnings of constitutionalism⁵¹ in New Zealand. The Treaty also contained New Zealand's first direct tax law⁵². The mention of tax laws draws into consideration New Zealand's adopted fiscal method. This chapter assumes that the genius and evolution of New Zealand's fiscal policy is the product of the

⁵⁰ See Hobbes (1651), Locke (1689), and eventually Rousseau (1762). The following comments are derived from the latter; Rousseau. For the purpose of this thesis the social contract represents a system of rights and conventions which enable the organisation of society; as it exists at any given time in a nation's history. This is how government responds and replies to its citizens and how the governed respond and reply to government. It is also highly relevant to any discussion of how individuals interact, exchange and conduct business subject to the division of labour within organised society.

⁵¹ Constitutionalism is viewed as a subset of the social contract: constitutionalism provides the guidelines as to how leaders govern. In other words it tells the government how it should conduct its daily business, and provides the structuring for the organisation of the economy. It is a structural element which is integral to the maintenance of organised modern society.

⁵² The interested reader is referred to the work of Hooper and Kearins (2003). The tax law aspects of the Treaty of Waitangi deserve a thesis on their own and I leave it for others to undertake that work.

transference of ideas concepts and applications of past fiscal activity; the European experience. The latter, in a similar fashion to Hooper et al (1994) is understood, and described as, our English heritage. The story of the development of our English fiscal heritage is not found in any great detail in the New Zealand tax history literature.

This chapter, however, acknowledges the work of Hooper et al (1994) and quotes from their publication:

“New Zealand inherited the British tax system and a similar capacity to resist new forms of taxation and new tax precedents”....and, “the settlers in the new colony (arriving from 1840 onwards) were not expecting their appointed Governor – general to impose taxes which were in any way different from what they had been accustomed” (Hooper et al, 1994, pp. 17-18).

The later chapters of this thesis will find much agreement with these statements. However, the purpose of this chapter (as indicated) is to fill a small part of the large gap hinted at by Hooper et al. The tax system in New Zealand now, is part of our shared English inheritance. This chapter outlines the historical context of New Zealand’s tax development. In explaining that background the chapter asks two questions. First, prior to 1840, what was the English experience of taxation? Second, how did their tax system evolve over the preceding two hundred and fifty years (1600-1850)?

These questions are relevant because it is quite possible that the early settlers of Crown Colony New Zealand brought with them a unique understanding of political economy. This understanding, when it came to be applied, laid the foundation stones of our modern economy. In order to understand how past tax policy was developed, some knowledge of the following is necessary: the process of transference of ideas; the modifications required by new circumstances in the recipient nation context, and the process of policy development. What this chapter seeks to find is information which pertains to the ideas and processes which came with the early settlers to New Zealand and would therefore have provided a solid foundation for fiscal thought in New Zealand during the study period, 1843-46.

While acknowledging the contribution of Hooper et al (1994), none of the other New Zealand works that are mentioned in Chapter 2 have considered the fiscal

methodologies that are built into our fiscal foundations. In McKinnon's history of the New Zealand Treasury (2003, p.11) he remarks on the centuries of English history which assisted in creating the New Zealand institution (The Treasury). Similarly, New Zealand taxation can be said to owe its heritage to the United Kingdom and the many years of fiscal evolution. Alley, et al, (2004) tell us that these [very] early historical underpinnings are important to the current-day practice of taxation. This view is also shared by Ames and Rapp (1977, p. 161) in their journal article on the birth and death of taxes. This chapter is built around the need to lay bare the foundations of a tax system. This approach is not unusual in tax history studies; thus, the work of this chapter follows a research track that is well worn.

The chapter is broken into three stages and it uses, as a method of analysis, the chronological timeline of the fiscal narrative. Stage 1 discusses the seventeenth century; Stage 2 considers the eighteenth century; and Stage 3, the shorter period, 1800-1850. Using the chronological method, the focus is on an important but limited body of scholarship regarding English tax history, something that is a part of New Zealand's English heritage. Essentially, this chapter is a summary of the extensive and informative work of many others. The opinions that form the foundations of this chapter are principally those of Martin (1833); Dowell (1885); Kennedy (1913); Coffield, (1970); Matthias and O'Brien (1976); Sabine (1980); Hartwell (1981); O'Brien (1988); Beckett and Turner (1990); Adams (1993); Douglas (1999); Daunton (2001); Horstman (2003); and Kozub (2003).

While the chapter critically examines the hypotheses of the comparative tax history literature for each century discussed, a necessary requirement of scholarship is a statement of direction. Thus, I have five tentative suggestions which, accordingly, become the chapter's hypotheses. First, the key to understanding taxation lies in determining the period's principle of taxation. Second, the balance of applied taxation changes from indirect⁵³ to direct⁵⁴, and back again, regularly over time. Third, throughout recorded history, crisis is the arbiter of change. Fourth, economic thinking is

⁵³ An indirect tax is one which is levied on goods and services; it becomes a burden on people only indirectly (Samuelson and Nordhaus, 1998, p. 441).

⁵⁴ A direct tax is one which is imposed directly on an individual or firm (Samuelson and Nordhaus, 1998, p. 441).

a major influence on tax policy development. Fifth, the politics of tax ultimately decides the final form tax policy will take.

Section 5.2 is a brief summary of the years 1600-1699. Section 5.3 will more extensively discuss the period 1700 to 1799. Section 5.4 directs the discussion towards income tax as it developed between 1800 and 1850. Section 5.5 provides the conclusion.

5. 2. Seventeenth-Century England

There are several important points to note when considering seventeenth-century fiscal policy. The first is the constitutional crisis which prompted institutional change. Crisis preceded the Glorious Revolution (1688), and the Bill of Rights (1689). It was the beginning of modern history's parliamentary democracy and a forerunner of the emancipation struggles of the nineteenth century. Crucially, one part of what is called prerogative, i.e. the right to tax, would reside with Parliament, and not with the Crown, from 1688 onwards.

Irrespective of royal, or for that matter parliamentary, prerogative, the constant needs of expenditure would lead to successive experiments with old (but revised) forms of taxation; many of these were direct measures. Over the course of the century (1601-1700), the Crown, as distinct from Royalty or Parliament, when in search of a sufficient revenue, would arrive at a handy solution. The Crown would rely (primarily) on indirect taxation and thereafter, if still short of revenue it would resort to borrowing and the accumulation of Crown debt. This approach to fiscal management promoted the development of a financial intermediation sector, which, by doing so, would give rise to a capital market for funded debt (to meet the Crown's need for a reliable and consistent revenue source). There were also improvements in fiscal administration and reforms to the tax administration. In addition, by the turn of the century (1700), the slowly evolving fiscal system would be underpinned by a new economic philosophy.

As a matter of fiscal principle, from 1601-1699 the poor were often exempted from excessively burdensome taxation. After 1700, "fiscal thought tended to favour a tax system which spared the land....and those previously exempted on compassionate grounds would be asked to contribute" (Sabine 1980, p. 97-98). In effect, this was a

breach of the previous century's social contract. It "was to break the long standing tradition, from the Tudor period, of exempting the poor.... [The] position [of the poor] was, [inevitably, to be] eroded by the excises" (Sabine 1980, p. 97). This was a major "change of attitude among late seventeenth-century governments on the issue of whether the poor ought to be taxed" (Beckett and Turner, 1990, p. 387).

At the turn of the seventeenth century, this changed approach (our first hint of a future change in the underlying principle of taxation) to "fiscal policy.... had been influenced and reshaped by financial stress and the bargaining power of narrow interest groups" (Hartwell, 1981, p. 152). Thus, the "broadening of the tax base" (Seligman, 1925, pp. 6–10), according to the new philosophy, was a dramatic change for the economy; it represented a movement away from the ability-to-pay⁵⁵ principle to a pre-utilitarian benefit principle⁵⁶. This latter principle, subject to modification, has been the dominant fiscal and economic philosophy during the eighteenth and nineteenth centuries. This principle, is assumed to have accompanied the European settlers to New Zealand⁵⁷, and was foundational for the fiscal attitude of the settlers in early New Zealand.

That new philosophy would allow the burden of taxation to be shifted in accordance with what was in the financial interests of a minority of the population. The winners

⁵⁵ "The *ability to pay* principle is explained by the following concept: people with a greater ability to pay taxes should therefore pay higher taxes" (Baumol and Blinder, 1979, p. 632). Additionally "the requirement that the burden of taxation should be just is very old, almost as old as the idea that just taxation is taxation according to the ability to pay and it predates the benefit principle.... To make *ability to pay* work requires an index of such i.e. how much can each person pay. In the seventeenth century the index was property. Fundamental to the ability to pay principle is that of horizontal equity (like treated alike) and vertical equity (unlike treated differently)" (Musgrave, 1959, pp. 91-95).

⁵⁶ "The *benefit* principle; the principle holds that people who derive the benefits from the service should pay the taxes which finance it" (Baumol and Blinder, 1979, p. 633). "The more modern form dates back to Adam Smith.... The relationship is an exchange and was accepted widely among the theorists of the seventeenth century.... Taxation was the price of services rendered and seemed a natural complement to the contract theory of state. It was accepted by writers such as Hobbes and the Physiocrats.... It was also held by Locke and adopted by the eighteenth-century writers such as Hume and Rousseau.... Throughout the contract remained the basis of organised society and protection appeared as a major theme and at times the only objective of the contract. Taxes were therefore, considered a price to be paid for protection and as a membership fee for association in organised society" (Musgrave, 1959, p. 62-64).

⁵⁷ The inference is deliberate and does exclude members of the official Crown Colony Administration. The reason for doing so is that members of the administration, principally Governor Fitzroy through his religious and political associations, may have been more inclined towards the ability to pay principle. It is noted in Musgrave (1959, p. 91), that church men such as Bodin, humanists such as Rousseau, Utopians such as Sismondi, Manchester liberals such as Say or Mill shared a belief in this principle. Furthermore, it can be seen in Governor Fitzroy's fiscal reforms the arguments of the seventeenth century and in his under developed economy the difficulties he faced were similar to those of the Crown during the seventeenth century.

were the few and the losers the many. Perhaps this is not surprising as society, for nearly another two hundred years, remained essentially undemocratic and unrepresentative of the poor and the middle classes.

Second-best⁵⁸ the tax system may have been, but seventeenth-century fiscal policy did lay the platform upon which social and economic changes took another major step forward. The method of fiscal management, begun in the seventeenth century, was a positive step; it was also a positive step in the rise of the fiscal state and the progress of the masses towards greater representation in parliament. The fiscal initiatives of the seventeenth century, viz. the indirect tax; the beginnings of funded debt; and limited direct assessments, would provide the political balance and allow successive governments to derive the revenue to meet expenditure needs. By the end of the century the accepted fiscal approach would assist in creating the Empire; and, this fiscal approach would also determine the future reality for New Zealand some centuries later.

5. 3. Eighteenth-Century Britain and the Hypotheses of the Literature

This section considers the next century in English tax history 1701-1800. When Kozub (2003, p. 363) speaks of the period 1700-1850, he comments that “Britain developed a tax system that has basically remained intact to the present day”. In reality the fiscal method, the means of taxation, and the foundational methodologies for the century were (as shown above), formed during the previous century. Initially, there was little reason to change what was already in place.

The methods of taxation and the convention of the benefit principle (soon to be augmented by the ability-to-pay principle) would maintain the foundations of the fiscal system: the dominant philosophy of indirect taxation, borrowing and intermittent direct assessments. Furthermore, the evolution of that taxation philosophy was influenced by the Enlightenment; it was a time when Adam Smith gave us his famous maxims of taxation⁵⁹. Nevertheless, the reasons that gave rise to increased need for fiscal revenue in the previous century (internal and external crises) also applied throughout the

⁵⁸ Second best refers to what is the best available policy when the true optimum (the first best) is unavailable due to constraints on policy choice. The Theory of Second Best says that a policy that would be optimal without such constraints (such as a zero tariff in a small country) may not be second-best optimal if other policy is constrained. See Lipsey and Lancaster (1956).

⁵⁹ Smith’s maxims of taxation were: *Equality in Collection*; *Certainty of Collection*; *Convenience of Collection*; and *Economy in Collection* (Smith, 1776, pp. 777-778).

eighteenth century. Indeed, crisis was almost the norm during the century. The continuity of the identified driver of fiscal policy (crisis) helps to explain the following hypotheses of the tax history literature which relate to the period (1700-1799).

In broad terms, the figures available for the eighteenth century suggests that central governments of France and Britain used most of the revenue they acquired from taxes to support their respective military establishments and to pay interest on debt which had been incurred in large part also to enlarge their armies and navies in wartime. (Mathias and O'Brien, 1976, p. 602)

Due to persistent military needs there was “a need to raise and maintain high levels of taxation during the century” (Douglas, 1999, p. 24). The tax history literature also suggests more clearly that the expenditure needs of war had the effect “of imposing high and rising taxation” (Beckett and Turner, 1990, p. 399). Beckett and Turner also suggest that “the overall rise in taxation was regressive” in its impact (1990, p. 401). Regressive or not, for successive governments it is also possible that “inflation killed the revenue⁶⁰” (Coffield, 1970, p. 67). Nominal revenue had been purchasing fewer goods and services. For the military real revenues were needed to conduct campaigns. Inflation would require the Crown to increase rates in many taxes and also to implement new tax measures to maintain some semblance of fiscal balance (much public borrowing was also undertaken).

It is also worthwhile to remember that during the period there was population growth (increasing aggregate demand) and economic progress for the Crown to consider. Further, the principles of sound finance also had to be mastered. To complicate it all were the political concerns which focused on a social issue: the equitable distribution of the tax burden.

5. 3. 1. Political Methodology

Taxation reform of the previous century, the seventeenth, had supposedly centred on a singular premise: “That a man’s total expenditure was a more equitable test of tax ability than income or wealth” (Hartwell, 1981, pp.142-143). This meant that the benefit

⁶⁰ The total amount (value in nominal terms) of tax collected by the ruling authority I term the revenue.

principle ruled the day; the policy counterpart was indirect taxation. This philosophical approach continued throughout the eighteenth century, yet the body politic still sought to increase the revenue on this limited tax base. Expenditure, and thereby consumption, was the index, and this dictated that the type of taxation used, principally, indirect taxes. Any increase in the revenue thereafter, would be determined by increasing the indirect tax base and the consequent final distribution of the indirect tax burden. The new indirect taxation imposed by the Crown during this period, intended to impact upon the previously exempted lower classes, the merchants, and the industrialists. This extension to the tax base was to be achieved by increasing the number of goods subject to customs duties and by making extensive use of excises and charges (the latter - charges - are more commonly understood as being direct taxation).

Hartwell (1981, pp. 144-146) argues that the increased dependence on, and use of, indirect taxes during the century arose because these taxes were easy to collect and supplied predictable revenue yields. Hartwell's comments imply that this is an adequate explanation for successive governments continuing to rely on indirect taxation for raising revenue. A second suggestion comes from Boldrin et al (2005, p. 1). They refer to population growth and the subsequent economic growth, which led to a more dependent population. Dependence refers to a shift of the population from the rural areas to larger towns and cities, places where the population was more concentrated and, consequently, were more exposed to indirect taxation. These two theories, in combination, quite logically explain the increasing revenue trends associated with the period's indirect taxes⁶¹. In any event, given the Crown's dramatically increasing need for revenue, further taxation was still going to be needed.

The British tax history literature informs us that how revenue was raised during the eighteenth-century, apparently, mattered little to policy makers. Whether direct or indirect tax measures were used to raise that revenue was not a primary focus. The interest of the English government during the eighteenth century centred on the capacity of the population to pay (bear the burden of taxation) rather than on ability to pay (Kennedy, 1913, Chapter. 5, in Hartwell, 1981, p. 151). Governments were focused on raising revenue in a manner that did the least harm to the economy and the interests of

⁶¹ As an aside, in 1845 Governor Fitzroy would use the concentration hypothesis (Boldrin, 2005) as a justification for moving from direct back to indirect means of taxation in New Zealand (Fitzroy, 1846).

the political elite. “As long as the taxes were used to finance the public good [i.e. defence requirements], then the complaints of those represented in Parliament and those who were not [which was most of the population], were muted” (Smart, 1910, p. 37, in Hartwell. 1981, p. 148). This last comment appears in stark contrast to the view that Parliament during the period served the interests of the few. However, it depends rather crucially on one’s definition of the public good and the underlying principle of taxation which was applied at the time. I discuss this further below.

As early as 1727 however, taxation would be seen to be aimed at achieving the theoretical premise of the benefit principle, sparing the land, but not the poor. The politically powerful of the eighteenth century adhered to the philosophy that “all persons should pay taxes [in other words, the benefit principle]” (Hartwell, 1981, p. 147). Since everyone shared in the legal protection and services provided by the state and, since government provided internal stability and national defence (and not much else), it could be argued that all benefited equally (Musgrave and Musgrave, 1980, in Kozub, 2003). Any burden (taxation) should therefore be proportional to an individual’s circumstances and condition of life.

The important and determining caveat that went with this eighteenth-century attitude was that expenditure and consumption were to be the index for taxation, not income or capital. By 1780, an accepted beginning of the industrial revolution (Kozub, 2003, p. 363), this political strategy would come under pressure from cumulative and increasing war costs (including debt) and successive financial crises (Kozub, 2003, p. 371-379). Thereafter, economic necessity is credited with influencing political interests and this led to a redirecting of fiscal applications, namely the imposition of new taxes.

5. 3. 2. Towards a New Philosophy

Proposing major tax changes at the end of the eighteenth century would mean renegotiating the social contract⁶² but, this time negotiations would have to include the growing interest groups of commerce and industry. Landed interests and old money

⁶² The key aspect of the constitution of English society was that the people handed over some rights to government, and in return, the latter would protect their interests and some of their rights. With respect to taxation, I consider that the current epoch of English civilisation was initiated in 1086 by the Domesday Book; this was a significant turning point and a tax document. From the Magna Charta to the Reform Acts of 1832 onwards the constitution underwent major alterations but the basic premise remains. I base these thoughts on the work of Rousseau (1762).

interests would see commerce and industry as a new source of revenue; impositions on this group would alleviate them from the need to pay more. At the same time the commercial and industrial sectors themselves would negotiate for tax reductions. They saw themselves as the most productive sector of society. Clearly, there was a tension between the appropriations of these groups. Each side would lobby to shift the tax burden elsewhere.

In addition, governments would have to consider the collective consequences of the industrial revolution. The industrial revolution had produced economic growth. The benefits of that growth had not been distributed evenly among the community and many had suffered. Several factors had led to the shift of rural dwellers to urban locations. First, there had been substantial population growth, mentioned in the previous subsection. Second, there had been changes to agrarian practices which would require fewer personnel to work the farms. Third, there had been industrialisation itself. The consequences of industrialisation, however, were often social iniquity and infrastructural failure⁶³.

The impact on the social contract would, according to Plehn (1902), be felt via the development of (a more effective system of) constitutionalism⁶⁴; this issue, constitutionalism, would mature in the next century. For fiscal policy makers these multiple realities of social and political change would lead them to consider another important matter. That consideration was that those who had, and would, increasingly become caught up in the expanded tax base (individuals, commercial and industrial

⁶³ “Many of the traditional modes of life were destroyed or changed beyond recognition. For some, life became better, for others it became worse....The inevitable urban growth brought with it crowded conditions, pollution, disease, crime and a host of other ills” (Canterbery, 2001, p. 68). The prevalence of the many social problems of the period is universally recognised by historians.

⁶⁴ “The trend of the development of taxation was abruptly changed by the industrial revolution at the close of [the eighteenth] century. On the one hand, the vesting of constitutionalism, vesting as it did, the control of the purse in the people, and especially in the taxpayers, had the inevitable effect of changing the ideas underlying the tax systems. New ideas as to the justification of taxation developed and with them came a tendency to seek new measures of taxation. On the other hand, the rapid increase in wealth, the growth of new forms of wealth, such as invested capital, the birth of new kinds of property, as the many kinds of credits, and the rapid change in the distribution of wealth among the different classes in the community, - all of these and other similar causes led to the constant extension of taxation to the new forms. Old taxes which were well suited to certain simpler conditions of society become under new conditions unjust, and give rise to dissatisfaction with the many attempted and some accomplished reforms. The [reforms would prove to be] no more satisfactory in the long-run as conditions changed again” (Plehn, 1902, pp 144 – 146).

groups), in future, would begin to take more interest in the method of taxation and in how it would affect their interests.

Nevertheless, in the interim, at least until the 1790's, successive governments could afford to ignore those without political power. On the other hand, they avoided political conflict with at least the principal actors in the social contract (remembering that until the twentieth century this was a minority group). This favourable approach to minority interest groups became steadily more fragile as the system of public debt (that had traditionally maintained the government) was increasingly seen as undermining the minority's economic stability. As a result of rising public debt, rather than interest group activity, new views on what was the fiscally optimal approach to raising revenue would begin to emerge.

It was however, a new crisis, war with France, which would force the issue of fiscal change. The difficulty of funding the renewed conflict was the issue which compounded the (debt) problem and decided the matter. The difficulties of how to fund the war and, the other financial problems of government, were clear to those who decided fiscal policy. Less clear however, was how to raise sufficient revenue to meet these financial needs.

The first problem was that one potential revenue source, the commercial interests (see above), was already burdened. They clearly were opposed to further increases in taxation. The other and more important factor was that the Bank of England had introduced a specie-backed paper currency. It did so to counter the loss of bullion from the country to service the growing burden of war loans (Ebeling, 1999)⁶⁵. This move (by the unofficial reserve bank) reinforced the effect of the earlier loose monetary and banking policies of successive eighteenth-century governments and accelerated a process that is unemotionally explained by the term, fiscal and economic stress.

⁶⁵ In Great Britain an important lesson had been learned as a result of the British government's financing of the war against Napoleon. Once the war with France began in the 1790s, the British government saw its military expenses rise dramatically. The government had what would be called today a line of credit that enabled it to pay its expenses with bills that the Bank of England was expected to redeem on demand in gold. But by 1797, the bank was faced with such heavy demands for gold redemption from claimants, both domestic and foreign, that its gold reserves were reaching dangerously low levels. The British government passed the Bank Restriction Act, which freed the Bank of England from having to redeem its bank notes and other financial claims in gold. When the Restriction Act was passed, the Bank's notes in circulation had a face value of £9.7 million on gold reserves of £1.1 million (Ebeling, 1999).

With the benefit of hindsight, a strong argument can be made for loose monetary policy of the period being far more important to the story of financial crisis than some commentators have suggested. Could the use of funded debt, and the Crown's interdependent relationship with the emerging financial sector be more important than military expenditure as the driver of tax policy? It may be that the system of fiscal management used up to the late 1700's (primarily, indirect taxes and funded debt), was, at the very least, a contributing factor to the economic stress of 1797. A suggestion of this chapter is, that problem was, quite possibly, applied monetary policy.

Even though there was much discussion in political economy circles of money, the politicians often ignored the theoretical developments⁶⁶. This was a period of much experimentation in the field of financial intermediation, and experimentation in tandem with loose financial oversight, led to multiple crises in the eighteenth century and accelerated inflation. Inflation did not stabilise until the early nineteenth century and the governments of the period do appear to be implicated in this⁶⁷ perseverance of inflation.

As a result of inflation, the revenue during the century may have responded in a similar fashion to the previous century, a period when inflation reportedly undermined the public revenue. If this undermining of the revenue did occur it would also have increased public deficits and reinforced the reality of financial necessity. Further evidence for the above argument of experimental financial governance during the century and, of successive governments' having to close a link to the Bank of England, is perhaps demonstrated by successive Acts of Parliament which related to raising sufficient revenue and the association of Parliament to the Bank of England⁶⁸.

⁶⁶ This last opinion is highly debatable, many would argue that the quantity theory of money (what is the basis of modern monetarism), was well understood during the period. The quantity theory of money came from the ideas of men like Copernicus (1473-1543), Jean Bodin (1530-1596) and others, all of these thinkers had an influence on David Hume's "Of Interest" in 1752. By 1797 the theory was clearly enunciated by Walter Boyd (1754-1837) and "the connection of money quantity to commodity prices and prices in general were a longstanding debate during the eighteenth and nineteenth century" (Hollander, 1910-11, pp. 429-470). Further, throughout the eighteenth century, the quantity of money, and the result when there was too much in circulation were keystone debates of political economy and the intermediation sector was much discussed

⁶⁷ See Hoppit (1986), for an overview of successive financial crises in eighteenth-century England.

⁶⁸ The reader is referred to an interesting book and this footnote provides a fairly complete reference because it assists in explaining the above statements. Anonymous. (1833). *History of the Rise, Progress, and Present State of Banking In All Parts Of The World; In Which Is Developed An Entirely New principle of Circulating Medium, For The United Kingdom of Great Britain & Ireland To Which Are Appended All Accounts Annexed To The Evidence And Report Of The Committee Of Parliament, On The Bank of England Charter In The Session Of 1832*, (London: Sherwood And Co). On page five

Nevertheless, the reality of financial necessity at the end of the eighteenth century was widely acknowledged by the political actors of the day and by the influential political economists of the period (Horstman, 2003). The political initiative undertaken to meet the burgeoning financial need included the reappraisal of direct taxation and ultimately its resurgence as a means of increasing the revenue. It would be only an adjunct to the existing system of taxation but it very clearly represented a broadening of the tax base. The proposal which surfaced, the triple assessment⁶⁹, would form the foundation for the future direct taxation of incomes throughout the civilised world.

5. 3. 3. Winners and Losers

Supports for the new direct tax initiative (the income tax) relied on political acceptance and some aspects of that acceptance need elaboration. There are three points of interest here. First, the British Parliament at the time was made up of the landed and moneyed classes who sought to avoid paying taxes on their wealth (Samson, 2002). Second, the income tax they agreed to was seen as a compromise (and also an alternative to further land taxes). Third, income tax was also seen as “an alternative to increasing indirect taxes which burdened and retarded trade” (Adams, 1993, pp. 349-352) among the politically active commercial classes.

The first and second points may have more support from the evidence, however slight, than the third argument. The record of tax revenue after 1799 provides some silent insights. Initially, the revenue from land and assessed taxes remained static but the return from excise taxes exhibited significant growth as did customs and stamps (Mitchell and Deane, 1962, p. 386-398). Alongside these other tax changes, the income tax, at first, did not perform well as a revenue raiser. Therefore, the chapter’s hypothesis is that there were other economic benefits of equal or greater interest to the political actors from the taxation changes.

the book does suggest that most of the core of its argument arises from an article of the same title, in the *London Encyclopedia* of 1833.

⁶⁹ The tax was a multiple levy on the existing assessed taxes, and it did also contain an income tax. In addition, the structure of the tax law continues the principle of graduation. Also evident was the bottom threshold which sort to protect the less well off and an upper threshold which capped the amount payable. In short the triple assessment was a simple and early form of progressive taxation. Further the conceptual approach and the structure of the tax is similar in some ways to the property rate applied by Governor Fitzroy in 1844 New Zealand.

The income tax supposedly had many societal advantages: It spared most of the population and, in terms of the social contract, it was supposed to be a trade-off for reductions to indirect taxation (although the latter never eventuated). The wealthy were no doubt acutely aware that tax base broadening along these lines would shift the burden and avoid the necessity of increasing land and assessed taxes (and this is what happened). In tangible terms then, those societal advantages were limited to the existing principal actors in the British political economy: the landed and moneyed classes.

Whether the income tax had the ability to meet short-term revenue needs or not, and whether that was its fiscal purpose is, therefore, debatable. The reality was that the income tax represented further tinkering with the existing measures of taxation. In principle, it combined several older direct taxes, which, when combined, did attempt to tax all forms of property and income with the exemption of a fixed sum. It was seen as “no different from the older direct taxes (assessments, and just as avoidable), although a departure in method” (Plehn, 1902, p. 137).

The fundamental difference from past taxation practice was the new economic sophistication and improved financial organisation that accompanied the new tax initiatives of the state. Now the ability to effectively tax income and wealth was beginning to match the will of the state to tax income and wealth. Implementing effective “direct taxation [was now, in conjunction with the burgeoning awareness of constitutionalism]...both politically acceptable and, a practical possibility” (Seddon, 1968, p. 3).

5. 3. 4. The Close of the Century

Some authors have claimed that taxes were high and that they remained so during the course of the eighteenth century. Some have even gone on to explain burdensome taxation as being because of the methods and principles established at the end of the seventeenth century. Finally, there is the universal claim that the needs of war completely explain the evolution of taxation in the eighteenth century. The work of this chapter contests all of those views.

That taxes were regressive is reasonably plausible. This would have been compounded by the fact that the British economy was still, basically agrarian, throughout the century. In addition, the fiscal system, which relied on indirect taxation, had limits on how much revenue it could generate. The continued use of this system of taxation may have been driven by a continuation of the dominant economic philosophies of the time. Further, it is arguable that taxation had been, during most of the eighteenth century, constrained by the lack of economic sophistication and the undemocratic forum that was Parliament during the period. Only the former (economic sophistication) would have changed by 1799.

If rates and measures of taxation did change or increase during the eighteenth century (and this is known to have occurred), those changes arose in order to combat inflation and to maintain a revenue-neutral position. Fiscal neutrality during the period would be required in order to maintain a social balance that was in accordance with the then ruling ideology. That social balance and the ruling ideology however, would be affected by economic progress and population growth. Lastly, the point mentioned above, that of inflation undermining the revenue during the century, is worth discussion and, extremely plausible on the evidence. The financial activities of government during an early period of financial evolution can be seen to have impacted upon the economy and this also is of importance.

All of these issues, in conjunction with changing socio-economic conditions, therefore, did alter the social contract; this in turn made base-broadening an inevitable option. The means of attaining the fiscal need for revenue thereafter would include the direct taxation of property and incomes. In conclusion, therefore, the hypotheses presented in the introduction to Section 5.3 have not been proved wrong, but analysis has offered some additional insights with respect to the drivers of, and constraints on, tax policy (namely, that poor governance led to inflation and inevitably financial crises).

5. 4. Nineteenth-Century Great Britain and Direct Taxation

It can be said that the evolution of income tax during the early years of the nineteenth-century arose from the needs of a changing economy. It was a period during which much ideological debate would take place and the management of the economy by the state would undergo large changes. Social, political and financial stress would combine

to create pressure for change in various areas. From the end of the Napoleonic War (1815), a period of development in all areas of the economy commenced; this was especially visible in changes to fiscal policy and taxation.

Kozub (2003) states that the period 1700-1850 gave us the foundations of the tax system we have now (in the developed economies in general, and in New Zealand in particular). Hartwell (1981) considers the years 1790-1830 to be the crucial period for the development of taxation and Dowell (1885) tells us that 1815-1842 was “taxation in its zenith” (Dowell, 1885, in Horstman, 2003, p. 111). For the purposes of this thesis however, the formative years for income tax are considered to be the years 1800-1850.

5. 4. 1. The Literatures’ Hypotheses for the Century (1760-1850)

The years 1790 to 1830, mentioned in the introduction to the section, have been designated as being critical in English tax history. A reason for this perception can be found in the comments of Hartwell (1981).

Twenty percent of the national income was transferred to government.... [T]axes on imported goods and excises increased the cost of manufactured goods.... [S]tamps increased the cost of transactions, generally raising prices; assessed, land and income taxes reduced the incomes of all but the poor and hence reduced the ability to accumulate and to invest in productive activities. (Hartwell, 1981, p. 151)

It is not that surprising therefore, that the period has been called “taxation in its zenith” (Dowell, 1885, in Horstman, 2003, p. 111). Contextually however, the above quote pertains to the very important years 1799 to 1830. The pattern of incidence, and obviously, the final burden of taxation during this period, was quite different in the years after that date: the exception of course is customs, an indirect tax which continued its revenue gathering climb until after 1850 (Mitchell and Deane, 1962, pp. 386–398).

In the tax history literature for the period, war is considered a driver and a large contributing factor to the development of fiscal policy: Harling and Mandler say that “war and foreign policy.... were the motors of government” during the period (1993, p. 46). If this argument is accepted, then it is possible to suggest that the external sector determined British internal fiscal policies and thus, also taxation policy. This external

direction is suggested to be, part only, of the story and, the chapter has raised the reader's awareness to the relevance of internal crisis also heavily influencing tax policy development (see Section 5.3). Returning to the matter at hand: O'Brien states that "War was the driver [of fiscal policy] and it was funded by loans and taxes" (O'Brien, 1988, p. 2). He also states that "taxes—.... were indeed the sinews of war" (O'Brien, 1988, p. 28). Elsewhere, Hartwell suggests that "taxation was, essentially, for one purpose only – war" (Hartwell, 1981, p. 151).

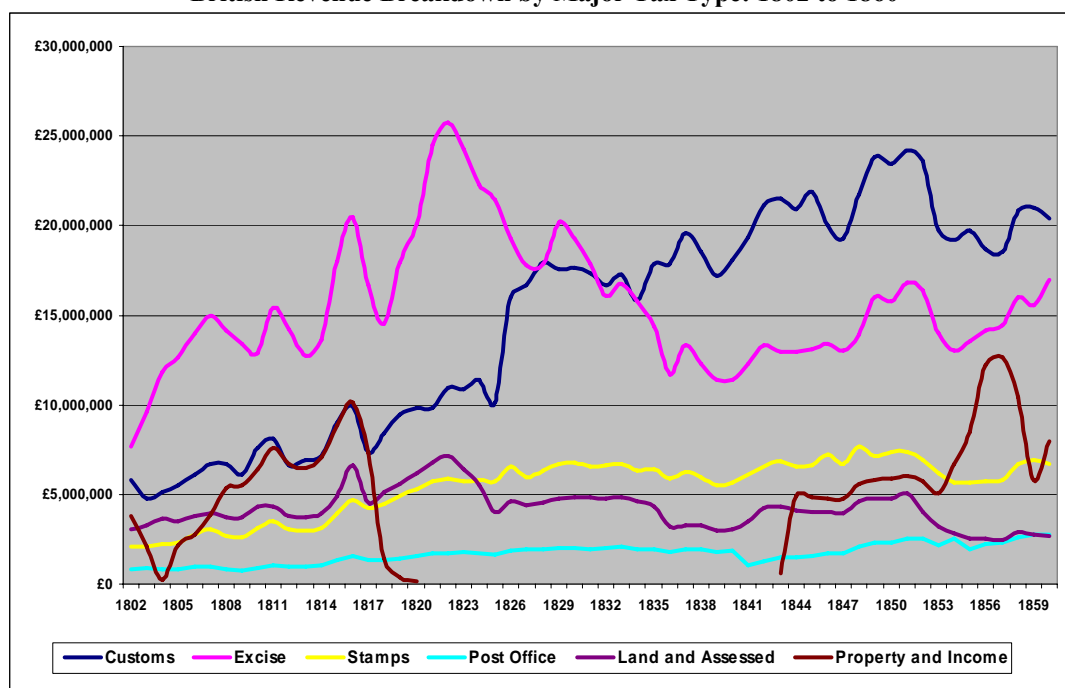
Alternative hypotheses might conflict with the idea of war being the key determinant of taxation. Horstman (2003) comments that the public perception was that the wealthy weren't carrying their fair share of the burden of taxation⁷⁰. He also reports that Alexander Baring, a city financier, had said that many MP's thought that "taking care of the landed interests was their purpose" (Horstman, 2003, p. 132). "The main economic impact of taxation in Britain fell upon consumption and demand rather than savings and investment" and "the failure to tax wealth and rising incomes effectively—which was at bottom a political decision—accounts for the increasing proportion of public revenue contributed by indirect taxation" (Mathias and O'Brien, 1976, p. 615). Mathias and O'Brien may have been speaking essentially of the previous century (i.e. 1660-1760) but it does, in my view, apply equally to 1760 or 1860.

At this point of the discussion attention is directed to the graph below (Figure 5.1)⁷¹. From Figure 5.1, the changing trend for each main tax type is discernible. Further, this clarifies the difference that time period can make to analysis of the period. For example, after 1816 and again in 1822, reductions are made to several heads, namely excises, land and assessed taxes, and income tax. Lost revenue from these items appears to have been replaced by customs receipts from 1825 onwards. The beneficiaries appear to be those who had previously paid income tax and the land and assessed taxes. On the other hand, after 1844 reductions in several heads of taxation are recouped by way of income taxes and tariffs: quite simply this shows a change in the balance of taxation.

⁷⁰ "Comments abound throughout the period [1816-1842]": No specific year is mentioned (Horstman, 2003, p. 132).

⁷¹ The data displayed in Figure 5.1 are "real" having been differenced using the general price series of Mitchell & Deane, (1962, pp. 392 – 399). There is also an alternative price series available (Phelps-Brown & Hopkins, 1956, pp. 311 – 314). Nominal data does not provide researchers with a similar graphical description of the trends associated with taxation for the period.

Figure 5.1
British Revenue Breakdown by Major Tax Type: 1802 to 1860



(Mitchell and Deane, 1962, pp. 386–398).

The previously stated hypotheses for the century were that taxes were high and increasing, and further, that the driver of the process was war and foreign policy. Putting the distribution of the tax burden and fiscal illusion aside for the moment, “the income tax of 1842.... was, deliberately [designed] to balance the loss of revenue from the long process of tariff reform begun decades earlier” (Sabine, 1980, p. 130). However, while the data in Figure 5.1 does not conclusively find for this statement, it can be said of at least the excise taxes. Irrespective of the ideas of Sabine, the concept which this chapter further develops, are the ideas of Horstman (2003), and Mathias and O’Brien (1976). In tandem those mentioned authors perceive that there are drivers of taxation other than war and debt and these may equally be responsible for tax policy change.

This final idea, that drivers other than war and debt may be responsible for tax policy change, is important. While policy change in Europe was influenced by war and debt, not all countries have experienced the same external conflict that England (then Britain and finally Great Britain) did over the course of hundreds of years. While war is considered in the literature to be an important driver, others, may be equally important in a more peaceful economic environment.

5. 4. 2. Fiscal Performance the Economy and Taxation

In real terms, successive early nineteenth-century governments would experience many years of budget surplus; such surpluses were achieved more frequently than in the previous century. In the first half of the nineteenth century there were thirty years of deficit and twenty years of surplus. There were two main periods of deficit. The first period was 1800-18, which encompasses the Napoleonic wars. The second period was 1836-43, quite possibly the middle of the reform years, and it included a period of widespread economic depression. This second period was the moment when the responsibility for social and political reform passed from the Whigs to the pragmatic Tories (conservatives)⁷² and this was to have a dramatic impact on fiscal policy.

It has been argued, that post-1820, the population of England was “realising the consequences of continual warfare and the mounting public debt. The burden of these two circumstances was what many in their society considered, heavy and increasing taxation” (Smith, *The Edinburgh Review*, xxxiii: 77-78, 1820; in Hartwell, 1981, p. 130, also in Horstman, 2003, p. 111). While taxation may have been rising during the period, this trend was complicated by the requirement to at least strive to maintain neutrality between interest groups and to produce some sort of social balance (as they had in the previous century).

Political, social, and financial stress after 1816 was reinforced by the financial crisis of 1825/26. This latter event did coincide with what can be described as a real change in fiscal policy. The policy change included rate alterations for existing taxes and the inclusion of new tax law; moves designed to maintain balanced budgets. However, successive governments would still continue to increase the public debt in order to meet public expenditure needs.

The comments made above, those concerning the public’s perception during this period of high and increasing taxes, may have some substance when viewed over the long-run. Tax revenue did grow over the period and obviously the tax take was much higher in 1850 than in 1760. The term high is relative however, and thereafter, the question then

⁷² This view of politics during the era is constructed from reading primary sources of the period and some secondary literature. The ideas expressed are not attributed to any single source. For example, I have read Irwin (1989); Willcox (1943); the *Edinburgh Review* (various years) and the *Quarterly Review* (various years).

becomes: taxes were high relative to what standard? We can ask, for example, were they high in terms of people's incomes, as a percentage of GDP or after considering inflation?

5. 4. 3. Population and Economic Growth

The increase in population during the period may well be implicated in the British fiscal story and rightly deserves a mention. Boldrin makes the following point: “around [the year] 1770 the population growth rate increases substantially and [thereafter] remains high for a century and a half” (2005, p. 7). In addition, in the early nineteenth century the population of Britain was no longer (as it was in the previous century) dominated by agricultural production. “By 1800 England had the lowest proportion of its population engaged in farming of any country in the world” (Overton, 1998, p. 53). This is in stark contrast to statements in Section 5.3 where it was stated that prior to 1800 the population of Britain was largely agrarian. The Industrial Revolution had wrought major changes in something less than fifty years. The population was now more concentrated in larger communities, where they (the general population) were less self-reliant and subject to regressive indirect taxation.

The tax system at that time (1800) primarily used consumption taxes and they fell on the necessary items of existence, as well as luxuries; the incidence of such taxation passed primarily to the consumer (it can then be suggested that this is where the final burden of taxation rested). There were also excise taxes which impacted upon locally manufactured products; these taxes reinforced the burden of taxation and hence the regressive incidence of taxation was compounded.

Given the social changes spoken of above, this was not a tax system that was easily avoidable. It is not unreasonable therefore, to assume that tax revenues would respond in accordance with the changes to the population. Tax revenues were going to rise, and they would form a larger share of national income, what is now called Gross Domestic Product (GDP). The next question is: what is known about GDP during the period?

While England had maintained economic growth of about 1.32 percent per annum between the years 1780 and 1801, this increased this to about 2 per cent per annum during the period this section covers (Crafts, 1983, p. 199). Up to 1817 England had

also experienced rising prices and falling purchasing power for workers. Between 1760 and 1820 the standard of living, measured by personal consumption, apparently showed little change (Crafts, 1983, p. 199). Under such conditions, increased, and new taxes, would have been a burden to a large section of the community.

Without detailed national accounting data it is difficult to say how revenue performed as a percentage of GDP but, Crafts (1995) does suggest that in 1788, tax, as a percentage of GDP, was (about) 12.4%. From Williamson (1984) it can be estimated that the tax percentage share of national income was 20.2% for the years 1811-20⁷³, falling thereafter to 10.2% for the years 1841-51. Corresponding values for tax as a percentage of GDP are found in Kozub (2003). Also notable in the data, is how tax as a percentage share of GDP matches the pattern of inflation for the same period (1780-1851)⁷⁴. When inflation is high tax revenue is high, when inflation is falling, so too is tax revenue. This would be expected with a tax base that is predicated on the imposition of indirect taxation⁷⁵.

Were taxes high and increasing, and were they driven by the needs of war and internal financial crises? From the evidence above it is clear that other factors, aside from war and external policy, may, just as they did the previous century (internal financial crisis) have once again had a substantial influence on at least tax revenue (returns) during the period. One conclusion that can be drawn is that the indirect tax system appears to have responded to population changes and also to inflation and deflation. These conclusions are borne out by the GDP record for the period.

5. 4. 4. Toward the Income Tax

It is suggested by Smith (1820, in Hartwell 1981, p. 130, and Horstman, 2003, p. 111) that “the English believed they were a heavily taxed people” during the period (1800-1850). I conclude that heavily taxed is a subjective term and the question could be asked; they believed they were heavily taxed in comparison with what? Or, one could

⁷³ These figures correspond with the statements of Hartwell (1981) quoted in the first paragraph of Section 5.4.1.

⁷⁴ See Mitchell & Deane, (1962, pp. 392 – 399) and Phelps-Brown & Hopkins (1956, pp. 311 – 314) for price statistics relative to the period.

⁷⁵ This finding sheds light on the hypotheses of the previous centuries: inflation killed the revenue. In fact it may not have. In fact the real effect of inflation may have been felt on the expenditure side as mentioned in Section 5.3.

ask: by what standard of measurement did they feel heavily taxed. Some studies, such as Mathias and O'Brien (1976), compare English with French taxation; I suggest a different comparison. The comparison is with the experiences of those paying taxes prior to 1800: "taxation memory went back to pre-income tax days to a period when national debt was low[er] and government expenditure was tiny [smaller]" (Hartwell, 1981, p. 133). Irrespective of popular opinion (or the views of differing authors above whose contradictions may be due to the different time periods that they examined) as England moved on to the 1830s there would be much change to fiscal policy. This period is discussed next.

5. 4. 5. The 1830s

The emerging fiscal reality of the 1830s would be a contrasting picture: there would be reduced tax burdens for some sectors and for other sectors the opposite. It was not until Parliamentarians became aware of the reality of increasing indebtedness that the essence of the debate changed. A Select Committee on taxation was appointed in 1830, but no fiscal reform resulted.

Over the years before and after 1830, several authors, including Henry Parnell (Parnell, 1830) published on the subject of public finance. "There was the idea of imposing income and property taxes as a substitute for the existing system of taxation" (Sabine, 1980. p. 121). But political and economic idealism moved in another direction. "The salt duty was abolished, male suffrage was extended and slavery was abolished in 1832" (Douglas, 1999, p. x). The abolition of slavery added to public debt when in 1833 the government undertook to compensate slave owners⁷⁶ but, there were also other positive externalities to consider. The demand for public goods was about to increase and this would lead to much new expenditure: for example, the loan raised to pay for emancipation also funded the beginnings of state education.

The year 1832 saw the passing in the House of the first Reform Act and it marked another change in the British social contract. As usual, taxation would play a significant part. The Reform Act broadened the franchise and also delivered the foundations of the Westminster system of government that we have today. This system was constructed on

⁷⁶ See Sheridan (1961) for an interesting discussion on the abolition of slavery and the cost to the British taxpayer.

the basis of the following doctrine: “the statesman.... must hold the reins; and not commit the management of the horses to the discretion of those whom he is employed to conduct” (Steuart, 1998, (1767), vol. 2: 34). In other words, the social structure in society was assumed as given; there are those who rule and those who are ruled. This philosophy underpinned the English polity and the social contract of the period. Understanding this philosophy is necessary for those who seek to examine the development of taxation during the nineteenth century in Britain or in New Zealand. Political power was controlled and directed by a small interest group who had established the rules of the political game for several generations into the future. It is a salutatory thought that not until the twentieth century that a representative democracy was achieved (Coffield, 1970, p. 65).

If, as suggested, the Reform Act entrenched the positions of those who had become used to ruling, it is plausible to subscribe to the view that government (what we now think of as the arbiter of interest group activity) was also an interest group. This accords with the view of Olson (1965) and it is important to understanding fiscal change. The political system I described has directed tax policy since that date and the welfare of the elite interest group was given great attention; this is evident in the record of their activity.

There was a second Select Committee on Taxation in 1833, but no noticeable policy resulted. Parliament’s attitude to increasing social, political and financial pressure by 1835/36 was still to reject direct taxation of income. Parliament considered indirect tax the proper source of income in peacetime and it considered direct taxation, in the shape of property taxes, the proper source of income in times of war. Sabine reports that an eminent political economist of the period, Ricardo, with the support of a burgeoning ideology expressed by the Manchester School,⁷⁷ favoured the idea of reintroducing income tax as a tax in both peace and war (1980, p. 121). Such views, however, did not prevail.

⁷⁷ The Manchester School was the term British politician Benjamin Disraeli used to refer to the nineteenth-century free trade movement in Great Britain. The movement had its roots in the Anti-Corn Law League (ACLL) of Richard Cobden and John Bright, headquartered in Manchester, UK. The ACLL was set up in 1836 and, by 1846, had succeeded in having the Corn Laws repealed by the Parliament. Since then, the general term Manchester School has been used to refer to radical liberalism/libertarianism in economic policy: *laissez-faire*, free trade, government withdrawal from the economy, and an optimistic stress on the "harmonious" effects of free enterprise capitalism (Gonçalo Fonseca, 2006).

Political debate aside, a strategy developed to promote the interests of minority sectors of the economy only, was very likely to become increasingly untenable, both socially and financially. But, “with land still the chief source of wealth and political power in the country, the tax system reflected as much. [The tax system apparently] existed on a narrow base and was [to remain] fiscally regressive” (Daunton, 2001, p. 77). “Indirect taxes on the necessities of life, malt, sugar, tea and tobacco would and did, account for over 40% of all tax revenues and the middle class and working class paid nearly 90% of those taxes” (Martin, 1833, in Horstman, 2003, p. 128)⁷⁸.

Any fiscal reform of the 1840’s would have to impinge on the wealth and capital of the socially and politically powerful. Taxation reform would need to focus on the wealth of these groups because (as I have mentioned above) business and commerce and the lower classes perceived themselves to be, already, heavily taxed and there are reasonable grounds to agree with their view. Tax reform would need to increase the burden of taxation on the wealthy and powerful and then redistribute the revenue gains as reductions in taxation among the industrial and commercial classes. Providing the powerful and wealthy could be persuaded to agree, adopting this balanced approach would deliver the support required for government to undertake major change to fiscal and social policy.

Further, the proposed changes to the burden of taxation would be used to give limited relief to the lower classes and thus satisfy some social equity requirements. Such relief harked back to the days of the Tudors. It also indicated that politicians were aware that the lower classes were becoming increasingly unhappy. With an indirect tax system, the burden was being borne disproportionately by those without a voice in parliament. A large number of people were becoming increasingly dissatisfied with the results of social change since the industrial revolution.

One means of achieving these multiple fiscal objectives would be by way of a fundamental tax reform. This fundamental reform would alter the entire the tax system by shifting in the balance of taxation from indirect to direct taxation and thereafter, incrementally, move the tax base away from its reliance on expenditure and

⁷⁸ Horstman (2003, p. 128) suggests that these are personal estimates only and are based on a lower figure for the working class population than present estimates suggest.

consumption and, toward property and income. The questions that arise are: would the fiscal objectives be met and would social equity be achieved via changes to the tax system?

5. 4. 6. 1842: Crisis and the Income Tax

There were twenty-six years between 1816 and 1842; the turning point for direct taxation. The tax changes of 1842 would coincide with a restructuring of the indirect tax system and base-broadening measures aimed at maintaining government revenue. An agent promoting these changes was crisis.

The form that the crisis took was prolonged economic depression (the impact was also felt in America, Australia and New Zealand). The economic depression in Britain was well entrenched by 1840 and awareness of the economic conditions would help focus the public's attention on fiscal policy in general and taxation specifically. The pressure that awareness generated would, eventually, find release in the general election poll of 1841.

The general election poll of 1841 saw the Whigs lose office and the Tories take the political reins. With the advent of a new government came a new Prime Minister Sir Robert Peel and a new Chancellor of the Exchequer Henry Goulburn. It was the Exchequer who considered that "the laissez faire theories of Adam Smith and the politically popular views on taxation had produced a policy of fiscal expediency leading to national bankruptcy" (Sabine, 1980. p. 121). What had been a very complicated and unpleasant argument concerning privilege and social equity was finally about to become abundantly clear to all. Policy was going to change, as was burden sharing.

For the British government at the time, there were thought to be limited choices: borrow more; increase indirect taxes on commerce; increase the assessments on land and wealth; or increase taxation on the working class. None of these was politically or socially tenable. Therefore, as per the social contract that had evolved since 1086⁷⁹, there were political negotiations and the result was a compromise. Because it was a

⁷⁹ The Doomesday Book, can be viewed as an early Medieval a tax document, and thus a formalisation of the periods social contract.

financial emergency and thus seen as a crisis, income tax was accepted and lesser reductions, than asked for, in respect of general customs duties were implemented.

5. 4. 7. A New Political Economy

While the focus of Peel's direct tax and fiscal policy supporters may have been on the maintenance of the government's creditworthiness, there was also another key element to consider. That element was, how, in the face of a crisis which threatened the political status quo⁸⁰, would the system of economic management be maintained? The answer, in some part, was to be the income tax of 1842. "It was thought a most affordable purchase of future security" (Jennings, 1885, p. 359, in Daunton, 2001), as it would "integrate social classes, defuse potential social unrest and ultimately stimulate economic growth" (Daunton, 2001, p. 81). The result was expected to be prosperity and contentment (political stability) in the longer term.

The new fiscal policy would be broadly accepted on the strength of the two underlying principles. One, it would reduce the cost of living for certain sectors and two, it would assist industry. Any shortfall in taxation that resulted from reform of the indirect taxes was to be remedied by this expedient broadening of the tax base to include property and income.

Peel's combined fiscal package (in reality, tax policy) would be sold politically to the general populace as *fair*; this rhetoric was a forerunner of statements found in latter-day analysis of taxation reform (*OECD Economic Surveys*, 1984/1985, p. 25). The actuality of fairness, prosperity and contentment was not foremost in the minds of powerful sector interests; their support for income tax was derived from the renegotiated social contract and the consequent trade-off of part of the possible burden of taxation.

Capitalists wanted to avoid another financial crisis (such as 1825/26) and they did not like deficits, which they perceived compounded inflation, undermined investment returns and destabilised the economy. The landowners remained protected by the agricultural laws (which did not begin to change until 1846, with the repeal of the Corn

⁸⁰ For a précis of the status quo, the reader is directed to Brennan (2004), and Buchanan (2004), and Faith (2004).

Laws⁸¹); commercial interests were protected by the progress of the free trade movement (and the reduction or repeal of many indirect taxes). The exemption for low income earners eliminated some of the tax burden for most workers. In general, the tax package can be said to have contributed to reduced political friction from the unrepresented and over-taxed. In this manner the neutrality between sectors of society was achieved.

Fiscally and philosophically, there were further important changes associated with the income tax. First, a move away from indirect to direct tax measures meant taxation was about to place more emphasis on a taxpayer's means: ability to pay. This apparent evolution in principle was hardly new; the augmented benefit/ability principle had been proposed by Adam Smith more than sixty years earlier and is found in his maxims of taxation. It can also be said that using this augmented approach to principle was not new either. Its application via the income tax however, was new, and the importance of this fact lies in understanding, the change was in the index (the measure or gauge of an individual or entity's ability to pay).

The old index was based upon the benefit principle and relied on the premise that a man's expenditure was the appropriate test of his ability to pay. The new index included the ability to pay principle and it took into consideration a man's wealth and income. For modern taxation, this was an important moment in the evolution/development of taxation.

Let us return to the 1842 Income Tax Act. Equity within the restructured tax system (liability and ability) was to be defined by a system of proportionality within the Income Tax Act. The Act differentiated between types of income to ensure that the burden of taxation fell equally. Equally, is a fairly subjective term and, difficult in practice to achieve. The proportional concept was accepted but everyone had to pay the same rate regardless of income level. Therefore, it does not fully embrace the idea of ability to pay. Rather, than proportionality the benefit principle would still dominate and its

⁸¹ The debate over the Corn Laws was the most profound battle in political economy for a century or more. Works such as, Hollander's "The Development of Ricardo's Theory of Value" provides a peripheral but interesting discussion of its importance to the period (1904, 455-491). The protectionists had been agriculturalists as well as industrialists and merchants. The industrialists and merchants switched their position. Why? They came to accept the doctrines of modern political economy. The taxes had to change to replace the lost revenue from customs.

acceptance would be based on a well established element of the social contract: that the taxpayer pays for the benefit received from the state and the distribution of income and wealth is taken as given and would remain unchanged regardless of the new tax.

The political negotiations of 1842 saw that the equality of sacrifice was not going to include graduated taxation (progressive taxation with the redistribution the end game). According to Coffield (1970) this refusal to accept progressive taxation was the trade-off that capitalists' and landowners demanded; there would be no graduation and no relief for earned incomes. This latter point, relief for earned incomes, with some qualification, is still the case for modern income tax. Effectively the income tax favoured these two powerful interest groups "whose dominance of an unrepresentative Parliament worked against the interests of the industrial and mercantile sectors" (Coffield, 1970, p. 107). It is useful to recall the following statement of Dowell (1885):

Two-thirds of the strength of England we let escape; so that usurers, lawyers, tradesman and retailers, with all that troop who maintain themselves by our vice and luxury, and who make the easiest and most certain gain and profit in the Commonwealth, contributed little to its support. (Dowell, in Coffield, 1970, p. 76)

"The immediate results of the new tax obligations; from a revenue perspective were dismal, with the yield being less than expected" (Sabine, 1980, p. 123). Yet, the government persisted and each year (as per convention) Parliament proposed and voted on legislation to renew the income tax. By 1844 the revenue from this source had increased significantly. In 1845 the tax was renewed again, as supposedly, it had helped turn budget deficits into surpluses. In part, and perhaps even because of surpluses rather than deficits, from 1849 onwards, the free trade movement was in the ascendency (the movement was certainly helped by the reduction in indirect taxes, the repeal of the Corn laws, and the instigation of direct taxation to bolster the revenue). Taken together, these results meant there was not going to be a repeal of property and income tax legislation in the future as successive British governments continued to reduce indirect taxation and even some of the assessed taxes. Future expenditure needs would be met from a much larger tax base, an enlargement of the state's tax gathering ability, all made possible by the *Income Tax Act, 1842*.

5. 5. Conclusion

The story of New Zealand's English heritage is not found in the New Zealand literature and this chapter has been an attempt to fill that gap. The chapter made this an objective and, it is observable that the chapter has achieved its first goal. The second objective was to answer a question: What is the English experience of taxation and how did their tax system evolve over the course of two hundred and fifty years (1600-1850)? The question was asked on the basis that it was this past experience of taxation, and fiscal policy, which the settlers brought with them to New Zealand in 1840, and which, determined New Zealand's fiscal future.

The early settlers, and the settlers of Crown Colony New Zealand, brought with them a unique understanding of political economy. This understanding of political economy, when applied, laid the foundation stones of the modern economy of New Zealand. To understand how this may have occurred, it is necessary to do two things. First, to begin to conceptualise the process, something which is, the transference of ideas, and the exchange that was inevitably involved in this process of transference (this process is the subject of Chapters 6 and Chapter 7). Second, one must have some knowledge of the historic process of policy development. The chapter has, primarily been looking for information which pertains to the ideas and processes which, via transference, would have provided a solid foundation for fiscal thought in New Zealand during the study period, 1843-46.

From the brief material presented in Section 5.2, it is found, that over the course of the seventeenth century "fiscal policy had been influenced and reshaped by financial stress and the bargaining power of narrow interest groups" (Hartwell, 1981, p. 152). This led to an expansion of the tax base (Seligman, 1925). This major change in fiscal policy was in accordance with a movement away from the ability to pay principle to a pre-utilitarian benefit principle. This latter principle, subject to modification, during the eighteenth and nineteenth century is considered to have been the dominant fiscal and economic philosophy which accompanied the European settlers to New Zealand. For taxation and taxpayers during England's seventeenth century, the fiscal initiatives of the period (indirect tax; direct assessments; funded debt) would maintain the political balance and allow successive governments to meet fiscal purpose. These developments

in taxation would assist in creating Empire and determine the reality of New Zealand some centuries later.

In Section 5.3, the eighteenth century was more extensively covered than the seventeenth century because there is simply more data available for analysis. However it is still the defining period in the development of modern taxation and especially for direct taxation. The finding is, that the methods, means, and philosophies which underpinned taxation during the previous century, were to undergo little change until the end of the eighteenth century. Likewise, a reason for the English population's belief that taxes had been high and maintained so during the course of the century, was also similar between centuries. However, there were two exceptions (drivers of taxation policy during the period), the rising concerns about fiscal method (poor governance); and the government's link to the financial intermediation sector i.e. inflation and financial crises.

The fiscal constraints on government during the century were compounded by the limitations of a revenue system which relied on indirect taxation in what was still (in the eighteenth century), largely, an agrarian economy. The tax system of the period, on the basis of old and existing indirect taxes, was unresponsive to the needs of revenue. The continued maintenance of the old tax system may have been related to the dominant economic philosophies of the period and earlier times. However, that philosophy was predicated on the lack of economic sophistication (which would rapidly change between 1780 and 1800) and on efforts of interest groups in the undemocratic forum of parliament.

The undemocratic forum, it is argued in some of the literature, supported the interests of the ruling elite at the expense of the many throughout the eighteenth century and the beginnings of the nineteenth. Any attempt at fiscal change during the latter stages of the eighteenth century would need to remain, at the very least, fiscally neutral and aware of the preferred ideology in order to maintain an acceptable social balance. Whether or not this balance favoured the established elite is open to question; however, it is unlikely that the 'elite' were greatly disadvantaged by this approach to taxation policy.

Lastly, it is plausible that fiscal policy during the period 1700-1799 was responsible for maintaining inflation in the economy and creating internal financial stress. Thereafter, financial evolution, in conjunction with changing socio-economic conditions, did lead to an alteration in the social contract; the latter change made base broadening inevitable at the end of the century. The means of attaining revenue needs thereafter would include the direct taxation of property and incomes. The century 1701 to 1800 was the birthplace of modern income tax.

The period 1800-1850 is seen as the epoch of direct taxation and, in an evolutionary sense, the work of this chapter supports that view. The section which considered this (Section 5.4) was the final section of the chapter and does contain a summary. Therefore, there is no need to extensively restate what it contains in any detail here. However, some comment is required regarding the two important findings for the period which did not concur with the British tax history literatures' hypotheses of the century. The literature essentially suggests that war, financial crisis and interest group activity were the drivers of taxation during the period 1800-1850. The findings alluded to above were; One, population growth; and two, economic growth. Individually, and in tandem, these factors dramatically affected the public revenue and also acted as drivers for fiscal policy change. They do are also closely associated with the rise of income tax during the period 1780-1850.

During the period 1800-50 the evolutionary story of humankind's progress towards the modern (yet very early form of) fiscal state had several components. Political economy and the politics of tax played an important part. They enabled, drove and directed changes in taxation. The direct system of taxation, which we recognise now, was formed during this period and it was created, as all major tax changes do appear to be, in response to crisis (a theme which in recurs throughout latter chapters of this thesis; in fact it recurs throughout tax history studies). Crisis required revenue and the consequent revenue requests which resulted in levies and coercions, required legitimacy. This meant a limited form of democracy had to be implemented. This slow evolutionary process of democratic change, from the few to the many, should also be discernible in the long-run tax history of New Zealand.

So how has the extended discussion and critical examination of the British tax history literature contributed towards shedding light on chapter's hypotheses? The first hypothesis was that the key to understanding taxation is the underlying principle. In every century, the underlying principle of taxation altered subtly. Initially, in the seventeenth-century the standard was the benefit principle; this was then altered to the ability to pay principle; and finally there was an augmented structure which underpinned the development of the income tax of 1842. Thus, changes in taxation principles play an important part. They are not however, considered to be the key driver of change for tax policy. It may be that the underlying principle of taxation is only a convenient ideology, something which assists politicians to explain policy rather than enabling *per se*, tax policy change.

Now let us turn to the second hypothesis: that the balance in taxation changes from indirect to direct and back again on a regular basis. This hypothesis has been shown to be valid. During the course of two and a half centuries the balance altered constantly. The work contained in this chapter has shown that indirect tax was dominant in 1600; then it began its decline toward the turning point of 1842. Even so, there were also minor changes in between these years.

The third hypothesis for the chapter was: throughout recorded history crisis is the arbiter of change. This is the interesting hypothesis because our English Heritage is strewn with the detritus of war. Throughout the British tax history literature war is presented as the arbiter of change; external crisis. There is, however, especially in the eighteenth and nineteenth centuries, very good reasons to consider internal crisis (private and/or public sector financial crisis) as being an equal driver of tax policy change. This finding is extremely relevant for nations such as New Zealand which have not experienced the years of external conflict that our forebears did. Thus, the aspect highlighted above of internal financial crisis driving the development of tax policy is an important finding. Central to the internal crisis hypothesis is an awareness that in the eighteenth and nineteenth centuries there was a clear link between the fiscal activities of government and the financial intermediation sector and a less than subtle connection to inflation; all of which heavily influenced the development of tax policy.

It is a little harder to speak of the fourth hypothesis independently of the other hypotheses. There is always and, at all times, an overarching framework of ideas and an ideological component attached to fiscal and political thought and this is what the chapter has found. It was suggested in relation to the first hypothesis that economic thinking helped to explain rather than cause policy change. The story that this chapter tells indicates that political economy may well have influenced policy and thereafter engendered change. However, the chapter did not focus too closely on this aspect of tax evolution and there is, no doubt, much literature available which could be considered relevant to the fourth hypothesis: economic thinking is a major influence on tax policy development. Therefore, this point was not conclusively proven and it is still considered to be highly relevant to the development of taxation policy and this will become obvious in the following chapters of the thesis.

Let us finally turn to the fifth hypothesis of the chapter: that the politics of tax ultimately decides tax policy. That the politics of tax is implicated in the evolution of taxation is found to have merit. Furthermore the fifth and final hypothesis is valid for all the two hundred and fifty years of British tax history that are summarised above.

This chapter has concluded Part B of my thesis. The two completed chapters were intended to provide as much background as possible for the material which follows in later chapters of the thesis and, this task has been successfully achieved. In Part C the thesis will build on the established foundations of the data section and those of the comparative literature review. The approach adopted is by way of a relatively new transference methodology, something which is applied in successive chapters (Chapter 6 and Chapter 7). Subject to the subordinate framework of transference, in a uniquely New Zealand setting (1843-46), Chapters 6, and 7, will do several things. First, Chapter 6 will introduce one early New Zealand tax law that has been overlooked by many generations of scholars. Second in Chapter 7, the thesis will discuss one tax law that has had little coverage, and third, Chapter 7 will discuss two important proposed tax laws about which, little is known.

Part C

Transference and Tax Law

Part C contains two closely associated chapters, both of which build on the foundations of Part B (Chapter 4 and Chapter 5). The method of the next two chapters (6 and 7) is transference. Meaning, (1) the transmission of the prevalent fiscal ideas, concepts of political economy, and their applications in taxation across geographic boundaries; and (2) how they are then assimilated into local policy. This economic method of analysis is a recent development in the field of taxation history and its use here is innovative. In addition, both chapters break new ground when they present three forgotten events (tax laws) of importance to early New Zealand economic (tax) history. These events helped establish a tax system for Crown Colony New Zealand – a tax system built on the system of the Mother Country, a system which itself evolved over a long period of time.

Chapter 6

Schedule E

The objective of Chapter 6 is to introduce, to the New Zealand literature, the story of, a partial transfer of an important early British tax law to New Zealand. The problem of the chapter is: how to substantiate the importance of Schedule E, a small part only of one nation's much larger tax system, to another country, New Zealand. The solution to the problem is twofold: (1) the investigative framework of transference and (2) the subordinate contextual framework of Musgrave (1969).

6. 1. Introduction

The year 1891 marks the legislative beginning and, 1892 the real application⁸² of income tax in New Zealand. Prior to this, there were perhaps as many as fourteen, or even more, possible evolutionary steps. Seven of those early incremental steps toward the establishment of direct tax in New Zealand took place during the formative years of the New Zealand, the Crown Colony period, 1840-52. These were: (1) the *Treaty of Waitangi*, 1840; (2) the implementation of local fees, fines and charges, 1840/42; (3) Schedule E, the partial transference of the British *Income Tax Act, 1842* (hereafter, *The Act*), in 1843; (4) the New Zealand *Property Rate Ordinance, 1844* (hereafter, *The Ordinance*); (5) the proposed New Zealand *Property Rate Amendment Ordinance, 1845* (abandoned); (6) the proposed New Zealand *Dealers' License Ordinance, 1845* (abandoned) and finally (7) the repeal of *the Ordinance* in 1845. Five of the seven hypothesised foundational steps above occurred during the study period, 1843-45.

This chapter concentrates on the New Zealand connection to the third foundational step in the evolution of New Zealand direct taxation: the arrival in the colony of Schedule E of *the Act* in 1843. This early, and until now, quiet step in the development of New Zealand direct taxation has been little commented upon in the literature and therefore there is little known about it. By including it here and by bringing it to the attention of

⁸² "The *Land and Income Assessment Act 1891* was the first piece of legislation imposing an income tax". (Mancer, 1988, p. 10) "The year ending [the] 31st March 1893 was the first for which income tax was collected" (*New Zealand Official Year Book*, 1893, p. 421).

economic historians, this chapter is making a pioneering contribution to the New Zealand tax history literature.

Harris (2002), who studied the evolution of income tax legislation in Australasia from 1866 to 1922, determined that *The Act* was foundational legislation concerning the taxing of incomes in modern economies (Harris, 2002, p. 37). Strangely, Harris's Australasian history begins in 1866 in Tasmania; and so it omits *The Ordinance* and the transfer and application of Schedule E to the Australasian colonies⁸³. Daunton (quoted in Nehring and Schui 2007) begins his analysis of colonial taxation in 1848, five years later than the implementation of Schedule E of *The Act* in the Australasian colonies.

On the surface, there appears to be sufficient reason for ignoring the arrival of Schedule E in New Zealand and four such reasons can be identified. (1) The arrival of Schedule E of *The Act* in the Crown Colony of New Zealand appears to be a very minor step in the evolution of New Zealand's direct taxation, and it is easy to dismiss it as not having any influence. (2) It was only a small part of a much larger British taxation system. (3) It was not a New Zealand tax. (4) It was extremely limited in its New Zealand application.

Daunton (quoted in Nehring and Schui, 2005, p. 5) however, comments that even "a partial transfer of a section of an Act is enough to suggest that key concepts and initiatives [*The Act* contains] had also been imported". *The Act* itself is considered fundamental to how economies tax today; *The Act* contained, at the very least, "the framework of the income tax that was to continue for the remainder of the century and beyond" (Soos, 1997, p. 2). By extension, therefore, Schedule E of *The Act* also transferred the ideas and concepts associated with *The Act's* income tax framework to the British Colonies. In doing so, Schedule E acted not only as a proxy for the transference of British economic thinking and public policy, but Schedule E's transmission can also be seen as a catalyst for economic change in New Zealand.

⁸³ This event was promulgated in the Government Gazettes of New Zealand and that of New South Wales. This information is obtained from a reading of the following sources: the Australasian periodical; The Weekly Register of Politics, Facts, and General Literature (1843), *Domestic Intelligence*, August 26, I: 60; and the *New Zealand Gazette*, Vol. III, No. 39, (September 27, 1843), pp. 242-243.

For our purposes, this transmission is the important part of the Schedule E's story. Schedule E represents a body of knowledge representing public and political opinion in one country that is seamlessly and simply transferred to another, via a partial transfer of, a tax system, or a method of taxation. This alone makes Schedule E an important foundational step in the establishment of a fiscal and public philosophy in early New Zealand and in the evolution of New Zealand's tax system.

As little is known of Schedule E, the discussion begins by introducing the *British Act* to which it applies. Thereafter, there are three questions (objectives) to answer: What exactly was Schedule E? What might have been the dominant economic policies or public policy ideas that were embodied in Schedule E of the Act? Finally, was Schedule E the public representation of these economic policies and of the larger and widely accepted ideological movement of the period? To fully explore these questions, the chapter will adopt a new method: the transference framework of Nehring and Schui, (2007, p. 2). The relatively new analytical method for studying transference is a first in the New Zealand tax history literature and its use in this chapter is, for New Zealand, innovative.

This chapter represents a first step in the research programme which aims to help understand better, the tax initiatives that formed part of Governor Fitzroy's fiscal reforms from 1844 to 1845. The framework of Nehring and Schui (2005 and 2007) enables the chapter to meet the three objectives: (1) describing exactly what Schedule E was; (2) investigating what the dominant economic policies or public policy ideas that were embodied in Schedule E of the Act might have been; (3) asking whether Schedule E is the public representation of those economic policies and also of the widely accepted ideological movement of the period. The hypothesis for the core of the chapter is the following: the transfer to the colony of Schedule E of *The Act* also transferred the accumulated knowledge, up to that time, of British political economy and this laid the foundation for New Zealand fiscal policy and public attitudes in regard to matters of taxation.

Achieving these objectives allows the chapter to briefly revisit the existing and long-held view regarding Governor Fitzroy's tax reforms. The approach of the final section of the chapter is to impose Musgrave's (1969) economic development framework on the

results of the transference analysis. An old and long held view is that Governor Fitzroy's reasoning was at fault, and that this led to wrong policy choices (Thomson, 1859). Furthermore, there are at least four old reference works cited in Cowie (1994) which support Thomson's 1859 hypothesis however, this old view may well be incorrect. Contextualising 1844 New Zealand according to Musgrave (1969) sheds much light on the approach of Governor Fitzroy to economic policy. An assessment of Fitzroy as a pioneering administrator is the fourth and final objective of the chapter.

The alternative hypothesis associated with objective four is the following: that Governor Fitzroy's policy initiatives were a reflection of the collective wisdom on economic management up to that time. His policies were shaped by several factors: public attitudes to taxation; past fiscal experience; contemporary economic thought; and Fitzroy's own experience. Therefore, Fitzroy did not make a hasty reaction when faced with a crisis; he shared the same ideas on economic policy as the Peel government (a comment similar to those found in both Hooper et al, 1998, and Goldsmith, 2008). Therefore, Fitzroy did not experiment, and certainly did not panic, in 1844 and 1845. Fitzroy applied sound and accepted economic solutions to recognised economic problems.

The structure for the rest of the chapter is laid out as follows. Section 6.2 introduces *The Act*. Section 6.3 discusses Schedule E and Section 6.4 considers public awareness of concepts and ideas of taxation. Section 6.5 briefly discusses political economy. Section 6.6 discusses the concepts embodied in Schedule E. Section 6.7 comments on Fitzroy's personal experiences in so far as they are relevant to transference. Section 6.8 focuses on the fourth objective; it discusses whether Fitzroy acted in a panicked fashion or followed sound economic policy. The conclusion follows in Section 6.9.

6. 2. Analytical Framework

Ideology plays a large part in the development of fiscal policy and the transference of an ideology can provide a framework for policy development. Tax policy is not just about collecting revenue; it is a representation of a social contract⁸⁴, and a construct of society

⁸⁴ This notion began with thinkers such as Hobbes and Locke and continues through to current times. Buchanan is a social contract theorist who uses this contract notion when theorising about taxation: (see Buchanan, (1998) and Brennan and Buchanan (1998)).

which is often influenced by ideology. Therefore, when thinking in terms of ideas that are associated with taxation, it is necessary to consider ideology and transference as concepts which have, according to Nehring and Schui, (2007, p. 2), three interconnected dimensions.

The first dimension of Nehring and Schui is: “Economic thought which is largely, but not exclusively, economic theorising and analysis”. The second dimension is: “Ethical judgements [which are made by participants] about the legitimacy of taxation”. The third dimension is: “Administrative knowledge, experience and ability” as applied in the policy process. I explain further the framework of Nehring and Schui (2005 and 2007) below.

The transference of taxation concepts was the topic of a workshop held in King’s College Cambridge in 2004 (Nehring and Schui, 2004). The participants formed a view that current tax histories did not give sufficient attention to an important aspect that precedes tax policy formulation, viz. the international exchange of ideas. This they thought was crucial in shaping many national tax histories. The intention of the participants at the workshop was to find a workable framework for future analysis. The ongoing work in relation to transference is found in Nehring and Schui (2007). The method that they utilise I adopt in this chapter and the next.

From the presentations and panel discussions of the follow-up conference (Nehring and Schui, 2005), a framework for future analytical use emerged. It is based on the work of Becker (2005, in Nehring and Schui, 2005, p.5) and it is Becker’s approach which is adopted in the later work of Nehring and Schui (2007). There are three distinct methods by which conceptual transfer occurs and these are: “observation, direct communication and assimilation”.

“*Observation* may take place through the reading of publications, public or non public documents and through direct encounters” (Nehring and Schui, 2007, p. 6). “*Direct communication* entails a conscious bilateral process in which opinions, theories and experiences are verbalised and exchanged”, and *communication* can be a part of observation (Nehring and Schui, 2007, p. 6). The final aspect of the transference process is *Assimilation*; the incorporation of the ideas and concepts into the policies of a

recipient nation, a nation such as New Zealand. Furthermore, part of the analysis under the heading of *assimilation* will consider if “any relationship can be deduced between Crown Colony fiscal policy and the economic and administrative reality of the period in the mother country” (Nehring and Schui, 2005, p. 5).

The discussion sections that follow adhere to the approach described above. While the three headings of the framework are separate, it is thought by the authors cited that all three types of transfer may occur at the same time and that they will often be inseparably intertwined. Therefore, the reader needs to be aware that *observation*, *communication* and *assimilation* can be viewed as component parts that are not mutually exclusive, and the structural headings of *observation*, *direct communication and assimilation* are common to each discussion section and are not detailed separately. On the other hand, in each section, it will be shown when *observation*, *communication* and *assimilation* occur.

A final aspect of the framework of Nehring and Schui (2007) is that they claim that a crisis precipitates the transfer of ideas. The need for change is often an insufficient reason for change to occur. It is only when faced with a crisis that the decision makers for public policy appear open to the influence of new concepts and to the idea of policy change on the basis of those new ideas. In Britain, the concept of crisis-induced change to tax policy is well documented (see Chapter 5). The culmination of centuries of a crisis-driven approach to fiscal change and tax policy development was the UK *Income Tax Act, 1842 (the Act)*.

6. 3. The Evolution of *The Act*

The Act had a long history of development, having emerged as a result of developments which occurred over many centuries. *The Act* forms the basis of current direct taxation in Britain and also many former colonies of the Empire. New Zealand is an example of one of those former colonies. The modern foundations of this important Act are found in the tax laws legislated in 1798. I stress, at this juncture, that these comments do not begin the construction of a single-event theory of tax development; however, the passing of the 1798 Act was a defining moment in the history of direct taxation and for income tax.

The modern focus on the direct taxation of incomes can be traced back to the eighteenth century. There were two initial steps in the development of direct taxation. Step one: In 1798, there was an unsuccessful trebling of the existing assessed taxes (Kozub, 2003) which supposedly only impacted on a small number of the wealthy (Steinmo, 1993, p. 54).

The Triple Assessment failed for many reasons; complexity of structure, multiplicity of rate applications (that is why it was called the triple assessment), and graduation (progressive taxation), could well be top of anyone's list however, that is not the reason given by others. The preferred choice is; there were real difficulties in the assessment of income and in ascertaining everyone's property, and these difficulties provided ample opportunity for avoidance and evasion. For taxpayers, it didn't differentiate between wealth, otherwise known as capital, and income sources. Furthermore, another major reason for public opposition was its alleged, unreasonably inquisitorial approach (Douglas, 1999, p. 40)⁸⁵. Ultimately, the tax was unproductive (meaning the revenue return was lower than expected/needed) and therefore it was repealed. Introduced in its place was the *Income Tax Act, 1798* which became law in 1799. This is the second step in the direct taxation of British incomes.

The second step, introduced a new system of direct taxation, one that was derived from France. Louis XIV (1643-1715), the King of France, in 1710 imposed a tax on all incomes under four schedules (Sabine, 1980, p. 114). England's revised income tax of 1798/99 (a quasi flat tax of 10%, with exemptions and marginal graduation), would find its success in adopting this scheduler approach and in its use of other new initiatives in taxation. The 1799 Act, a revised method of direct taxation, the tax "took the easy step from being a tax based on the presumption of one's income, to a general tax upon all [forms of] income" (Hartwell, 1981, p. 146, in Daunton, 2001, p. 184). The next steps in the evolution of *The Act* would have to wait until the nineteenth century.

Let us now turn to step three in the evolution of *The Act*. The 1799 Act was still unpopular after 1800 and thus the 1799 Act was repealed in 1802. The consequent fall

⁸⁵ These complaints gave rise to the constitutional rights that are now part of the modern compliance and collection procedures. Thus, taxpayers have an avenue of appeal, a right of redress and some degree of privacy.

in revenue led to predictable increases in other taxes, namely excises and stamps. When war with France re-ignited again in 1803, the requirements for increased revenue meant that the income tax returned as well. There were two important changes in the new Act however and they consisted of (1) a rate reduction from ten per cent, to five per cent and (2) a revised schedule⁸⁶. The new schedule is presented below (Table 6.1).

Table 6.1
Income Tax Schedules: 1803 Act (Codified in the Act of 1842)

<i>Schedule A: rents of real estate and houses.</i>
<i>Schedule B: profits from the occupation of land i.e. farming.</i>
<i>Schedule C: profits from government stock and bonds.</i>
<i>Schedule D: profits from trade, commerce and the professions.</i>
<i>Schedule E: salaries and pensions from office.</i>

Hope-Jones, 1939, pp. 20-21 (in Daunton, 2001, Table 7.1. p. 185)

Prior to *The Act* of 1803, income tax was applied on a global basis and it did not differentiate between wealth (capital) or income sources, and, was subject to widespread avoidance (Douglas, 1999). This had led to public opposition and low revenue returns. From the 1803 Act onwards, the new Scheduler system shown in Table 6.1, differentiated between income sources and types of income. It was a system of taxes on separate revenue flows and it modified the old system of property taxes. These provisions, with the addition of deduction at source, made the targeting and capture of the revenue flows associated with wages and salaries, feasible. These structural changes to the tax law underpinned the income tax for the following thirteen years and made the tax a successful revenue raiser.

Nevertheless, in 1815, “political opponents to the income tax had the justification needed to demand its repeal”: the war with France had ended (Steinmo, 1993, p. 54). “Opposition to the tax “argued that the emergency had passed and [therefore] an income tax was no longer justified” (Douglas, 1999, p. 44). Thus, in 1816, it was repealed “on the grounds of injustice, fraud and the ability of those, with any liability, to seek recourse by way of submitting false returns” (Coffield, 1970, p. 104); this repeal is the fourth step. The demise of the income tax would last for twenty six years and not end

⁸⁶ The income tax was based on the French imposition of a tax of one tenth on all property and income. The tax laws differentiated these sources by way of the five 5 schedules seen above. In modern terms, this is deemed the attachment of tax handles.

until 1842 (the key turning point for the direct taxation of incomes). The tax change of 1842 comprised the fifth step in the evolution of British income tax.

The tax changes of 1842 would include a restructuring of the indirect tax system and base-broadening measures aimed at maintaining the British Government's revenue. The quote below is taken from the Budget Speech of the incoming Government of 1842, and provides a brief history of the income tax from 1798 until that date.

In 1798, when the prospects of this country were gloomy, the Minister had the courage to propose, and the people had the fortitude to adopt, an income tax of 10 per cent. The income tax continued till the close of war in 1802; and in 1803, after the rupture of the peace of Amiens, a duty of 5 per cent was placed upon property. It was raised in 1805 to 6¹/₄ per cent and in 1806 again to 10 per cent; and so it continued to the end of the war⁸⁷. I propose that the duty to be laid on property shall not exceed 3 per cent.... Under the former duty, all incomes below £60 were exempt from taxation, and on incomes between £60 and £150, the tax was on a reduced rate. I shall propose that from the income tax I recommend all incomes under £150 shall be exempt (Sir Robert Peel, Prime Minister's Speech in the House, 1842, in Phillips, 1959, p. 313-322).

Internal crises were the circumstances under which the income tax began in 1798 and under which it was re-introduced. External crisis led to the internal crisis of 1803 and there were successive budget deficits in the eighteen thirties (Horstman, 2003). There was also a prolonged economic depression which was well entrenched by 1840. In 1841 Great Britain held an election, and the vote was cast in relation to the state of the economy in general, and fiscal policy and taxation in particular. The result of the 1841 poll was the election of a new Government and a new Chancellor of the Exchequer. It was the Chancellor/Prime Minister who considered that "the laissez-faire theories of Adam Smith and the politically popular views on taxation had produced a policy of fiscal expediency leading to national bankruptcy" (Sabine, 1980. p. 121).

⁸⁷ The Income Tax Act was repealed in 1816; it was reintroduced in 1842.

Whatever the belief was about laissez-faire or social needs, as a result of industrialisation Britain required an expanded Government. That government would, we have been told, need to be more responsive to the needs of the general public (Steinmo, 1993). Irrespective of the ideological or political pressures of the day, the new government of 1842 believed that it had a mandate for change. To rectify the economic depression, the new government proposed an income tax, coupled with the restructuring of customs duties. The common assertion is that the income tax was “to fight the evil deficit and act as a buffer until free trade reignited growth” Steinmo (1993, p. 54).

The fresh approach of Peel’s new government would supposedly stimulate demand in the depressed economy and provide for many the needed financial relief (lower prices and perhaps even jobs). The reduction in indirect duties was to be the trade-off for the income tax however, lesser reductions than the free traders asked for in general indirect duties were implemented because there was general acceptance of there being a financial emergency. The closing statement of the Budget Speech which preceded the vote in the House is found below:

If you do not take this course which is now opened before you, if you do permit this evil to continue, you must expect the severe but just judgment of a reflective and retrospective condemnation – your conduct will be contrasted with that of your fathers when under difficulties infinitely less pressing than the present, and you will be told of the mutiny at Nore, and of the rebellion in Ireland, and of foreign disasters, under all of which with a buoyant vigour your fathers willingly and cheerfully submitted to a property tax of 10 per cent to relieve the country from its embarrassments. But no, I believe that you will not shrink from the contrast; that you will not act in a manner unworthy of your sires. My firm belief is that you will feel the absolute necessity of preserving inviolate the public faith, that you will not throw away the means of preserving the public credit, and that you will in the most legitimate manner reduce the public burdens. My hope and firm belief is, that when I devolve that responsibility upon you, you will prove yourselves worthy of your mission with which you are entrusted – of your mission and functions

as representatives of a mighty and intelligent people – and that you will not tarnish that character, which is your duty to cherish as your most glorious inheritance, that you will not impair your character for fortitude and good faith, which, in proportion as the empire of opinion supersedes and predominates over the empire of physical force, constitutes for every people, but above all for the people of England – I speak of reputation and character – the main instrument with which your people can repel hostile aggression and maintain extended empires (Sir Robert Peel, Prime Minister; Speech in the House, 1842, in Phillips (1959), p. 321).

While the emphasis of Peel's speech may have been on maintaining the creditworthiness of the government, there was another key element to consider: How to maintain a system of economic organisation in the face of serious social and financial crises. The answer, in large part, was the income tax. "It was thought a most affordable purchase of future security" for the reason that it would "integrate social classes, defuse potential social unrest and ultimately stimulate economic growth" (Jennings, 1885, p. 359, in Daunton, 2001, p. 81). The result of the tax change was expected to be prosperity and political stability in the longer term.

As was previously mentioned (above and in Chapter 5), "the immediate results of the new tax obligation [were] from a revenue perspective dismal; with the yield being less than expected" (Sabine, 1980, p. 123). Yet, the government persisted with the tax and by 1844 the revenue had increased significantly. In 1845 it was renewed as, supposedly, it had helped turn fiscal deficits into surpluses. In part, and perhaps even because of surpluses rather than deficits, from 1849 onwards, the free trade movement was in the ascendency (the movement was certainly helped by the reduction in indirect taxes, the repeal of the Corn laws, and the instigation of direct taxation to bolster the revenue). Taken together, these results meant there was not going to be a repeal of property and income tax legislation in the future as successive British governments continued to reduce indirect taxation and even some of the assessed taxes. Future expenditure needs would be met from a much larger tax base, an enlargement of government and, an increased tax gathering ability, all made possible by the *Income Tax Act* of 1842.

6. 4. Schedule E, 1843

This section will present the material which briefly explains Schedule E, and indicates the presence of Schedule E of *The Act* in New Zealand. On the page that follows, the illustration which corresponds to Table 6.1 of Section 6.2 is presented (entitled Table 6.2 below). Table 6.2 reproduces the promulgation of Schedule E of *The Act* in the *New Zealand Gazette* of 1843. Schedule E is the only one of the five schedules which has a direct application to the British Colonies.

From 1843 onwards, Schedule E was applicable to New Zealand recipients of income that was derived from English public funds. It was announced that the tax would commence from 27 September, 1843. Actually, Schedule E was retroactively applied from 5 April, 1842. In the colonies subject to *The Act*, and this thesis has thus far only identified New South Wales and New Zealand, Schedule E was implemented according to the despatch sent to the Colonial Administration. That despatch was from the Colonial Office, no doubt, on the instructions of the British Treasury. This is a *direct communication* of ideas and concepts, of taxation, and, as such, does fit the requirements of the structural framework set out earlier in the chapter and clearly demonstrates transference occurring.

Table 6.2, as shown on the following two pages, describes the physical transference of part of a tax system to New Zealand i.e. Schedule E. It is also the link from the British *Income Tax Act 1842*, to Crown Colony New Zealand Schedule E is also the link to other ideas and concepts of British taxation. Therefore, as per the transference framework's first heading of *observation*, the public document that is Table 6.2, is strong evidence of a direct encounter with another nation's tax policy and systems having occurred. The same document also facilitated an exchange of experience from Britain to New Zealand and thus, also meets the requirements of the transference framework's second method; *communication*.

The link to the transference framework's third method, *assimilation*, is the material found in the second page of Table 6.2. Table 6.2 (the promulgation of Schedule E) contains in its second page, the structural concepts which relate to applied taxation. Easily ascertainable from the table are: the form of a tax return; the concepts of tax exemptions; the payment thresholds; and concept of deductions at source is highlighted.

Table 6.2
Official Promulgation of Schedule E
in New Zealand

PROPERTY AND INCOME TAX.

Colonial Secretary's office
Auckland, 25th September, 1843

His Excellency the Officer Administering the Government is pleased to direct your attention to the following Circular Despatch dated 19th December, 1842, from the Right Honourable the Secretary of State for the Colonies, on the subject of the liability of persons residing in the Colonies to pay the Property Tax, in retrospect of that portion of their income which may be derived from English Funds.

By His Excellency's Command,
(For the Colonial Secretary)
WILLIAM CONNELL

(circular.)

Downing Street
19th December, 1842.

Sir –

I have the honour to acquaint you that the Lords Commissioner of the Treasury have drawn my attention to the liability of persons residing in the Colonies to pay the Property Tax in respect of that portion of their Income which may be derived from the funds of the Country, and at their Lordships' request, I have to convey to you the following Instructions on the subject for your own guidance: ----

All Salaries and personal Allowances and all Pensions and Superannuations, Retired or Compassionate Allowances from Funds derived from the Revenues of Great Britain, whether provided by special Parliamentary Grant or otherwise, are liable to this tax from the 5th of April last, at the rate of 2d in the pound, except in cases in which the party can shew that his whole annual income does not amount to £150. It will, therefore, be your duty on all occasions to make the proper deductions accordingly (retrospectively from the 5th of April last, when the deductions may and have already been made) from the amount of the Bills which you may have occasion in future to draw on the Treasury, whether on your own account, or for the Salaries or Allowances of other parties; and I have to request you to convey an intimation to the same effect to any Officers

or Functionaries within your Government, who may be authorised to draw Bills on the Treasury for any such Payments.

In cases where exemptions may be claimed from the tax, an affidavit must be taken by the party and transmitted with the Bill, to the effect that his income, including that on account of which the Bill is drawn, is less than £150 per annum, and such affidavit must have reference to the whole income of the party from whatever source derived, for, although Emoluments derived from Colonial Revenues are not Taxable, unless the recipients reside in Great Britain, they must be taken into account in considering a claim to exemption from the Tax on Income derived from this Country.

When Bills are drawn on account of Expenses or Disbursements to other parties, a statement of the proportion of the amount applicable to Salaries and Allowances must accompany them, and the proper deductions be made therefrom, unless the parties should claim exemption, when their affidavits ought to accompany the Bills.

You will strictly understand, and cause it to be made generally known within your Government, that on the presentation at the Treasury of any Bill drawn for Salary or other Allowances becoming due on or after the 31st of March; 1843, upon which the Income Tax has not been paid or claimed for remission in conformity with the foregoing directions; such deductions will be made, including any arrears of the Tax from the 5th of April last, not previously retained or allowed for, and the parties by whom, or in whom favour the Bill may have been drawn, will be alone responsible for any loss or inconvenience arising from the non-payment of the full amount draws for.

I enclose herewith the form of Bill to be used when deductions are to be made, and of the Affidavit to enable parties to claim exemption from the Tax.

I have the honor to be,

Sir,

Your most obedient Servant

(Signed) STANLEY

To Governor William Hobson, &c, &c, &c.

Amount of Bill. . £
Income tax (Place and Date)

£
At thirty days after sight of this my first of exchange, (second and third of the same tenor and date unpaid), pay to _____ or order the sum of _____
which with £ _____ Income Tax,
makes the sum of £ _____ being the amount of salary due to _____
from _____ to
as _____
To William Sargent, Esq,
Paymaster of Civil Services,
Treasury Chambers, London.

Form applicable to Claimants residing out of Great Britain
PROPERTY AND INCOME TAX
Claim of Exemption,

Affidavit to be made, and notice to be given, by a person resident abroad, in Ireland, or elsewhere out of Great Britain – claiming to be discharged from Assessment, in a case where the *whole of* the Income of the Claimant is under £150 a year and arises *partly* from an office or employment of profit, or from salary, fees, or wages, or from an annuity, pension, stipend, or other allowance whatsoever, payable out of the Public Revenue, and *partly* from other sources of Income of any description whatsoever, arising in or out of Great Britain.

In pursuance of the Act 5 and 6 Victoria, c. 35, I do make Oath and say, that the whole of my Income from every source whatever, does not amount to £150 a year, and that the following is true and a just account thereof, viz.:

*Here state the
Amount and particulars
Of each source of income
And where it arises

Claimants Signature
Address

Sworn before me this _____ day of _____ 184 _____,

Signature of a Magistrate Consul,

Or Notary Public

Description of his Office

I therefore give notice, that I am entitled to, and do hereby claim exemption from assessment in respect of the whole of such Income.

Given under my hand this _____ day of _____ 184 _____,

Having examined the above claim, we do hereby allow the same

} Commissioners for
Her Majesty's Treasury, &c.

N. B. –Persons resident abroad, in Ireland or elsewhere out of Great Britain, are liable to the Tax on the particular amount they may receive from the public revenue, although such amount may be less than £150 a year, if the Income they derive from other sources of property, either Abroad, in Ireland, or elsewhere out of Great Britain, shall, together with their public allowance, amount to or exceed £150 per annum

New Zealand Gazette, Vol. III, No. 39, September 27, 1843, pp. 242-243.

From the information contained in Table 6.2 (the *New Zealand Gazette* promulgation), is derived Table 6.3 (see below). This table highlights the provisions of the tax. The rate was set at 7d (2.9%) in the pound (£); the first £150 was exempted; and a single rate applied to all income above that threshold.

Table 6.3
The Application of Taxation under Schedule E of *the Act*

Tax rate	Income £
0.0%	< 150
2.9%	> 150

New Zealand Gazette, Vol. III, No. 39, (September 27, 1843), p. 242.

What is not immediately obvious from an inspection of Table 6.2 or Table 6.3 is the New Zealand experience of the tax. Familiarity with, and knowledge of the tax does provide an interesting connection to the transference framework. The discussion begins by considering the more general case, one which provides an interesting connection to the structural headings of *observation* and *communication*. Thereafter, the discussion will move on to a more specific example of *observation*, *communication* and finally of how *assimilation* occurs.

After 1843 (in fact as of April of 1842), Schedule E's existence would have meant that any official tasked with administering tax policy in New Zealand would have directly encountered this public document. Further, this encounter would also have entailed the second method of the transference framework: *direct communication*. It was also a document that the general public would have had knowledge of. Schedule E was therefore, promulgated in *the Gazette*, and, as it contained much that was important to early settlers, for example, local land sales by the Administration, the decisions of the Land Commission, and much more, the *Gazette* was a widely read circular in the colony. Furthermore, publication of new legislation from home, or colonial ordinances was seen as an important part of the legal enactment process. In this manner the requirements of *observation* - the first method of the structural framework - would be met, and therefore, transference accepted. Furthermore, the information *the Gazette* itself can be considered a direct communication of ideas and thus, the second method of the transference framework, *direct communication*, is achieved.

Part of the colonial settlers' ongoing experience with Schedule E in New Zealand is recorded in official despatches of the period. Compliance and collection in New Zealand were determined by the method of assessment. In early New Zealand, this can easily be observed in the salaries of the officials of the British Civil Administration. As the civil servants directly applied to the Crown for their wages by drawing bills, the tax was deducted at source.

This act of drawing wages subject to Schedule E, and the paying of that tax liability, can be seen in record of past Crown Colony Administrations, viz. the *British Parliamentary Papers*. First, there is Correspondence No. 1 and enclosure No. 1 dated 1843 (*British Parliamentary Papers*, 4: 157). Second, the process is found repeated again, on October 5, 1844, Despatch No. 3 (*British Parliamentary Papers*, 4: 400). Third, the change to this method of drawing salaries is recorded in the *Appropriations Bill*. No. 2. Session V dated 1845 (*British Parliamentary Papers*, 4: 225). With the passing of that ordinance, provision was made for the six senior members of the Administration and nineteen other officials to draw their salaries from the annual Parliamentary Grant rather than drawing bills against the Crown for their salaries. Research has not found any archival material which might have indicated a corresponding tax liability existing elsewhere, and this thesis has not explored the reasons for the Administration's change in the method of payment for its officials. Nevertheless, it appears that the change in method of payment to the twenty five officials indicates that tax payments (subject to Schedule E) stopped at that point.

The applicability of Schedule E to persons resident in New Zealand, those whose incomes were derived from English funds, however, did not end at that date (1845). It continued to impact upon the general population who were in receipt of a UK government pension of *any* type. Schedule E was still actively gathering revenue for the British Crown after 1845. Discussion of it resurfaces thirteen years later in the *New Zealand Parliamentary Debates* (1858, p. 72), recorded under the title 'Income Tax on Pensioners'. The Colonial Treasurer of New Zealand was asked whether he could explain why war pensioners were paying income tax. The answer he gave was: "The Government were not in possession of any information on the subject" and he directed enquiries to those officials charged with the responsibility for collecting revenue. While the Treasurer's response is not helpful to us, the fact that the complaint was made

strongly suggests that the tax was being paid. This information meets the criteria of the transference framework under both headings; *observation*, and *communication*, and to some degree, *assimilation*.

In addition, Schedule E itself meets the criteria of the tax conference's framework for transmission, as discussed earlier. It is a small transference of a much larger tax Act. In this manner the mechanics of transmission are achieved and geographic boundaries are crossed. This method of transference has support from Daunton (2005, in Nehring and Schui, 2005, p. 3). Daunton suggested that "the colonies of the British Empire imported their tax systems from home", sometimes in partial forms. It follows that incorporation into early colonial society of a system or method of taxation is the initial stage of *assimilation* and this also occurred with the adoption of Schedule E. Overall, we have seen in this section all three types of transference.

6. 5. Public Awareness of Concepts and Ideas of Taxation

Seeking a further demonstration of the *observation* method of conceptual transfer, New Zealand's public mass-media of the period were consulted. The table below is from the same colonial newspaper that had reported on Fitzroy's political activity in the UK prior to his arrival in New Zealand. Table 6.4, below, is a poem taken from a colonial newspaper; the poem clearly indicates the public understanding of income tax. The date is the important factor: it is the same year in which Schedule E arrived in New Zealand. This demonstrates a point that was raised in the chapter's introduction: multiple transmission mechanisms are not only possible, but are expected.

Table 6.4
A Poem on the Subject of Income Tax: 1843

The Income Tax

*All you who rents or profits draw, enough to come within the law, your button'd
pockets now relax, and quickly pay your income tax.
A pleasant medicine's sure to kill, your only cure's a bitter pill: The drugs of
base deluding quacks, made Peel prescribe his income tax.
You can't enjoy your pint or pot, and then refuse to pay the shot: You can't
pursue extensive tracks, without a toll or income tax.
Ye Quakers clad in sombre suit, and all ye Baptist tribes to boot, 'Twas right,
perhaps, to front the blacks, but thence arose this income tax.
Ye bagmen bold, ye lovers fond, who daily like to correspond, Remember
as you break the wax, cheap postage means an income tax.
Yet noisy fools, who make a rout, to try to keep the Tories out, The blunders of
your whiggish hacks, have brought us to this income tax.
Old Cupid's wish to crash the Czar, has cost us, in the Afghan war, Both
English lives and India lace, and hasten'd out the income tax.
Regardless of the price of teas, they angered too, the poor Chinese, The
Mandarins have shown their backs, but war soon brings an income tax.
Yet now I hope the new tariff, will something save in beer and beef, If that be
so, you'll all go quacks, and half escape your income tax.
At last, we poor folks fear no shock, at hearing the collector's knock, His jests,
the poundless poet cracks, on him who knocks for income tax.*

Author unknown (1843), the *New Zealand Gazette & Wellington Spectator*, Saturday morning,
January 7th, 1843, Vol. III, p. 2.

Further examination of colonial newspapers indicates that many residents of the colony were well informed on many key economic events in Britain and actively debating economic matters within their own communities. This information is considered confirmation of *direct communication* of ideas and concepts occurring in the colony. It may not have been explicitly on income tax however; debates were on the ideas associated with fiscal policy and political economy in general.

The *New Zealand Colonist and Port Nicholson Advertiser*, like its contemporaries, printed articles on free trade, the tariff, income tax and the Corn Laws, on many occasions during the short period of its existence (August 1842-August 1843). In addition, early colonial society numbered among its various associations; one of these was the Mechanics Institute. In Wellington, during 1842, that institute held a series of lectures on economic matters; these lectures included several on political economy (August, 1842), and on the principles of colonisation (December, 1842). Both of these topics - colonisation principles and political economy - were highly relevant in the context of 1840's New Zealand. These instances of public debate are examples of both *observation* and *direct communication* occurring in early New Zealand.

6. 6. Transference and Crisis

At this point in the discussion, it is necessary to comment on the idea of a crisis. The reason for this is that as the discussion proceeds, a question that might be asked is: was New Zealand experiencing a crisis or not? That there *was* a fiscal crisis in early New Zealand during the tenure of governor Fitzroy (and this is borne by analysis of the disaggregated data of Table 4.8 and Table 4.9, Chapter 4, p. 64) is not disputed. Fitzroy however, was still going about business in a sensible and logical way, developing and applying sound economic policies (and this is also ascertainable from analysis of Tables 4.8 and 4.9, Chapter 4, p. 64) despite the crisis. His economic policies were derived from experience and the accumulated ideas of British political economy up to that time (the knowledge base extensively explored in Chapter 5) and then applied in early New Zealand.

New Zealand in the 1840's was an emerging colony, whose economy suffered from financial instability and whose public economy has been described by Moon (2000, pp. 187-289) as occasionally having "teetered on the verge of collapse". Economic conditions were supposed to have been particularly severe during Governor Fitzroy's tenure; there was even a suggestion that Fitzroy was "paralysed for want of money" (Moon, 2000, p. 187-289). Crisis makes people willing to change; it is often a prerequisite for a transfer of ideas. The economic crisis in New Zealand meets the requirements of Nehring and Schui (2007): *a crisis precipitates the transfer of ideas*. Those ideas could well have been the then existing thought on political economy and thus it is opportune: (1) to return to the premise of Chapter 5; and (2) consider in more detail what exactly the existing (1840) thought on political economy was.

6. 7. Political Economy

Political economy has been defined as both a theoretical discipline and a guide for policy makers, and this understanding can be found in Mill (1844, p. 86-114). In addition, it is argued by Kennedy (1894, p.116) that "political economy is an inductive science, not an experimental one and that the financial condition of the [New Zealand] colony did not justify [Fitzroy] in making such an experiment". This last statement suggests that Fitzroy was, during his term as Governor of the colony, applying political economy and perhaps even experimenting with theoretical economic concepts.

It is quite plausible, on the evidence, that Fitzroy's conceptual understanding of *Political Economy* was derived from his experiences in Britain. Once he moved to New Zealand, he was indeed practising *Political Economy* and, in doing so he assisted transference in all three ways (*observation, communication and assimilation*). The case for Fitzroy not experimenting with *untried* economic theory is also quite plausible. Fitzroy was faced with fiscal crisis and economic depression, just as Peel had three years before in Britain. Peel's policy response is recorded above in Section 6.2 and it bears more than a passing resemblance to the economic policies of Fitzroy: repeal of indirect taxation and the introduction of direct taxation. A singular indicator of the Peel approach is *The Ordinance* (property and income tax) which followed the arrival of Schedule E. From this, it is also plausible that the requirements of *assimilation* are met however, that matter will be considered further in the chapter which follows (Chapter 7). Nevertheless, not only were the concepts of taxation transmitted with Schedule E, but also the philosophical intent which underpinned the more general principles of *Political Economy* was also transferred to New Zealand.

To achieve a better understanding of how Schedule E could have influenced *The Ordinance*, and public attitudes to taxation, it is necessary to go beyond the study years, to briefly consider the process of tax policy development from 1854 to 1866. In the New Zealand House of Representatives the member for Hutt City (Mr. E. G. Wakefield⁸⁸), during debate on the *Duties of Customs Bill, 1854*, commented that

⁸⁸ Edward Gibbon Wakefield (1796 – 1862) was a political theorist, colonial promoter and politician. He was well read in the classical economists and the utilitarian philosophy; he also knew much about social questions. From these sources he drew the material for his instantly-acclaimed theory on colonisation (1829). His colonisation theory, later restated in *England and America* in 1833, and in *A view of the art of colonization* in 1849, had the sufficient price principle as its governing category. The 'sufficient price' was the price at which the Crown needed to sell its colonial 'waste land'. In order for this principle to work in practice required that two objectives had to be met. First, [Wakefield thought it appropriate] to restrict the speed with which colonial wage-earners could become proprietors, and second, the 'sufficient price' had to provide a fund which would permit the greatest possible number of wage-earners to emigrate free of charge to the colonies. As a whole his view was innovative. It ran counter to the opinion of Jeremy Bentham and James Mill that outflows of capital weakened the 'Home' economy; it also opposed the view of Adam Smith that free trade rendered colonies superfluous. It also challenged the pessimism of T. R. Malthus and gave imperial expansion a novel and dynamic economic rationalisation. Wakefield was heavily involved in the construction of the New Zealand Company which initiated colonisation in New Zealand. He immigrated to New Zealand in 1853 and served successive governments in a political capacity. Much criticism has been directed at Wakefield's neglect of the rights and welfare of indigenous peoples. These deficiencies aside, Wakefield brilliantly anticipated the manner in which settler societies such as Argentina, New Zealand, South Africa, and Australia actually developed later in the century by importing investment capital and people from the Old World (Fairburn, 1990).

“direct taxation – that upon property and income - appeared to [me] the only fair means of raising a revenue” (*New Zealand Parliamentary Debates*, 1854, p. 390).

A decade later in 1864, a constraint to tax policy development was mentioned in the House; the original 1844 experiment was remembered as the initiative which gave rise to colonial bankruptcy⁸⁹. However, as E. G. Wakefield stated in the House a decade previously, “there existed much opposition to this method [direct taxation] and, because indirect tax was more easily collected, it was resorted to” (*New Zealand Parliamentary Debates*, 1854, p. 390). Nonetheless, concerns over the adequacy of the government revenue in 1864 saw New Zealand legislators propose, and then dismiss, a property and income tax. In its place they passed the *Stamp Act, 1866*.

The information above does indicate that the memory of legislators and that of the public was long when matters of taxation were discussed. The frameworks understanding of transference by way of *observation*, and *direct communication* are ably demonstrated in practice by the example above. Most dramatically they link to the third method of the framework, *assimilation*, into policy and this is evident in the quotes above which are taken from the parliamentary debates of 1854.

The paragraph above however, has described events which occurred after the study period and they do not inform us of the source of ideas and concepts of taxation and political economy. Therefore, a requirement exists to consider the years prior to 1840 as these are more likely to be the influences which shaped public and official opinions during the study period. They are also more likely to have been the mechanism of conceptual transference which influenced Fitzroy’s fiscal endeavours and specifically his move to implement a property and income tax.

6. 8. Concepts Embodied in *The Act* and Transferred with Schedule E

Political economy was a lively, vibrant and ongoing pursuit among much of the British population in the first half of the nineteenth century. For example, in Thomas (1985) there is an interesting paragraph which connects to the work of this chapter and to that of Chapter 5:

⁸⁹ The finances of the colony are described in much detail in Chapter 4

In the 1830's public debate about political economic matters was taking place, not only among the educated, wealthy, and enfranchised but also among the growing population of urban artisans. The steady drift of manual workers to the cities necessitated by the industrial revolution was creating not only a sense of political solidarity among working people, but opportunity for debate that life in small rural centres could rarely offer. In this ferment of social and political life the rule-of-thumb simplistic interpretation of social and economic phenomena which Martineau⁹⁰ provided may well have seemed, to many of her readers, to provide a safe formula for political policy making. In any event, the Illustrations [on political economy] were enormously popular, and Martineau was soon beset by individuals or groups who wanted her to promote their [political/economic] views within the format of the series.
(Thomas, 1985, p. 11)

The quote above is in connection to the early and perhaps simplistic⁹¹ writings of Harriet Martineau. However, it does reinforce the view of widespread knowledge and debate on issues of *Political Economy* among all sectors of British society. It is assumed in this thesis that Fitzroy was not sheltered from the discussions and debates, or from the multiplicity of literature which was available during his lifetime. Thus, it is easy to hypothesise that Fitzroy was involved in the transfer of ideas by *observation*, by *direct communication* and even by way of *assimilation*.

In the decades prior to Fitzroy's appointment as Governor of New Zealand (1844), there are found the formative ideas which are embodied in *The Act*. Not only Schedule E, but the sources of economic knowledge (discussed below), and these may well fit the

⁹⁰ Harriet Martineau (1802-1876), was a writer on, among other subjects, political economy. She is recognised as having been a free trade advocate and a supporter of economic reform in general. Beginning in the 1830's Martineau began writing a series of stories called *Illustrations of Political Economy*, based upon the utilitarian principles of Joseph Priestley and Jeremy Bentham—"the greatest happiness of the greatest number"—and the free trade economics of Adam Smith. This novel approach to economic matters extended to ordinary people, in an easy-to-understand way, complex ideas such as tariffs, taxes and the national budget (Thomas, 1985, pp. 87-89).

⁹¹ The word 'simplistic' is from Thomas (1985, p. 88).

transference framework. Furthermore, they also reinforce the argument that, even when faced with crisis, Fitzroy adopted a sound approach to economic policy.

There remains after this introduction, four sub-sections which work towards providing an understanding of the ideas and concepts prevalent in political economy during the study period. I begin by first discussing/summarising the 1830's, the critical decade prior to the *Income Tax Act* of 1842. Comments were made about these issues in Chapter 5 (above), however, the discussion briefly returns to them again and comment on three sources of information. First, a prominent political economist of the period, Sir Henry Parnell, and his ideas for fiscal reform are discussed. Second, the economic thinking of the Manchester School is the focus, and third, the ideology of free trade is thereafter discussed. I observe in the context of this thesis, that in terms of economic thought, free trade is commonly associated with the first and second references above, free trade does however, constitute a separate ideological movement and that is why it is discussed separately. Recalling from the introduction, the methodology which explained the framework of the chapter; ideology is identified as an important aspect of the transference process. Therefore, I discuss the ideology of free trade as a separate topic.

6. 8. 1. The 1830s

Despite the title of this subsection the discussion begins however, with a quote from Cowie (1994) which includes the decade of the 1820s as a part of the period's formative debate on New Zealand income tax policy. "The push to reintroduce income tax had grown through the 1820s and 1830s, and was [a move] favoured by the educated classes to which Fitzroy belonged" (Cowie, 1994, p. 117). While the ideas and concepts of British economic policy had, by 1844, found their way into New Zealand economic policy, it is clear that the decades prior to 1844 were important, and that Fitzroy was somehow involved as an intellectual force. The suggestion is that the relevant policy ideas and economic concepts first began their rise from economic thought to practical policy during the preceding decade, the 1830's. Persons such as Fitzroy would have been exposed to the debates during this period and, thus, it is possible to link this process of policy development to the transference framework's understanding of *observation, communication, and assimilation*.

As noted earlier, the emerging fiscal reality of the 1830s in Britain resulted in great volatility in tax policy direction. Following the income tax repeal of 1816, incidence-shifting continued unabated. There would be reduced tax burdens for some sectors, and increases for others. It was not until the reality of increasing indebtedness became clear to Parliamentarians that the focus of the debate changed. A select committee on taxation was appointed in 1830, but no fiscal reform resulted.

The year 1832 was the year of the first significant Reform Act and it marked a change in the British social contract. As usual, taxation would play a significant part; that aspect of the change however, was still some years in the future. Over the preceding years, political economists such as Henry Parnell published on the subject of public finance (Parnell, 1830). “There.... [emerged a general] idea of imposing an income and property tax as a substitute for the existing system of taxation” (Sabine, 1980. p. 121); however, it did not become public policy. There was a second Select Committee on Taxation in 1833 but again, there was no noticeable policy outcome.

Regardless of having to face increasing social, political and financial pressures, Parliament, in 1835/36, still rejected calls to impose a direct tax on incomes. Parliament (the decider of tax policy) still considered that indirect taxation was the appropriate choice in peace and direct taxation was appropriate (in the shape of property taxes), in the event of a war. Sabine (1980, p. 121) reports, that Ricardo, with the support of a burgeoning ideology expressed by the Manchester School⁹², favoured the idea of reintroducing income tax as a revenue source for both peace and war.

Political debates aside, “the tax system of [the 1830s and into the early 1840s] existed on a narrow [tax] base and was [to remain] fiscally regressive” (Daunton, 2001, p. 77). “Indirect taxes...account[ed] for over 40% of all tax revenues and the middle class and working class paid nearly 90% of those taxes” (Martin, 1833, in Horstman, 2003, p. 128)⁹³. Any fiscal reform of the 1840s would need to redistribute the burden of taxation among the major political sectors of British society.

⁹² See footnote 76 on page 92 for an explanation of The Manchester School.

⁹³ Horstman, (2003, p. 128) suggests that these are personal estimates and are actually lower figures for the working class population than present estimates suggest.

In order to garner support for fiscal change from the increasingly powerful industrial and commercial classes, a reduction would be required in the burdensome customs and excises. To further accommodate the process of social change, begun with the reforms of 1832, relief for the lower classes would also be required. Many of the lower classes had been suffering from the effects of an economic depression and recurrent social disorder (riots) had been their outlet. The fiscal approach of the Peel government was to combine support for industry and commerce (which would promote jobs and lower prices), with a supposed reduction of the burden faced by the lower classes (achieved by widening the tax base), can be seen as fiscal measures which promoted social harmony, and would be hard for political interest groups to disagree with.

Those with wealth and capital (who were the politically powerful) however would be called upon to pay more in tax, and as they did not want to pay the land and other assessed taxes, a new method would need to be found. A way towards achieving the multiple social and political objectives would be Peel's restructuring of the tax system. Restructuring would move in the direction of direct taxation (i.e. income tax) and policy makers would do so to avoid social anarchy and achieve economic stability.

6. 8. 2. A Proponent of Economic Reform: Sir Henry Parnell

Sir Henry Parnell, Chairman of the Finance Committee of the House of Commons, wrote about financial reform in 1830. He was, I perceive, echoing the thoughts of many who had put pen to paper on this topic before him: Jean Baptiste Say (1821); David Ricardo (1817); J.C.L. Simonde De Sismondi (1817). Parnell's views might be considered a synthesis of economic thought on the matter up to that time; he was a voice for public policy change, and his work on financial reform directly influenced tax policy.

Parnell writes as follows: "The object of all our financial arrangements ought to be to remove every impediment arising from taxes on industry and restrictions on trade," (Parnell, 1830, p 17). There were also further wise words that may have attracted the interest of Fitzroy. "No common considerations or apprehensions about the danger of making innovations [should] prevent such a reform of the taxes and alterations in commercial regulations" (Parnell, 1830, p 17). Here is the suggestion that innovation does not equate to an experiment but rather, means change *per se*. No doubt, thoughts

such as those mentioned above might well have occurred to Fitzroy's during 1844, as Fitzroy battled with economic depression, financial crisis, Maori disturbances in the North, and more. It was that occurrence of racial conflict and its supposed economic cause which necessitated a policy response.

The economic cause of conflict was the loss of shipping from Kororareka to other whaling centres in the South Pacific. The decline in shipping in the northern port of Kororareka was connected by Maori to its designation as port of entry (and subject to customs). The sense of injustice felt by Maori culminated in anarchy and bloodshed. Fitzroy was quick to repeal the customs duty (initially, only for Maori in the North) and thereafter, at the urgings of the colony's settlers customs duties were also repealed throughout the colony, and in their place, Fitzroy imposed a property and income tax (Fitzroy, 1846, pp. 25-36), which, incidentally, also exempted Maori.

Support for Fitzroy's tax policy initiatives is found in other sections of Parnell's writings (Parnell, 1830, p. 264).

The sweeping system of taxation [in existence] shows that customs duties and taxation [does] render the accounts complex and... generate smuggling. Prices are enhanced with little or no advantage to the revenue, the comforts and enjoyments of people are hopelessly abridged and a great deal of delay, vexation and loss must attend the collecting of duties on so many hundred commodities. (Parnell, 1830, pp. 264)

In this quote can be discerned either a beginning or, a rationale for Fitzroy's general repeal of customs duty.

In his treatise *Remarks on New Zealand*, published in 1846, Fitzroy describes the difficulties of compliance and also of those associated with the collection of customs. Also commented on, are what Fitzroy perceives as the detrimental effect that the collection of customs duties had on trade (Fitzroy, 1846, pp. 25-36). Bearing in mind the problems Fitzroy faced with his struggling and unresponsive colonial economy, it is an open question whether Fitzroy consciously followed the economic method of Parnell. The view of Parnell (outlined below), is however, one which Fitzroy might have agreed with and quite possibly did attempt to accomplish. The reduction of

taxation, and expenditure, and, the implementation of income and property taxes were seen as the future path for securing a sufficiency of revenue (Parnell, 1830, p. 260).

To summarise the work of Parnell, the benefits of switching from customs duties to a property and income tax were *great*; “the condition of every class of society would be greatly improved” by the switch (Parnell, 1833, p. 263). In the comments of Parnell there is a compact statement of the prevailing ideas of taxation. This climate of opinion seems to have had an impact on Fitzroy. From 1844 to 1845, Fitzroy repealed his customs legislation and also reduced the expenditure of government (contrary to the opinion of Cowie, 1994 who suggests that Fitzroy did *not* reduce expenditure), and Fitzroy did so in an attempt to meet his revenue constraint.

This policy approach is observable in the revenue and expenditure data presented earlier (see Table 4.8 and Table 4.9, Chapter 4, p.63). Thereafter, Fitzroy instigated *the Ordinance*, in accordance with, mainstream concepts and ideas, arguments such as those presented by Parnell. As per the transference framework, that the transfer of ideas, such as those of Parnell, may have been *directly communicated* in the published literature on political economy, and that the published literature was, understandably, read by Fitzroy and his peer group. It also appears that many of the Parnell’s concepts for tax policy did in fact have relevance in the economic climate of 1844 New Zealand. If this is accepted, then this would be evidence of *observation*, *communication* and then of the *assimilation* of concepts of taxation into the policy of another nation.

Aside from Parnell, during the period 1843-46, and in the many years leading up to it⁹⁴, the fiscal tool of direct taxation dominated the writings on political economy⁹⁵. It can also be suggested that the progression of economic thought on matters such as taxation owed something to the ideas of the Manchester School. Therefore, it is appropriate to pause and consider if the Manchester School could also have influenced Fitzroy’s approach to fiscal policy and taxation.

⁹⁴ O’Brien (1999) records in its contents page, that between the year 1692 and the year 1846, some thirty-two major pieces of written work appeared on the subject of taxation.

⁹⁵ Adam Smith, *Wealth of Nations* (1776), David Ricardo, *Principles of Political Economy and Taxation* (1817), James McCulloch, *Principles of Political Economy* (1830), T. R. Malthus, *On Definitions of Political Economy* (1831), Jones, *On Wealth and Taxation* (1831), Thomas Chalmers, *Political Economy in Relation to the Moral State and Prospects of Society* (1832), Harriet Martineau, *Illustrations of Political Economy* (1832).

6. 8. 3. The Manchester School

The Manchester School was a loose association of economists, businessmen, politicians and humanitarian lobbyists who were most effective during the early and mid nineteenth century. While it is possible to suggest that the intellectual backbone of the Manchester School was classical economic thought, they were a politically motivated association that, according to Gramp (1960, vii), focused more on normative economics⁹⁶ than positive economics.

Manchester School members have been described as self-interested and representative of a socio economic class (Lloyd-Jones, in Mokyr, 2003, p. 432) rather than a school of economic thought *per se*. This School was an association of agitators and it is suggested that they “spent less time in reasoning and writing about their purposes than in winning the country over to them” (Gramp, 1960, vii). Nonetheless, regardless of Gramp’s view, it is apparent that the Manchester ‘people’ are connected to five different ideas of political economy which are discussed below (Gramp, quoted in Eatwell et al, 1987, p. 296). These ideas were not from any singular economic philosophy. Therefore, their economic philosophy cannot be attributed directly to the Classical School. They arrived at their ideas independently of any school of thought. They maintained “orientations favourable both to absolute liberty of economic initiative and to the progressive reduction of the role of the state” (Gramp, quoted in Eatwell et al, 1987, p. 296). Their orientation was toward *laissez faire*.

Four of the key ideas of the Manchester School are repeated in the *Guardian*: “Free Trade, Parliamentary Reform, Colonial Reform, [and] Retrenchment of Government” (*The Guardian*, April 23, 1851). However, as Screpanti and Zamnagi (2005, p. 172) comment, there were five key ideas, and the one missing from the *Guardian* is, the repeal of the Corn Laws (the *Guardian*’s date, 1851 is after the repeal of the Corn Laws). The Corn Laws began in 1815 as a tax (protectionist tariff) on imported corn; the *Corn Importation Act 1846* repealed the Corn Laws and initiated the rise to

⁹⁶ Normative economics refers to the commentator’s view of what the economy should be like and/or what policies should be adopted to achieve a stated objective. The opposite of normative economics is positive economic analysis; this relates to what is, and not what ought to be, and it does not specify whether what is, is desirable (Franke and Bernanke, 2001).

prominence of free trade as a corner stone of British economic policy⁹⁷. The second idea, Free Trade is discussed at length below: The third idea, Retrenchment of Government, needs no explanation. A comment is required however, on the final two ideas Parliamentary Reform, and Colonial Reform.

For the Manchester School, parliamentary reform covered various things; for example, simple ideas such as, increasing the franchise. It also covered the more complex issues related to electoral reform and the future construct of democracy in Britain. Demands for parliamentary reform were, in part, a consequence of the industrial revolution and the large social restructuring which took place. The social restructure placed pressure on the existing social contract, a matter briefly discussed in Chapter 5 and is considered to be instrumental in the rise of direct taxation in the Mother Country.

For the Manchester School, colonial reform meant free trade, an end to preferential customs duties and, trade constraints (such as the Corn Laws). It also meant an end to Britain providing for colonial defence; hence the colonies should be encouraged to become fiscally self-sufficient. Independence was promoted on the grounds that the British taxpayer could no longer afford to financially support colonies (Galbraith, 1961, p. 35). This matter, defence expenditure in the colonies, was discussed extensively in relation to Crown Colony New Zealand revenue and expenditure data in Chapter 4. The argument however, was not new in the 1850's or, for that matter, in the 1830s. Nor was it purely a matter addressed by the Manchester school; it was a repetition of comments that the classical economists had been making for nearly a century.

Nevertheless, these ideas were socially and politically appropriate for the times and they were adopted by politicians as policy solutions for recognised economic problems. There is no hesitation in suggesting that Governor Fitzroy followed fashion a theme returned to in the final sections of the chapter. Fitzroy was responding, as best he could, to circumstances that he found himself in. Regardless of that, it would be difficult to argue that someone as educated and experienced as Fitzroy would have been unaware of the ideas of the Manchester School and, furthermore, in 1844 New Zealand, he may well have found them instructive.

⁹⁷ As an aside, according to Cowie, (1994, p. 117), Fitzroy apparently voted against Peel in the Parliament of 1842, in order to stop Corn Law reform.

Instructive or not, the transfer of ideas such as those of the Manchester School may have been *directly communicated* to New Zealand, not just in the published literature on political economy but also in the reality of governance. This matter, the direction of governance, is described in more detail in the following section of the chapter. Here, it is worth noting that the records of early New Zealand governance demonstrate that despatches from the Colonial office informed and directed the trade policy of Crown Colony New Zealand (Archives New Zealand: ACHK 16577 G41 1841-52). These official instructions were read by Fitzroy and acted on, (original documents held in Archives New Zealand can be seen to bear his pencil annotations and thus his directions). If this is accepted, we would have evidence of *observation, communication* and then, of *assimilation* into colonial policy.

The discussion now turns to a third source of political economy ideas which were embodied in *The Act*, and thereby, made the journey with Schedule E of *The Act* to the colonies; the ideology of free trade. As suggested in the previous paragraph, this is quite possibly more important than the writings of past political economists or of the Manchester School. It does appear to be less than coincidental that, in the first year of Fitzroy's tenure as Governor (the year following the arrival of Schedule E of *The Act* in the colony), that New Zealand adopted the ideology of free trade and, instituted its own method of direct taxation.

6. 8. 4. The Ideology of Free Trade

The ideology of free trade is consistent with the enduring work of the great Classical/British economists. As the underlying principle of the nineteenth-century economics, free trade is a concept which many political economists have written extensively on; Adam Smith raised the subject in his 1776 publication *The Wealth of Nations* and David Ricardo gave considerable space to refining the topic in 1817. The following quote, while rather brief, does combine the view of both gentlemen: "Adam Smith, in his observations on colonial trade has [shown] most satisfactorily the advantages of free trade" (Ricardo, 1817, p. 245).

In the nineteenth century, free trade was given impetus by a person whom history considers to be the "the father of free trade", William Huskisson (Howe, 2004). As is noted above however, it was an idea that was known even before Huskisson's time.

Irrespective of previous knowledge, Huskisson presented his view in the 1820's, and in respect of British policy it became a benchmark position from 1841 onwards. A turning point for international trade policy was the 1842 budget of Sir Robert Peel, Leader of the House of Commons. At that time, Fitzroy was a member of the House of Commons. Fitzroy would, as a member of the House, have voted on this budget. Furthermore, the budget in question contained tax reductions and the repeal of many of the customs duties. The revenues foregone by the fiscal policy of Peel's new government were to be replaced by the income tax.

The above paragraphs have addressed the conceptual transference of political economy and specifically of tax policy to Fitzroy. In the paragraph above can be seen the three forms of transference of an idea, or concept, in fiscal policy and taxation. The budget of 1842 was publicly and *directly communicated* in the House. Fitzroy participated in, or at least *observed*, this activity and then he would have *observed* the subsequent *assimilation* of the new government's new policy into legislation. These individual experiences of Fitzroy do constitute a legitimate transmission according to the transference framework. The transference through collective experience of the early settlers in New Zealand is discussed below.

Meeting the criteria of the transference framework still leaves the question of how an ideology is transferred publicly and across borders. To better understand how this may have occurred requires more knowledge of how an ideology is constructed, in this instance free trade. The ideology of free trade (as distinct from the idea), did not come from classical economics nor was it derived conceptually from the Manchester School Group (1960, pp. 96-97). The public might well have been influenced by the writings of Smith and Ricardo, and by the activities of the Manchester School. Thereafter, its rise to prominence, and the acceptance of the ideology of free trade by the wider community, was due to an influential part of the public coming to believe that free trade would increase the income and wealth of Britain. This was a perception which had grown in minds of the public over time and, was the crucial element needed to support liberal economic policy in both domestic and foreign markets (Gramp, 1960, pp. 96-97).

Explaining how this was achieved requires the assistance of Gambles (1998, p. 929). While changing the context in which Gambles wrote, the adaptation is still reasonably

valid. Gambles states that free trade is a normative ideological term, which, during the early and mid nineteenth century, was appropriated to the political occasion, and that is all. The free trade ideology, like any ideology, combines ideas with public support and political power. Of itself, an ideology may be a system of thinking but, it is also the power of a simple idea, an idea that is easy to understand, easily explainable, and appealing to the public. The ideology also needs to be readily recognised and be able, publicly and politically, to be acted on. In essence, public policy requires the pragmatic use of an ideological phrase in order to attain agreement on the final form of any political or social policy.

In the era of Fitzroy, the ideology of free trade was utilised by a Tory-led parliament. The Tories harnessed the liberal policies of a Whig Party that was in political decline and the Tories simply continued the process of reform that arguably, the Whigs had started. The liberal Toryism of the Peel government was essentially, pragmatic. Its application of ‘others policies indicated a readiness by politicians to consider social and economic reform in order to forestall popular radicalism and, major alterations to the then existing social contract. The latter is quite possibly what Gambles means by her use of the term constitutional change (Gambles, 1998, p. 930).

All of the elements seen above are part of the individual and collective experience which arrived in New Zealand with its early settlers. The early settlers would have been conversant (*observed* and *communicated*) with the ideology of free trade, and it would not have been a difficult proposition to sell free trade to the settler population, especially given the economic condition of the country during Fitzroy’s tenure. Given the circumstances during the study period of economic depression, and conflict with Maori (both of which have economic causes), the ideology would have assisted the process of *assimilation* into local policy, of customs duty repeal and the introduction of a property and income tax.

6. 9. Comments on Fitzroy’s Personal Experiences of Transference

As stated above, previous to his appointment as governor, Fitzroy was a member of the British House of Commons under a Tory government during the period 1841 to 1843. It is suggested above that the degree of personal experience Fitzroy may have had of, economic policy making, and specifically, of tax policy development were not unrelated

to his participation in the affairs of the British parliament, as a member. Therefore, his approach to policy, under conditions of economic adversity in 1844, may well have been both predetermined and directed. This economic direction is suggested because the policies adopted by Fitzroy in New Zealand bear a striking similarity to those of his party leader, Sir Robert Peel, a little earlier in the Mother Country.

In 1841, as a Tory Prime Minister, Peel faced multiple crises. There was widespread depression, social discontent and recurring budget deficits. In 1842 he undertook pragmatic political action, borrowing from the liberal fiscal policy of the Manchester School. For taxation, it was a time of political economy in practice. Peel reduced the number of items subject to customs and reduced the rates of customs duty applicable to many of the remaining goods subject to indirect taxation. He abolished some import restrictions and export duties and redressed the fiscal balance by re-imposing income tax.

In relation to Fitzroy, McGill (1991, p. 22) gives an example which is indicative of a process of conceptual transmission. He suggests that the ideas of Free Trade and Downing Street arrived in New Zealand with Fitzroy. McGill also argues that Fitzroy held a liberal⁹⁸ view towards political economy. Furthermore, Cowie records that “Fitzroy took many preconceived ideas to New Zealand” (Cowie, 1994, p. 14). He also comments that “there is ample evidence that Fitzroy had an ideological agenda prior to arriving in New Zealand (one he promoted in 1844)” (Cowie, 1994, p. 17).

It is plausible then, that Fitzroy did bring the ideas of fiscal policy and taxation with him when he arrived in New Zealand, and much could relate to his previous experience. That Fitzroy was interested in, and did participate in, the House debates on fiscal policy is not unlikely and Fitzroy does have a record of participation in politics. From Historical material it can be observed that Fitzroy was an active member of the House. For example, current literature (Moon, 2000, pp. 57-8) records that in 1841 he was involved in the debate on the *Customs Act*. Furthermore, it known, that in 1842 Fitzroy

⁹⁸ The terms free trade and liberal used by McGill, as I understand them, describe the pragmatic application by Tory politicians of a synthesis of economic thought. The liberal policy prescription was then applied that to the very real problems of political economy during the 1840's.

voted against Peel on a Bill concerning the reform of the Corn Laws (Cowie, 1994, p. 117).

During Fitzroy's 1842 term in Parliament, at least six separate pieces of legislation were passed concerning taxation, one of which re-introduced the property and income tax. There were three Acts associated with fiscal policy and one wholly concerned with the Colony of South Australia. While Fitzroy was not a key player in the British political process, he was associated with these practical applications of political economy and, by implication, the rising ideology of free trade.

It is also plausible, therefore, that by the transference process of *observation, direct communication* that concepts and ideas relating to political economy, fiscal policy, and specifically those associated with taxation, were *assimilated* into colonial New Zealand's own fiscal policy. In addition, the collective fiscal experience of the early settlers to New Zealand had left them well prepared for fiscal change and, they might well have recognised that a first step toward this had already been achieved with the arrival of Schedule E in 1843. Thereafter, Fitzroy's decision to legislate for direct taxation was, under the circumstances, sound economics and a logical next step in the development of New Zealand taxation.

6. 9. 1. Further Evidence of Transference in New Zealand

The comments of McGill (1991), recorded on the preceding page, those regarding Fitzroy's connection to Downing Street and Fitzroy's liberal ideas of political economy imply agreement with the transference argument this chapter is building. McGill's study however, also creates some confusion, apparently *The Ordinance* (Fitzroy's property rate), was not the result of direct influence from the Mother Country or, even Fitzroy's own idea. McGill (1991) suggests, as does Cowie (1994) that it was the work of a member of Fitzroy's Legislative Council, William Brown⁹⁹. Brown is reported as

⁹⁹ Mr William Brown was a politically prominent and wealthy Auckland merchant, described as being dashing, sanguine, a speculator and a politician. During the Crown Colony period the Auckland group most at odds with the governor was composed of merchants and speculators, and their hangers on. Various designated as the Clique, the Senate, and the Progress Party, this anti-government faction had the pugnacious Brown as its unchallenged 'head and front'. The capital's first stable newspaper, the *Southern Cross*, was launched in April 1843 as a weapon against the administration. Brown, originally part owner, became its sole proprietor. Many ferocious articles and virulent leaders came from his pen. Perhaps to stem this criticism, Fitzroy and Grey each called Brown to the Legislative Council. The

having raised the idea through his own newspaper, the *Southern Cross*. The 1843 implementation of Schedule E in the colony precedes this however, and constitutes a clearer and more distinct transference of the concepts of property and income taxation. What McGill's comment does reinforce is the view that the general public were knowledgeable and well informed on fiscal matters and, that much transference of ideas and concepts had taken place from 1840 onwards with the arrival of substantial numbers of British settlers.

Prominent settlers were no doubt conversant with aspects of political economy in their home country. The economic issues in Britain during early 1842 were no different to those of 1841: Those issues were; widespread depression, social discontent and recurring budget deficits. The British government's policy response in 1842 (in respect of the revenue) was to reduce indirect taxation, and to re-instate the income tax to bolster revenue. These tax initiatives formed part of a much larger package of public policy reform that was in line with the pragmatic economic views of the Tories. In New Zealand, William Brown may well have felt that similar policies might aid in improving the economic condition of the colony; and a man of Fitzroy's experience may well have agreed with Brown. It is not surprising that Fitzroy might have actively sought Brown's support. All that remains therefore, is, an answer to the following question: Was there any external (political) direction which influenced the development of *The Ordinance*?

The key driver of British policy transference was the official department charged with responsibility for Crown Colony New Zealand, and ultimately with responsibility for its legislative agenda. The Crown's control and direction of economic policy in distant Colonies was administered by the Colonial Office. There were, inevitably, many breaks in the chain of command. The long sea journey meant that letters, official updates, request for guidance and Colonial Office directives could take months to reach their destination. The Colonial office was well aware of the problem and had devised a system of conventions, and a method of operation, which took all of this into account. For the system to work however, the Colonial Office needed to delegate responsibility to the appointed governors.

experiment failed. Brown counselled Fitzroy badly, encouraging him in 1844 to persist in waiving Crown pre-emption over Maori land, and abolishing customs duties (Stone, 2006).

Under circumstances such as the economic environment of early New Zealand, governors needed to be men of considerable ability and acumen, men such as Robert Fitzroy. Irrespective of ability, they were still subject to the Colonial Office and its methods of operating colonies in distant corners of the globe, and their political directors, Parliament. The Colonial Office's direction and control of distant colonies is a topic of discussion in Shaw (1969) and Taft-Manning (1965); both authors assist in describing the extent of the Colonial Office's control and direction. Aside from discussing the system of conventions (mentioned above), they argue, that while governors had some autonomy, derived from necessity, they were also required to adhere to *explicit* instructions.

This last point is important because there are existing documents that show this to be the case. In the New Zealand Archives (Archives New Zealand: ACHK 16577 G41 1841-52), there is a clear record of the Colonial Office's direction and control. There are numerous despatches which relate to the philosophy of free trade and imperial policy, and Fitzroy would have had to oversee their implementation in the colony. There are also despatches concerning tax policy, and these were clearly intended to do more than inform, something demonstrated in this chapter with Schedule E. Finally, the previous point is also clear example of the transference framework's *direct communication* and *assimilation* in action.

6. 10. Did Fitzroy Panic and Experiment with Economic Theory?

This section addresses the chapter's concerns regarding the policy decisions of Governor Fitzroy in a framework that has become familiar in development economics literature of the last six decades. This theme is developed later in the chapter, however thus far the discussion has considered Schedule E and, the three methods of transference of ideas and concepts. It has commented at length on the importance of Schedule E to the development of not just taxation but also of political economy in the colony. Earlier sections have also briefly commented on Governor Fitzroy's involvement in the British process of policy development. In addition, a second argument was indirectly created: that Fitzroy was, quite plausibly, applying accepted nineteenth-century economic policy when, in the few months which followed the arrival of Schedule E in the colony, the Legislative Council passed *The Ordinance*. In presenting the argument of this section (Section 6.10), the adopted method is the economic development framework of Musgrave

(1969) and, there are three subsections which focus on this issue. First, Fitzroy's economic problem is outlined for the reader. Second, Fitzroy's approach to solving the economic problem is discussed, and third, Fitzroy's approach to the matter of deciding tax policy during the study period is linked to development economics.

6. 10. 1. Fitzroy's (Fiscal) Economic Problem

Applied public policy in Crown Colony New Zealand (1844-45) was influenced and directed domestically, by many factors. Principally, New Zealand was impacted upon by a persistent international depression and continuing domestic fiscal crises (see Pritchard, 1970, and Moon, 2000). These economic factors were compounded by other issues, such as, (1) local geographical challenges and (2) a population that was culturally imbalanced (12,447 Europeans and 73,918 Maori¹⁰⁰). This was compounded by the reality of a numerically small settler population, relative to many other colonies, such as nearby Australia¹⁰¹. (3) There were also large technological differences between New Zealand's cultural groups, much political and social division in the colony, and the population was widely dispersed. (4) Impending conflict between cultural groups was an ever-present threat.

In addition to the aforementioned factors, there was the distance from European markets to consider and major difficulties in international and domestic communications. Further, the geography of New Zealand and the distance from other markets created supply problems which impacted on domestic prices. To compound these problems, there were only two major potential sources of development capital¹⁰² and both were financially constrained. The New Zealand Company was bankrupt and the British Treasury regulated the amount of British taxpayer capital available to the colony.

In order to carry on the government until assistance and directions could be received from England: to relieve the creditors of government from distress: and to keep numerous families from extreme privation, some from actually starving: it was decided to issue notes, or debentures (Fitzroy, 1846, p. 25).

¹⁰⁰ Statistics New Zealand: Long Term data Series, Table G.2.1, Entitled: Total Population.

¹⁰¹ Australian Bureau of Statistics: Cat. No. 3105.0.65.001. Australian Historical Population Statistics: Table 1: Population by Sex, State and Territories, from 31 December, 1788 onwards. The total 1844 population was; 264,287. Total population in same year for New South Wales; 178,460 persons

¹⁰² The Crown and the New Zealand Company were, in my view, the two major capital investors.

Suffering from an insufficiency of circulating medium within the colony (an actuality which constrained the Administration's ability to transact in the market place), and as British Treasury had refused to accept the Administration's bills of exchange¹⁰³, the previous year (1843), the Administration had no credit. "As there were then no exports--the colony was drained of its small stock of specie by payments for goods and the usual necessaries of life: and scarcely any circulating medium remained except [for] notes of the Union Bank of Australia¹⁰⁴" (Fitzroy, 1846, p. 26). Furthermore, Bedford states, that "the experiences of the Government during the first few years after the proclamation of sovereignty bore ample testimony to the difficulties arising from a lack of banking¹⁰⁵ facilities and a insufficient currency" (Bedford, 1915, p. 58, in Mathews, 2003, p. 2).

It is worthwhile at this point in the discussion to firmly state that the economy of New Zealand during the Crown Colony period was very dissimilar to today's. Given the difficulties of distance, communication, geography, a disparate and geographically spread population of limited numbers, the country was, in affect made up of several emerging 'micro-economies'. As previous paragraphs have indicated, the financial (banking) sector was an area of major concern and especially in the early 1840's. In 1844, there was only one effective bank in Wellington (the Union Bank of Australia which had financial connections to the New Zealand Company); similarly, there was only one in Auckland, the New Zealand Banking Company (which was connected to the Australasian Bank).

The former bank, the Union Bank, maintained the economy of the southern settlements in much the same way as Fitzroy would approach his economic problem in the northern settlement. The bank's policy approach (and provision of economic assistance to the New Zealand Company and its settlers) was by way of maintaining a system of

¹⁰³ See Booker and Craig (2002) for an understanding of the use of Bills of exchange and promissory notes. Booker and Craig's study period is twenty years earlier than 1840 however it does illustrate the use of credit in the absence of money. Also see Parsons (1968) for additional information on the use of credit during the period, 1810-15. While both of these journal articles are, as I already mentioned, prior to the study period they do pertain to an emerging stage in the development of the Australian colony and I assume that method of financial operations were similar to that of early New Zealand.

¹⁰⁴ The Union Bank of Australia was located in Port Nicholson (Wellington) and the bank of Fitzroy's major European political competitor, the New Zealand Company.

¹⁰⁵ See Butlin (1968), for an excellent understanding of early banking in the Australasian Colonies. While the work is Australia specific, it is very informative with regard to the early development of banking in Australasia. I consider that much of the early Australian experience was similar to that in early New Zealand.

extended credit and the issuance of potentially irredeemable bank notes (the equivalent of debentures). This combination of financial instruments sustained the southern economy although, no doubt, the bank's actions raised prices in the New Zealand Company settlements and also impacted supply and demand in the colony's northern settlements. Furthermore, the Union Bank would have influenced Governor Fitzroy's economic analysis and macroeconomic management. The situation would remain unchanged however, until July of 1844 when Fitzroy, inserted a clause in the Union Bank of Australia's incorporation ordinance which required that the Union Bank's notes be redeemable in specie¹⁰⁶.

The Administration relied on the single bank in Auckland (the New Zealand Banking Company). By early 1844 the financial condition of the Administration was well known and the New Zealand Banking Company would not accept bills of exchange that they knew the British Treasury would not redeem. Furthermore, they would only lend to the Administration in small sums and at high rates of interest, a position which was unacceptable to the Administration¹⁰⁷.

The wretched state of the colonists in New Zealand may shew. Impending ruin, and actual starvation, threatened the greater number of the working classes, and many others, at Auckland, who depended on the government expenditure. No assistance from England could be expected in less than a year. --No money could be obtained by the government, in the Colony, or from Sydney, because no person would accept bills drawn by the

¹⁰⁶ See Section 18 of the Union Bank of Australia Ordinance *New Zealand Ordinances* (1841-53, pp. 382-388).

¹⁰⁷ The banking system and indeed the entire economy in the Australasian colonies during the study period ran according to a system of extensive credit – Bills of exchange predominately. A sufficient quantity of the medium of exchange (coinage) however, was required for daily transactions and for transactions of minimal value. In the absence of coinage, notes were often issued. In an age when the quantity theory of money was well understood, the process of credit creation and the printing of notes were known to be inflationary and the harbinger of financial crisis. Nevertheless, each note of issue and Bill of Exchange required the backing of either specie or a third party who could stand in the market and deliver hard currency at some time in the future (in other words on demand) In the case of the New Zealand Administration and the New Zealand Banking Company that third party was the Crown. The New Zealand Banking Company, answerable as it was to its directors (who ultimately resided in Britain), when the Administration ran out of coinage and the Crown stopped credit the New Zealand Banking Company was left with a large liability, a restricted ability to issue notes, and a reluctance by its directors to advance further unsecured credit. When the major link in the credit system is no longer able to continue the circular flow, the entire financial system begins to break down with sometimes severe consequences for the larger financial economy. This was the state of affairs in New Zealand during the early months of 1844.

governor without the express sanction of the Secretary of State.
(Fitzroy, 1846, p. 26)¹⁰⁸

This combination of factors constrained the Administration; they were unable to create the infrastructure required throughout the colony for production of regular goods and services. There was no effective rule of law, enforcement of property rights and the legitimacy of government was in question.

The business of the council was just finished, at the beginning of July, when intelligence arrived that very serious disturbances had taken place at New Plymouth, where the land commissioner's premature promulgation of his decision against the natives, in favor of the New Zealand Company, had caused such great excitement and alarm among the settlers, that hostilities seemed inevitable. Almost at the same time information was received that the chief Heke had cut down the flag-staff at Russell, (Kororareka), in the Bay of Islands, and that his followers had insulted and provoked the settlers in a manner that could not be passed over by the government without serious notice. It was necessary to check this chief without delay, as his object was known to be resistance to British authority at that place; but the means of doing so effectually were neither at hand, nor to be expected within many months. Application was forthwith made to the Governor of New South Wales for troops, and a small detachment from Auckland was sent to Russell....It appeared so clear to the governor that the view taken by the land commissioner could not be adopted by the government without causing bloodshed, and the probable ruin of the settlement. (Fitzroy, 1846, p. 29)

In effect, the Administration was unable to effectively take charge of, free-up, and reallocate, economic resources for the productive purposes of those sectors of the economy with investment capital. This reality (1) determined the level of effective employment for both capital and labour, (2) constrained public policy, and (3) defined the debate in the colony.

¹⁰⁸ See Bedford (1916) for an overview on the early monetary difficulties of Crown Colony New Zealand.

In the private sector, the (world) economic depression compounded the local economic problems and thwarted potential entrepreneurship. The constraints on land transactions (pre-emption) and the problems of the small marketplace (effectively, Auckland and Port Nicholson) stifled opportunity. Auckland was heavily reliant on its capital investor, the Colonial Administration and Port Nicholson was similarly reliant on its capital investor, the New Zealand Company. Both of these entities were, during the study period, cash poor and credit constrained. As already noted above, in Port Nicholson the remedy that was used was inflationary private sector credit expansion, at least until July of 1844. In Auckland, the initial remedy was recessionary, as the Administration had no choice but to retrench (shrink the administrations expenditure i.e reduce the salaries of government employees). Subsequently the remedy was inflationary as Fitzroy's Administration began to issue debentures to meet expenditure.

6. 10. 2. New Zealand in the 1840's: A Developing Economy Perspective

In the work of Musgrave (1969) the fiscal problem for developing economies is outlined. Musgrave identifies eight factors which need consideration: economic growth, income levels, unemployment, capital, investment, productivity, land and capital. All of these factors are highlighted above as being problems which confronted Governor Fitzroy. Also found in Musgrave (1969) is a method for solving the identified fiscal problem (Musgrave, 1969. pp. 209-217); this will be discussed below. Let us first restate, briefly, the approach Fitzroy adopted to address the serious problems the new colony's economy was facing in the 1840s.

It is not particularly clear, in a developing economy context, whether Fitzroy took a structured approach to the various economic problems mentioned above. Nevertheless, Fitzroy did create his own currency and expanded the money supply in the settlements where liquidity was required and this enabled economic activity to continue in the major market, Auckland. "It should be noticed that this paper currency was not intended to be permanent; it was intended to serve instead of coin, during a very limited period, not exceeding two years, --before which it was probable that some arrangement would be made by the home government for their withdrawal from circulation" (Fitzroy, 1846, p. 26).

In addition, Fitzroy did, in 1844, retrench the administration and implemented in real terms salary reductions for his staff (for example, see *The British parliamentary Papers*, 4: 377). Thereafter, he legislated to control the money supply in his southern settlements (see *The New Zealand Ordinances*, 1871, pp. 382-388). He also promoted public work schemes for European settlers; just as the New Zealand Company had done, and also for the Maori population.

Further to the initiatives mentioned above, Fitzroy passed many ordinances which furthered the infrastructure of colonial society. To counter the widespread social discontent over land, he amended the regulations concerning pre-emption. Finally, he set about reforming the fiscal system. As the home government would not authorise increased expenditure in the short term, Fitzroy would have to raise revenue for urgent public expenditure from the depressed local economy. To achieve this objective, Fitzroy would undertake a major reform of an increasingly ineffective tax system. It is plausible therefore, that all of Fitzroy's policies do meet the suggestions of Musgrave (1969), outlined below.

In the work of Musgrave (1969) the solutions to the fiscal problems of developing economies are clearly stated. Musgrave identified eight factors which are of relevance: capital formation, investment in human capital, increased savings, reduced consumption, Keynesian expansionary policies, a central bank and social reform. Many of these factors are highlighted in the paragraphs of Subsection 6.10.2 (Musgrave, 1969. pp. 209-217). Musgrave also provides guidance on how to apply taxation in a developing country and I address this issue in the next subsection.

6. 10. 3. How to Tax under Developing Economy Conditions: Musgrave in Context

Contextualising the New Zealand economy of the period, in terms of the understanding provided by Musgrave (1969), places New Zealand firmly in the developing economy model. In such an economy, there is a limited market for all types of savings in a developing economy context. To aid analysis, it is assumed that private (settler) savings in early New Zealand were primarily invested in land and, to a meagre extent, in other property such as shipping, new housing and the equipment of small firms and their inventories. All other savings during the crucial years of the study period are assumed, subject to the above, to have been dissipated to purchase imports. Aside from this, the

only other item of interest to revenue collectors would be wages, and these also would have been dissipated to purchase imports and the necessities of life. Hence, revenue would need to have been raised from general indirect taxation (consumption taxes such as excises, sales taxes and customs duty) and further land taxes¹⁰⁹.

A general land tax was politically and practically untenable: “Land, if taxed, yields but little, as so little is cultivated, and the tenure of wild land has been too uncertain to admit of its being taxed” (Fitzroy, 1846, p. 27). Second, the option of excise taxes did not exist because of a lack of manufacturing in the colony. Sales taxes were an option however, the method adopted in the home country to apply sales taxes made them very unpopular. Customs were limited to the five constituted ports of entry and, without a concentration of population (a large number of Fitzroy’s population did not live in Auckland or Port Nicholson or in the other ports of entry), was easily avoided.

The other available means of direct taxation were foundational direct measures: fees, fines and licenses. Unfortunately, the changes to the regulations concerning pre-emption did not address the concerns over land to the settlers’ or to the native population’s satisfaction. This negated the revenue potential from these fundamental and simple direct taxes. When this is combined with the depression of trade and exchange, Fitzroy’s options for raising revenue were limited, as Musgrave (1969) shows to be the experience of most developing (underdeveloped) economies today.

Fitzroy would adopt the approach suggested by Parnell in Subsection 6.8.2, and, with popular support, undertake a fundamental tax reform. This process of reform would engender the *Property Rate Ordinance, 1844* and the many component parts of a larger fiscal package. It was a response to an economic problem that Fitzroy recognised and thereafter, given the context of the colony and the prevailing ideas, Fitzroy applied an acceptable and “sound” economic solution. The policy decisions undertaken in 1844 by Fitzroy were based on his own past experience, his degree of personal knowledge concerning applied economic policy, and the external direction and control of the Colonial Office. The latter, the Colonial office, were ultimately, overseen by Parliament.

¹⁰⁹ The act of pre-emption (Hooper and Kearins, 2003) and the actions of the Land Commission had already constituted the indirect taxation of holders of land.

Musgrave (1969) also tells us how to *apply* effective taxation in a developing economy. He identifies eleven factors which need consideration: self-assessment systems; taxes in kind; land taxes; commodity taxes; customs; excises; fees; fines; other direct charges; wage taxation (Musgrave notes that it is easier to tax than business income); and capital taxes (Musgrave, 1969, pp. 209-217). Many of these factors are mentioned in the section above and others are discussed in the chapter which follows. To conclude, the application of income and property taxes in a developing economy is commented upon by Musgrave:

The development of an effective tax system based on indirect taxation may prove a more effective means of achieving the objectives of economic development rather than attempts at a premature application of tax technologies transferred from more advanced countries. (Musgrave, 1969. pp. 217)

From the quote above it is plausible to claim, with hindsight, that the shift to direct tax in 1844 was perhaps not suited to the conditions of early colonial New Zealand. Nevertheless, one hundred and twenty five years after *the Property Rate Ordinance*, it may be argued that the pioneering applications of economic policy by men like Robert Fitzroy have enabled the theoretical analyses of economists such as Musgrave (1969) to prescribe methods of taxation for developing economies along the lines contained in the quote above. The view of this chapter therefore, is the following: It is no coincidence that more than a century and a half after 1844, that economic policy and tax prescriptions similar to those of Governor Fitzroy are considered appropriate for similar economic problems in present-day developing economies. This is identifiable in the work of Musgrave (1969), for example, whose theoretical framework for development economics closely approximates the applied policy framework that can be seen in the work of Governor Fitzroy during the study period, 1843-1846.

6. 11. Conclusion

New Zealand's second legislated attempt at an income tax law in 1891 may have been the result of fourteen or more evolutionary steps in direct taxation. This chapter has suggested that at least seven of those steps occurred during the Crown Colony period. The hypothesised third step - the arrival in the colony of Schedule E of the UK *Income tax Act, 1842* - has been the central focus of this chapter; the chapter has extensively

leveraged the earlier work of Chapter 5. Furthermore, Chapter 6 itself has been the starting point for what is a continuing discussion, viz. the transference of ideas and concepts in taxation. Finally, as the presence of Schedule E implied, a connection to the Mother Country's general fiscal policy, and in the larger context, political economy (also introduced in Chapter 5), these ideas have also been discussed within the transference framework.

Transference was the framework utilised for analytical purposes in Chapter 6 and it was adopted from the work of Nehring and Schui (2005). The larger structure has three interconnected dimensions: (1) economic thought which is economic theorising and analysis; (2) ethical judgements about the legitimacy of taxation; and (3) administrative knowledge, experience and ability. From these three dimensions are derived Nehring and Schui's three-legged framework of transference: *Observation; Direct Communication; and Assimilation*. Each of the three dimensions is considered inseparable and thus, they are acknowledged as component parts of the same mechanism. Hence, they were all discussed concurrently in each section.

The chapter began by introducing the reader to *The Act*, and briefly described its evolution. Thereafter, Schedule E of *The Act* arrived in New Zealand. As this was a little-known event in New Zealand tax law its relevance was explained. Schedule E's arrival in New Zealand was primarily the result of the home country's public policy. As a partial transfer of a tax system, Schedule E can be considered less important. When recognised as a constituent part in the transference of economic thought (and of directed public policy) in the colony during the tenure of Governor Fitzroy however, it can be seen as an important fiscal event.

The line of reasoning implies that Schedule E was more than a contributing factor in the brief appearance of *The Ordinance* in 1844. Also, as the prevalent ideology of nineteenth-century political economy was to be found within *The Act* itself, the three next steps in the evolution of direct taxation in New Zealand which followed the arrival of Schedule E, also helped develop the public attitude towards taxation. From 1845 onwards that attitude would oppose the taxation of capital and incomes. This public attitude toward taxation policy was to become an entrenched position, something that

arguably, did not begin to change until the *Constitution Act 1852* and the reality of self-sufficiency and, indebtedness began to bite.

This chapter has achieved the three stated objectives. First, exactly what Schedule E was has been fully explained. Second, the dominant economic policies or public policy ideas that were embodied in Schedule E of *The Act* were extensively explored. Third, whether or not Schedule E was the public representation of another nation's economic policies and of a larger ideological movement was examined in detail.

From the research undertaken, the three core hypotheses of the chapter are found to be highly plausible. First, there was a transfer to the colony of Schedule E of *The Act*. Second, Schedule E brought with it the accumulated knowledge, up to that time, on political economy. Third, this transference of political economy and public opinion laid the foundation for a uniquely New Zealand approach to fiscal policy, and the formation of public attitudes in regard to taxation.

The argument constructed also helped to achieve the fourth and final objective. In the final section of the chapter an alternative hypothesis was examined in a manner that utilises a simple framework from a development economics perspective (Musgrave, 1969). After the brief examination, it was established that Fitzroy's policy initiatives were a reflection of the collective wisdom of the management of government up to that time.

Fitzroy's policies were shaped by the following factors: Political directives and public attitudes to taxation; past fiscal experience; contemporary economic thought; and inductive analysis conducted during Fitzroy's lifetime. Fitzroy did not make a panicked reaction to crises in his period as governor; he held the same ideas on economic policy as had the Peel government. Hence, Fitzroy did not experiment in 1844 and 1845. I believe that the fiscal record of Chapter 4, Table 4.8 and Table 4.9 (the quantitative reinforcement of the qualitative argument) are statements that corroborate this view. Furthermore, Fitzroy pragmatically applied sound and accepted economic solutions to identified economic problems - economic problems that are encountered especially in the contemporary development economics today, and in the literature devoted to them.

To conclude, Schedule E is the third step in the evolution of the direct taxation of incomes in New Zealand. Schedule E laid a foundation stone for the development of New Zealand tax law. The ideological premise of nineteenth-century political economy and the concepts of taxation are embodied in *The Act*, and this also was transferred with Schedule E of *The Act* to the colony. This conclusion is important, because it was by *observation, direct communication and assimilation* of Britain's ideas of tax policy that the New Zealand tax policy evolved. In the 1840's, the nucleus for future domestic tax policies is to be found. The direct tax policies of nineteenth-century New Zealand owe a great deal to the arrival of Schedule E of *The Act* and also to the legislator responsible for the subject of Chapter 7 (the *Property Rate Ordinance*; the *Property Rate Amendment*; and the *Dealers' license*), Governor Fitzroy.

Chapter 7

The Amendment and The Dealers' License

This chapter reinforces the transference argument of Chapter 6. Further, the objective of this chapter is twofold. First, the chapter seeks to reacquaint scholars of fiscal history with a New Zealand tax law that until now has only had limited coverage in the New Zealand economic and tax history literature. Second, the chapter seeks to introduce to the tax history literature two proposed New Zealand tax laws that, to my knowledge, have had very little coverage to date. The problem is similar to that of Chapter 6; hitherto, it has not been known how the one tax law of 1844 and, two proposed tax laws of 1845, are connected to the story of past New Zealand taxation and, why are they important.

7. 1. Introduction

The introduction to Chapter 6 did mention that between 1840 and 1852 there were seven evolutionary steps (tax laws and proposed tax laws) in the development of direct taxation in New Zealand. This chapter concentrates on three of those evolutionary steps: Step 4, *The Ordinance*; Step 5, *The Amendment*, and Step 6, *The Dealers' License*. The fourth step, *The Ordinance*, has not previously been the focus of any systematic economic enquiry. Moon (2000) did give *The Ordinance* consideration, but he did not make it a focal point. The fifth and sixth steps, *The Amendment* and *The Dealers' License*, have had almost no coverage at all in the literature with the exception of Cowie (1994). The problem is that little, if anything, is known of these early tax laws (one passed and two proposed), or of their worth to the economic history of New Zealand. This chapter therefore, makes what amounts to a pioneering contribution to the New Zealand early tax history literature.

Harris, who studied the evolution of income tax legislation in Australasia from 1866 to 1922, begins his narrative in 1866 in Tasmania (Harris, 2002). Choosing 1866 as a starting date omits the transfer and application of Schedule E to the Australasian

colonies¹¹⁰. Daunton (quoted in Nehring and Schui 2007) begins his analysis of colonial taxation in 1848. This period is five years after the arrival of Schedule E of *The Act* made an impact in the colonies. It is understandable, therefore, that the tax events under the discussion in this present chapter have been missed. Primarily, these are, *The Ordinance* and the contingent parts of Governor Fitzroy's tax package¹¹¹, the proposed *Amendment to The Ordinance* and the proposed complementary addition to the new system of taxation, *The Dealers' License*.

In September 1843, Schedule E of *The Act* (the subject of Chapter 6) arrived in New Zealand. By September of 1844, the Crown Colony's Administration had implemented its own direct tax: the *Property Rate Ordinance, 1844* (hereafter referred to as; *The Ordinance*). I consider this tax law to be a logical next step in the process of transference of tax policy (recall the method explained in Chapter 6). It is also the fourth step in the development of direct taxation in New Zealand (a hypothesis mentioned in the introduction to Chapter 6). In this present chapter, the hypothesis is extended to encompass *The Ordinance*; a single tax law which of itself represents stage one in the development of New Zealand's modern system of income taxation.

In this chapter method of analysis is the subordinate method of Chapter 6, the transference framework of Nehring and Schui (2005 and 2007). The three key methods of the transference framework are *observation*, *direct communication* and *assimilation*. The main features of the transference framework are discussed in the section that follows.

The investigation begins by presenting *The Ordinance* itself and then moves on to discuss the pertinent sections which explain the purpose of the legislations and its operation. Thereafter, the performance of *The Ordinance* during its short existence is discussed, and then a link is established between *The Ordinance* and the Crown Colony Administration's difficulties of raising sufficient revenue. This approach to the discussion leads the reader into the later sections where the two proposed tax laws, *The*

¹¹⁰ This event was promulgated in the Government Gazettes of New Zealand and that of New South Wales. This knowledge is obtained from a reading of the Australasian periodical; *The Weekly Register of Politics, Facts, and General Literature* (1843), *Domestic Intelligence*, August 26, I: 60; and the *New Zealand Gazette*, Vol. III, No. 39, (September 27, 1843), pp. 242-243.

¹¹¹ "Fitzroy's medley of experiments" is the term used by Goldsmith (2008, p. 31).

Amendment and *The Dealer's License* are presented. Fitzroy's two proposed additions to tax law are theorised as having two aims: (1) to increase the revenue on the existing tax application, *The Ordinance*, through its *Amendment*; and (2) to augment that revenue further by way of a new tax, *The Dealers' License*.

The main hypothesis for Chapter 6 was: The transfer to the colony of Schedule E of *The Act* also transferred the accumulated knowledge, up to that time, of British political economy, and this laid the foundation for New Zealand fiscal policy and public attitudes in regard to matters of taxation. For this chapter, the second part of the transference story, there are three hypotheses. In essence, these hypotheses follow a development path which, is logical and should therefore have been expected.

Hypothesis (1) is: on the basis of *observation* and *direct communication*, *the Ordinance* represents a full *assimilation* of the ideas and concepts of taxation from another country. It is a legitimate and correct representation of the transference process. Hypothesis (2) is: the attempted *assimilation* into public policy of *The Amendment*, on the basis of *observation* and *direct communication* (and *assimilation*, which *The Ordinance* represents), is a legitimate and valid demonstration of the transference process. Hypothesis (3) is: the attempted *assimilation* into public policy of *The Dealers' License* on the basis of *observation* and *direct communication* (and *assimilation*, which *the Ordinance* represents), is a legitimate demonstration of the transference process.

The chapter is organised as follows: Section 7.2 reacquaints the reader with the main features of transference framework. Section 7.3 discusses *The Property Rate Ordinance*, and Section 7.4 introduces step five and six in the development of direct taxation: the *Amendment* to *The Ordinance* and *The Dealer's License*. Section 7.5 briefly discusses the repeal of *The Ordinance*. The conclusion follows in Section 7.6.

7. 2. Analytical Framework

Chapter 6 demonstrated that economic and political ideology often plays a large part in the development of fiscal policy, and the transference of one nation's ideology to another nation can also provide a ready framework for policy development. In terms of 1844 New Zealand, the new ideology was to be Britain's acceptance of free trade and the application of those free trade policies in any country whose main source of revenue

was customs, required an overhaul of the existing tax system (i.e. changes to tax policy).

Tax policy is not just about collecting revenue; it is a representation of the “social contract¹¹²” and the construct of society, both of which are open to influence by either a dominant existing ideology or, a rising ideology. Therefore, when thinking in terms of ideas that are associated with taxation, it is necessary to consider it as a process. A “development” process which, according to Nehring and Schui (2007, p. 2), has three interconnected dimensions, and these dimensions influence the development of tax policy development.

The first dimension of the transference framework is: “Economic thought which is largely, but not exclusively, economic theorising and analysis” (Nehring and Schui, 2007, pp. 2-3). The second dimension is: “Ethical judgements [which are made by participants] about the legitimacy of taxation” (Nehring and Schui, 2007, pp. 2-3). The third dimension is: “Administrative knowledge, experience and ability” as applied in the policy process (Nehring and Schui, 2007, pp. 2-3). In respect of the transference of ideas and concept, the process of exchange is between persons, ruling authorities and between countries. Once a person, ruling authority or country accepts these ideas and concepts, a development process begins and eventually, becomes assimilated into local tax policy. To understand this process, it is helpful to repeat the exercise of Chapter 6, and again delve further into the framework of understanding provided by Nehring and Schui (2005 and 2007).

As noted earlier in the thesis, further study of the transference of taxation concepts, evolved from a workshop held in King’s College Cambridge in 2004 (Nehring and Schui, 2004). The participants formed a view that current tax histories did not give sufficient attention to an important aspect that precedes tax policy formulation: the international exchange of ideas. This, they thought, was crucial in shaping many national tax histories. From the workshop and from further work of Nehring and Schui (2005 and 2007), a practical framework was constructed in Chapter 6. The transference

¹¹² This notion began with thinkers such as Hobbes and Locke and continues through to current times. Buchanan is a social contract theorist who uses it when theorising about taxation: (Buchanan, 1998 and Brennan & Buchanan, 2000).

framework is based on the work of Becker (2005, in Nehring and Schui, 2005, p.5) and it is Becker's approach which is adopted in the later work of Nehring and Schui (2007). There are three distinct methods by which a conceptual transfer occurs and these are: *observation*, *direct communication* and *assimilation*.

To understand how Nehring and Schui (2007) define these methods of transference is crucial to our understanding. First, "*observation* may take place through the reading of publications, public or non public documents and through direct encounters" (Nehring and Schui, 2007, p. 6). "*Direct communication* entails a conscious bilateral process in which opinions, theories and experiences are verbalised and exchanged", and *communication* can be a part of *observation* (Nehring and Schui, 2007, p. 6). *Assimilation* of the ideas and concepts into the policies of a recipient nation, in this instance New Zealand, is the final aspect of the transference framework. Therefore, part of the analysis under the heading of *assimilation* considers whether "any relationship can be deduced between Crown Colony fiscal policy and the economic and administrative reality of the period in the mother country" (Nehring and Schui, 2005, p. 5). Such a relationship has been firmly established in Chapter 6 above, and this chapter reinforces those findings by extensively demonstrating the *assimilation* aspects of the framework.

The discussion sections that follow adhere to the methodological approach described above. While the three headings of the framework are separate, the authors cited above are of the opinion that all three types of transfer may occur at the same time, and that they will often be inseparably intertwined. Therefore, it is emphasised here that *observation*, *communication* and *assimilation* can be viewed as component parts that are not mutually exclusive, and that the structural headings of *observation*, *direct communication* and *assimilation* are common to each discussion section and are not therefore, detailed separately. At the same time, it will be clearly shown in each section when *observation*, *communication* and *assimilation* occur.

A final aspect of the framework of Nehring and Schui (2007) is that a crisis precipitates the transfer of ideas. The *need* for change is often an insufficient reason for change to *occur*. It is only when faced with a crisis that the decision-makers appear open to the influence of new concepts and to the idea of policy change on the basis of those new

ideas. The concept of crisis inducing change is prevalent in the literature on the history of taxation, and the aspect of how policy change occurs is emphasised in Chapter 5 and again in Chapter 6.

This present chapter represents a second step in the research agenda which aims to better understand the tax initiatives which formed part of Governor Fitzroy's fiscal reforms from 1844 to 1845. The framework of Nehring and Schui (2005 and 2007) enables this chapter to meet the four objectives. Objective (1) the chapter will describe in some detail, exactly what *The Ordinance* was and how it operated. Objective (2) the chapter will describe in detail, exactly what *The Amendment to The Ordinance* was and how it was intended to operate. Objective (3) the chapter will describe exactly what *The Dealers' License* was and how it was intended to operated. Objective (4) the findings of the chapter will reinforce the view of Chapter 6 that, the three tax initiatives (one actual tax law and two proposed tax laws) mentioned above, represent a legitimate transference of another nation's economic policies and also of their widely accepted ideological movement of the period.

7. 3. The Property Rate Ordinance, 1844

An issue confronting Governor Fitzroy in September 1844 was how to meet the needs of fiscal expenditure. Fitzroy realised that further assistance from home would not be forthcoming unless all avenues to raise revenue within the colony were exhausted (*British Parliamentary Papers*, 4: 170-171). As stated previously, Fitzroy reduced government expenditure by cutting the budgets of his departments and by limiting the scope of their activities. This followed the approach of nineteenth-century public economics in the face of recurring budget deficits and in accordance with the demands of his opposition councillors. Thereafter, Fitzroy set about the task of raising sufficient revenue to meet the expenditure needs of his Administration. Fitzroy commented that "by direct taxation, after grants of land are issued, and by greater freedom of trade, a sufficient revenue will be raised within the colony – but this will not be during the current year, or the next" (*British Parliamentary Papers*, 4: 167).

Until September of 1844, three quarters of the tax revenue for Crown Colony of New Zealand's Administration came from customs duties¹¹³ a form of indirect taxation imposed on imported goods. Therefore, according to the understanding constructed Chapters 5 and 6, it is logical that Governor Fitzroy's proposals to overhaul trade policy, in line with the economic policies then current in the United Kingdom (i.e. free trade), were also proposals to *overhaul tax policy*.

Crisis, as always, was the catalyst for change: the window of opportunity for tax reform was opened by northern Maori, in 1844, when economic hardship and discontent gave rise to violent conflict between Maori and settlers. Blame for the conflict was laid squarely at the feet of the Crown and, specifically, at the customs regulations (Fitzroy, 1846). In an attempt to appease northern Maori, the customs duties were removed at Kororareka by Fitzroy and, consequently, the process of fiscal reform began to gather momentum. For taxation, it was to mean the general repeal of all customs duties (indirect taxation) and the introduction of *The Ordinance* (a direct means of taxation).

This approach to changing public policy (in line with similar policy changes which had only recently occurred in the Mother Country) would mean that, just as it had at home, in the absence of customs duties "something else had to make up the [revenue] shortfall and somebody else had to pay" (Hansen, 1990, p. 547). In New Zealand, *The Ordinance* was the something else, and that somebody would be those who owned property, primarily the merchant, the small capitalist and the landowning class, and those in receipt of an income. This application of British public policy (subject to the ideology of free trade) in the emerging colony, in my view, meets the requirements of the transference framework's three methods, *observation*, *direct communication* and *assimilation*.

Chapter 6, above, demonstrated how method one and two in the transference framework - *observation* and *direct communication* – had come to be used in the Crown Colony of New Zealand. This present chapter delves deeper into the intricacies of the third transference method, the *assimilation* of ideas and concepts into the public policies of a recipient country. This chapter hypothesises that *The Ordinance*, while a logical next

¹¹³ See Section 4.5.2; Table 4.8, Chapter 4, p. 64 for complete details of successive Administrations revenue for 1844.

step is the physical representation of *assimilation* occurring in Crown Colony New Zealand. The reality of *The Ordinance* becoming New Zealand public policy does indicate that the ideas and concepts in taxation were successfully transferred from one nation to another.

Besides meeting the theoretical requirements of transference, *The Ordinance*, represented a change in tax policy that was no small or incidental matter. *The Ordinance* represented some rather economically significant alterations to the colony’s emerging social contract. Therefore, it is worthwhile to begin by briefly considering that tax law, *The Ordinance*, in some detail.

7.3.1. *The Ordinance*

At the 4th Session of the New Zealand Legislative Council, the foundational revenue gathering legislation for Crown Colony New Zealand (customs duties) was repealed and simultaneously replaced with the *Property Rate Ordinance, 1844*. This brought an end to nearly five years of relying on simple indirect tax type to raise ordinary revenue¹¹⁴. Future revenue requirements would be met from the new direct system of taxation on wealth and income. The revolutionary ordinance comprised only four pages, and the pertinent sections of *The Ordinance* are discussed below. In addition, where appropriate, I intermittently bring the transference framework into the discussion.

Table 7.1
Title Page of the Property Rate, 1844

No. 2.	8 ^o VICTORIÆ.	Session. IV.
<i>Property Rate</i>		
No. II. An Ordinance for imposing a Rate upon Property, and for repealing “ <i>The Customs Ordinance</i> ,” Session I., No. 3, and “ <i>The Customs Amendment Ordinance</i> ,” Session III., No. 6. [28 th September, 1844.]		

New Zealand Ordinances, 1841-53, p. 182.

¹¹⁴ There are two points from the sentence that I wish to comment on. One, ordinary revenue is distinct from revenue that was raised from the sale of land; ordinary revenue is, quite simply revenue raised by way of either direct or indirect taxation. Second, indirect taxes had begun in 1839 as per the direction and control of the New South Wales Administration.

The title page of *The Ordinance* is shown above (Table 7.1). *The Ordinance* marks a change in fiscal stance that was, in large part, the result of a transfer of political economy ideas from the United Kingdom to the colony. The New Zealand tax initiatives that resulted were not exact copies of the original, and neither did they constitute complete tax systems. Daunton (quoted in Nehring and Schui, 2005, p. 5), suggests that the partial transfer of an Act is enough to authenticate transference; he makes these comments, in my view, on the basis that circumstances in the colonies were often quite different to the Mother Country and colonial policies often needed to be adapted to fit to local circumstances.

I suggest that *The Ordinance* is an unsophisticated version of a small part of the Mother Country's larger tax system. Aspects of that tax system were individually selected by Governor Fitzroy, and then adapted to the conditions of early New Zealand. For example, in accordance with the reality of early New Zealand, *The Ordinance* (a limited form of *the Act*) was, in its unsophisticated form, applicable to both males and females, but Maori were exempted.

The *Preamble* to the ordinance states that "commerce, agriculture and the general prosperity of New Zealand would be greatly promoted by removing all restrictions on the free intercourse of shipping" (*New Zealand Ordinances*, 1841-53, p. 182). This comment relates directly to the overriding ideology of free trade then prevalent in the colony and in the Empire. The *Preamble* closes by stating that "all provisions made for the regulation and protection of the revenue of customs....be repealed, and in lieu of customs, a revenue shall be raised by rates upon property within the Colony" (*New Zealand Ordinances*, 1841-53, p. 182).

Three points should be made about Fitzroy's approach. First, *The Ordinance* follows in the tradition of Peel (the Prime Minister of the United Kingdom (see Chapters 5 and 6)) and this meets the requirements of the transference framework for *observation* and *communication* (see Chapter 6 and Section 7.2 above). Second, it was not fiscally neutral and it did not reflect the fiscal reality of a continuing need to appropriate the revenue required for future growth and prosperity. Fitzroy however, was applying part of a known economic solution to the recognized problem of economic depression in

Crown Colony New Zealand. Third, the *Preamble* of *The Ordinance* removes all ambiguity as to how future revenue was going to be raised, and from what sources.

Table 7.2
Rate Schedule

When the property or income or both taken together of any person shall not exceed

RATE		RATE	
£50	£0	£600	£6
100	1	700	7
200	2	800	8
300	3	900	9
400	4	1,000	10
500	5	Composition	£12

New Zealand Ordinances, 1841-53, p. 185.

Section 2 of *The Ordinance* provides more useful information. On the 1st day of Nov (1844)...“there shall be raised, levied and collected and paid....in respect of all property and net year’s income....a yearly rate, according to the scale in the Schedule hereunto annexed” (see Table 7.2 above) (*New Zealand Ordinances*, 1841-53, p. 185). It will, “comprise every description of property whether real or personal; the marketable value at date of return” (*New Zealand Ordinances*, 1841-53, p. 185).

Section 3 of *The Ordinance* details exactly what is liable to taxation and not surprisingly property is the first item discussed. Thereafter, the section defines exactly what constitutes property for the purposes of *The Ordinance*. Further information is provided in Section 4 on what exactly was taxable: “Net yearly profits of trade, business or profession, rent from real property, interest on money and any other description of income, whencesoever or from whatever source it is derived” (*New Zealand Ordinances*, 1841-53, p. 185). Without ambiguity, Section 2, and especially Section 4, indicate that while it was titled a property imposition, it was very clearly also an income tax.

The tax was structured in a manner familiar to the early settlers (see Chapter 6 for a description of *the Act*). These familiar aspects of *The Ordinance* clearly indicate the degree to which aspects of *The Act* were *assimilated* into Crown Colony New Zealand’s tax policy. One specific aspect that was familiar was that *The Ordinance* had an initial

low threshold. The value of property and income, together, needed to be greater than £50¹¹⁵ before any liability to pay the tax existed.

This initial threshold value is an important feature of the tax law; Fitzroy may have constructed the law with an eye to the ability-to-pay principle¹¹⁶. However, *The Ordinance* did, initially uphold, an old and important philosophical position¹¹⁷ which predated both the ability-to-pay principle and that of the benefit principle¹¹⁸. That important philosophical position was that the less well off in society are spared the burden of oppressive taxation (see Chapter 5). This latter point is an indication of transference: the *assimilation* into policy of the underlying principles of nineteenth-century and late eighteenth-century British taxation. For the ardent scholar of past taxation, the thresholds attached to *The Ordinance* are not unlike those of Pitt's *Triple Assessment* (1797).

Let us return to the discussion of *The Ordinance's* tax thresholds. As stated above, £50 was the lower threshold for taxation however there was also an upper threshold (as shown in Table 7.2. above), the sum of Composition. The system of composition is covered under Sections 5 and 6 of the legislation. On incomes greater than £1000 the taxpayer was entitled to make a composition payment whereupon, a flat fee of £12 was paid (the maximum sum payable). Few of Fitzroy's taxable population were believed to have a combined worth above that value and in any case all foreign assets and income were subject to taxation at home (see Chapters 5 and 6 for an understanding of the application of direct taxation in the United Kingdom and especially of *The Act*). The

¹¹⁵ The initial low threshold of £50 is important because the average wages of a working man in 1844 were between £30 and £40 (Simkin and Hardie, 1954). In respect of physical property, with most settlers' recent immigrants, by assumption, they would have brought very few possessions with them and thus had little real property. Further, a raupo house (an inexpensive form of accommodation) cost only £4 and a more substantial weatherboard home would have cost £10 or £12 (Keene, 1972). On this basis, it is quite plausible that the estimated wages and property combined, of the average working man, in 1844/45, would equate to less than £50. If that was the case, then Fitzroy's taxable population was (relative to the previous application of indirect taxation), significantly reduced and this fact would be reflected in lower revenue returns.

¹¹⁶ "The ability to pay principle refers to the idea that people with greater ability to pay taxes should pay higher taxes". See Baumol and Blinder (1979, p. 632). See also, Chapter 5 for a contextual understanding of the concept during the nineteenth century.

¹¹⁷ "The requirement that the burden of taxation should be just is, [a] very old [one], almost as old as the idea that just taxation is taxation according to the ability-to-pay and, it predates the benefit principle" (Musgrave, 1959, pp. 91-95).

¹¹⁸ "The benefits principle of taxation holds that people who derive the benefits from the service should pay the taxes which finance it". See Baumol and Blinder (1979, p. 633). See also, Chapter 5 for a contextual understanding of the concept during the nineteenth century.

connection to the tax policies of the Mother Country, mentioned in this paragraph, clearly demonstrates an application of all three methods of transference; *observation*, *direct communication* and *assimilation*.

The bulk of *The Ordinance*, Sections 7 to 23, concerned the compliance, collection, and the administration of the tax law. Following Section 23 were appended the rate schedule (seen above as Table 7.2) and *The Ordinance's* tax return (the form). The form of return associated with *The Ordinance* is interesting and I present it below as Table 7.3.

Table 7.3
Form of Return: Property Rate

Name	
Place of abode	Date.

I HEREBY SOLEMNLY DECLARE that the rate payable by me in respect of my property and income under the provisions of "*The Property Rate Ordinance*," Session IV., No. 2, and according to the scale in the Schedule to the said ordinance annexed, does not exceed the sum of (*the sum in words at length*).

(*or as the case may be*)

I HEREBY GIVE NOTICE that I intend to make a composition in lieu of the rate payable by me in respect of my property and income during the ensuing twelve months.

New Zealand Ordinances, 1841-53, p. 185.

It was clearly a tax that used a system of self-assessment to achieve compliance. Modern societies have tended to adopt this voluntary approach as an underlying pseudo philosophy of taxation. While it can correctly be attributed to the payment of indirect taxation it cannot be considered relevant when discussing direct taxation and it is discussed further below. Nevertheless, returning to the structure of the tax returns declaration; the form contains two parts. The first part was the taxpayer's declaration of liability subject to their combined value of property and income. The second part is the opportunity provided for those in the upper reaches of the rate scale to pay their tax liability by composition. Regardless of which means of payment was chosen liability was required to be paid quarterly however, composition in lieu could also be paid in advance.

Returning now to the idea of voluntary taxation; while *The Ordinance* was designated a voluntary system, there were tax collectors, and the tax had a 25% penalty rate on taxes not paid. That penalty compounded every month for arrears of either composition or

rate. An inquisitorial statement was also required by the collector and the whole system utilised social pressure to reinforce compliance¹¹⁹. This approach to applied taxation makes the term voluntary (self assessment) as a concept rather redundant; in practice, the tax application was anything but voluntary. *The Ordinance* also invalidated the compliance and administration principles which *The Act* had written into its constitution forty years previously. These are principles which today we take for granted however, British taxpayers in 1844 had only obtained these rights when income tax became a reality in the Mother Country. The taxpayer's right to privacy was one principle that Fitzroy dismissed when all persons who paid tax had their name, address, occupation and amount of tax paid published in the *Gazettes* of 1845. Irrespective of the publication of taxpayers' affairs, *The Ordinance's* flagrant neglect of taxpayer's rights, in my view, demonstrates the adaptation of tax policy in order to resolve colony's potential compliance problems. Thus, the application of *The Ordinance* does meet the *qualified* transference requirements of Daunton (Nehring and Schui, 2005, p. 5).

Aside from *The Ordinance* contravening a minor clause of the social contract (perhaps on the grounds of legislative and administrative simplicity), *The Ordinance* was, in effect, an unsophisticated, and proportionally structured, global property and income tax law. *The Ordinance* was constructed subject to the 1844 reality that New Zealand was an emerging colony, and as an example of New Zealand's early tax laws, *The Ordinance* reflects the nation's level of economic sophistication at that time (irrespective of the thoughts of Musgrave, 1969, discussed in Chapter 6). Whatever flaws *The Ordinance* may have had, it was ably constructed and from a perspective of some specialist knowledge.

¹¹⁹ The simple structure of the tax system and method of compliance meant that the tax contained many inefficient aspects. There was no provision to depreciate (review) your income; if you had £100 this year then that was deemed your probable income in the following year. This was an application of the old assessment method of calculating taxable income; it was a residue of the triple assessment of 1798 and the previous century's experience with taxation in England. This New Zealand property rate, began as did Pitt's nearly fifty years previously, as an improvement on the old system of property taxes. Fitzroy was following a well-worn policy development path, one which stretched from 1798 to 1844 and had seen the original imposition progress from property taxes and assessments, to the scheduler system and collection at source. This early addition to New Zealand tax law however, was not scheduler in approach, did not contain deduction at source and there was no relief for income or property, earned or otherwise. As an aside, the collectors' costs were to be deducted from the revenue prior to Fitzroy's Treasury receiving the funds. This was a standard approach to inland tax collection which had been written into tax legislation; again, this was a link to an earlier century and the practice of tax farming.

7. 3. 2. The Performance of *the Ordinance*

As a single tax law, *The Ordinance* was never going to return all the necessary funds needed to meet the Administration's expenditure requirements, and, *The Ordinance* was never intended to. Furthermore, *The Ordinance* was a success and it performed exactly as Fitzroy had expected and, this can be seen in the *British Parliamentary Papers*, and in the *New Zealand Gazettes* of the period. In addition, the performance record (the amount of revenue raised) by *The Ordinance* does show a level of knowledge by its designers that is not readily countenanced by modern scholars of the period.

The performance of *The Ordinance* was, determined by the initial tax rate and the setting of a top and a bottom threshold. Presumably, the threshold was set after discussions among the Executive members of Council and then perhaps informally discussed with the opposition members of the Legislative Council. Thereafter, exemption (bottom threshold) was set at £50, and the upper threshold at £1,000 and a flat rate of at 1% (a lower rate than the 2.9% which applied in the Mother Country) were written into *The Ordinance*. In the unsophisticated economy of early New Zealand, the process of deciding an appropriate rate, determining income bands and threshold settings might have constituted a problem for Fitzroy's officials. However, there is reason to believe that this was not the case, and the subsequent revenue returns clearly show a reasonable degree of fiscal awareness on the part of Governor Fitzroy and his Executive¹²⁰.

The total revenue raised by all types of taxation up to the end of December 1844 was £45,697 (including some property rate returns). Ordinary revenue, principally customs, was £16,163; 35% of total revenue¹²¹ (see Table 4.8, Chapter 4, p. 64). When the Legislative Council repealed the customs ordinance for the entire colony, at the urgings of the Auckland business community, they passed in its stead *The Ordinance*, and made comments: "It was thought that a working man had, up till then, paid, yearly, £4 in indirect taxes; under the new system he would only be paying £1" (*British Parliamentary Papers*, 4: 376).

¹²⁰ These initial policy decisions (direct taxation, a low flat-rate income tax and a high initial threshold) appear to have been determined on the basis of further legislated tax initiatives and the construction of more complete system of taxation for the Crown Colony.

¹²¹ The Total Revenue of Crown Colony New Zealand for the calendar year 1844 is broken down according to: Ordinary Revenue, 35%; Land Revenue, 3%; and Capital Revenue of 62%.

Table 7.4
Property Rate Return

Appendix (C) to Minutes of Saturday, 8 March 1845

Statement of the Amount of Property rates that have been received at the different Settlements, from 1st November 1844 to 31st January 1845, as far as ascertained.

	£	s	d
Auckland	410	6	3
Wellington and Petre	259	12	3
Russell	120	16	7
Nelson, from 1 st November to 30 th December	121	11	3
New Plymouth, from 1 st to 30 th of November	46	-	-
Total	£ 958	6	4

Note.—The amounts for Nelson and New Plymouth are filled in. This information, however, is not derived from the accounts, but is estimated as a fourth of the yearly returns.

Property rate Office, Auckland
7th March 1845.

(signed) *P. D. Hogg*, Chief Collector.

(signed)

*Andrew Sinclair*¹²², Colonial Secretary.

(British Parliamentary Papers, 5: 205)

All else remaining the same, and on the basis of the above quote, ordinary revenue should have fallen by 75% over the course of a calendar year. Accordingly, based on the indirect receipts of 1843, *The Ordinance* might only produce revenue of £3,434. From the official secondary source information, this figure of £3,434 was achieved. Table 7.4 above, presents the published return for *The Ordinance*'s first three months. The figures represent a quarter, and by summing, a total yearly figure of £3,832 is arrived at (a figure £402 greater than Legislative Council's provisional estimates)

The first quarter's return supports the theory that the property rate was successful. Large numbers of Fitzroy's taxable population had obviously not avoided or evaded the tax, and this fact is contrary to the New Zealand economic history literature. Apparently, "Nelson settlers refused to pay tax" (Cowie, 1994, p. 26), and "the southern settlers refused to pay Fitzroy's income [and] property tax" (Cowie, 1994, p. 89). There is also a recent addition to this widely held opinion: "The first quarterly return yielded a pittance, £958 6s 4d, mainly because evasion, by failing to report income was so easy and so enthusiastically adopted by the majority of settlers. People simply didn't send in a return", Goldsmith (2008, pp. 24-25). This thesis suggests that most Fitzroy's taxable

¹²² See Molloy, B (2005). Andrew Sinclair (1794-1861) was a medical doctor by training. He was encountered by Fitzroy in Sydney on his way to New Zealand and hired by the Governor. He is also credited with recruiting and training the nucleus of an efficient Public service.

population do appear to have responded positively, and most, if not all, of those who were liable under the new tax law did pay their taxes. In fact, the *New Zealand Gazettes* of the period list their names, occupations and how much tax they each paid (*New Zealand Gazette*, 1844, p.174-6, and 1845, p. 6-10). Furthermore the findings of this thesis are diametrically opposed to the statements of Goldsmith (2008, pp. 22-26) with respect to whether or not the tax was successful and whether or not it was paid by anyone. The record clearly shows that the tax clearly, was paid. In addition, the discussion of this subsection does suggest that the early legislators/public officials had a better understanding of their economy than others may previously have credited them with.

7. 3. 3. Raising a Sufficient Revenue

The property rate return seen above, entitled Table 7.4, represents the tax system in March 1845. With Fitzroy fully expecting the financial amounts that Table 7.4 contains, he had already proposed further tax measures to augment the revenue. In December 1844 Fitzroy proposed two new initiatives: (1) an increase in the rate of *The Ordinance* (the *Property Rate Amendment*); and (2) a new tax (the *Dealers' License*). By early 1845, action had been taken on both of these proposals and subsequently, in April, *The Ordinance* as well. *The Ordinance* and the proposed tax laws above, in combination, the means by which Fitzroy would attempt to raise sufficient revenue.

Raising sufficient revenue however, involves more than just compliance and collection and therefore, and therefore, the discussion moves on to the changes in taxation principles which underpin *The Ordinance*. Fitzroy disposed of a tax system which worked according to the inherited benefit principle, and in late 1844, Fitzroy enacted the beginnings of a tax system which had more in common with the ability-to-pay principle¹²³. This change in principle had occurred in England the previous century, and the conceptual understanding of this change can be found in each nation's degree of economic sophistication. The level of fiscal ability is apparent when a ruling authority has the will, and the facility to effectively implement direct taxation. Prior to the end of

¹²³ “The requirement that the distribution of tax payments should be just is very old, almost as old as the idea that just taxation is taxation according to the ability to pay and it predates the benefit principle...To make ability to pay work requires an index of such i.e. how much can each person pay. In the seventeenth century the index was property. Fundamental to the ability to pay principle is that of horizontal equity (like treated alike) and vertical equity (unlike treated differently)” (Musgrave, 1959, p. 91-95).

the eighteenth-century, Britain did not have that level of economic sophistication and the triple assessment of 1797 was the result: Likewise, *The Ordinance* can be considered Fitzroy's triple assessment (albeit, less complex).

Second, there was also a change in the balance of taxation from indirect to direct taxation. Third, there was a change to the tax base. Previously, by way of indirect consumption taxes, all were potential taxpayers and the tax base effectively targeted imported necessities and luxuries. From September 1844, subject to the criteria of the tax law, however, only the settler population was liable to taxation (further, a percentage only of the settlers) as the tax base moved to impact wealth and income. Fourth, there was clearly a change in the means of taxation (property and income taxes instead of customs duties). Furthermore, compliance, collection and administration had altered dramatically: real voluntary taxation was gone. Thus, Fitzroy's tax law constituted a tax reform of some significance, and further, did constitute a *fundamental* tax reform (this is discussed in Chapter 9).

Why did Fitzroy choose to implement a tax law which represented such an extreme change in policy? The answer is related to two very complicated things. First, *The Ordinance* reflected the transference of political and economic thinking from the mother country. This is the reality of the transference process, and this aspect is stressed throughout the chapter. Second, the consistently poor performance of previous Administrations, in combination with the colony's unhelpful settler population, had resulted in successive financial crises and potential conflict with Maori: the colony was failing. The idea contained in point two is not the focus of this thesis. However, Chapter 9 of this thesis does continue the discussion of derived economic change.

Returning to the transference framework, it is now appropriate to extend our understanding of transference and the development of tax law during the study period. This approach is taken in order to reinforce the transference findings of Chapter 6. If *The Ordinance* was the logical next step in the process of tax policy development, subject to transference, then it would be legitimate to expect that the next two steps (step four and five) in the evolution of direct taxation during the study period would also follow.

7. 4. *The Amendment and the Dealers' License, 1845*

It has previously been hypothesised in Subsection 7.3.2 of this chapter, that Step four in the evolution of direct taxation in New Zealand, *The Ordinance*, was not a complete tax system. *The Ordinance*, as a single tax law, was only the first part of a larger restructuring of fiscal policy. There were two other proposed tax laws which were intended to bolster the revenue, to augment the new tax policy and to assist in forming a more comprehensive tax system for the colony.

Those proposed tax laws were: Step five, *The Property Rate Amendment*; and, Step six, the *Dealers' License*. The first requires little explanation; *The Amendment* was an increase in the rates which applied to the imposition of the property and income tax. The second of the “proposed” tax laws was a new addition to the tax system. Fitzroy’s new tax was *The Dealers' License*, and this imposition was intended to impact those previously granted relief when *The Ordinance* was enacted. With the successful implementation of both the rate rise and the new tax, Fitzroy hoped (in time) to raise a sufficient revenue. These ideas are expanded on below.

As mentioned above, Fitzroy’s first initiative requires little explanation, however, his second initiative, *The Dealers' Licence*, is rather more interesting. This tax, he acknowledged, had been implemented previously in Norway as the dealers’ rate (*New Zealand Spectator and Cook's Strait Guardian*, May 31, 1845)¹²⁴. Therefore, from the outset, there is evidence of *observation* and *communication* occurring in the New Zealand context. Thus, there is clear evidence of the transmission of an idea that was derived from a northern European nation, a nation other than the Mother Country. In addition, the transference of the Norwegian concept of taxation to New Zealand policy development also meets the requirements of the third method of transference, *assimilation*.

The Dealers' License is recognisable today as a sales tax¹²⁵. The idea, of course, was not new and it was not confined to Norway. In its simpler version it is a foundational

¹²⁴ *The Amendment* and the *Dealers' License* were both promulgated in the *New Zealand Government Gazette*, June 3, 1845.

¹²⁵ Technically, this is not a correct explanation however; from the perspective of 2008 it does make sense. In reality the *Dealers' License* was a lump sum tax (from which is derived the direct tax

indirect tax measure and in Britain it had existed since the seventeenth century. From 1684 to 1789, Dowell (1885) records ten instances of its imposition. Taxes of this type were mainly used as a licensing fee for retailers and manufacturers, and in fact, it already existed in Crown Colony New Zealand, prior to Fitzroy's proposal, in a limited form. The tax was known as *The Auctioneer's Licensing Ordinance* and it was first implemented in New Zealand in 1842, (an addition to the established Fees, Fines, and Other Charges) and thereafter, it was amended in June 1844 by Governor Fitzroy.

In Britain, policy makers with some knowledge of the economics of taxation (such as Peel), understood *The Dealers' License* to be a form of indirect taxation with the end consumer ultimately paying the tax. In reality, by the manner in which it was applied, it was perceived as burdensome direct taxation by retailers and manufacturers (Dowell, 1985)¹²⁶ and it was very unpopular. It is possible to suggest that *The Auctioneer's Licensing Amendment Ordinance, 1844* can be connected to the public's awareness of this form of taxation and of their dislike of it. Thereby, the public and political pressure which drove the auctioneer's amendment in 1844 can also be seen to meet the requirements of the three methods of the transference framework, *observation, direct communication* and *assimilation*.

7. 4. 1. Property Rate Amendment

The nominal values of the first property rate return were fully expected by Governor Fitzroy (and I demonstrated this fact in Section 7.3.2). Fitzroy well knew that more revenue was going to be needed and, as indicated above, he did have a plan to achieve this. In December of 1844 Fitzroy proposed an amendment to *the Ordinance*; the beginning of the end for what was to be called "free trade with a vengeance" (*New Zealand Spectator and Cook's Strait Guardian*, March 8, 1845, p. 2).

From this point in the discussion it becomes clear that there was a strong *link* to the ideology of free trade and to the ideas and concepts of taxation that Governor Fitzroy was promoting. This *link* is the connection to the transference framework of Chapter 6 and Chapter 7. This chapter demonstrates however, that the policy development process

connection) and an ad valorem tax on the value of goods sold (which is the connection to indirect taxation, namely, a sales tax).

¹²⁶ This conceptual understanding of incidence was common even at the end of the nineteenth century (Musgrave, 1959, Note. 1, p. 227).

for Fitzroy's tax laws was influenced by other nation's experience with tax law development. Schedule E of *The Act* transferred much more to New Zealand than just a method of taxation, also included in that transfer were the periods dominant ideology of free trade and the then prevalent ideas and concepts associated with fiscal policy, namely tax policy.

Returning to the planned *Amendment* to *The Ordinance*, an enactment, which was not due to become effective until November 1846. However, the proposed *Amendment*, from inception, began the journey towards *The Ordinance's* legislative repeal. To explain why, a simple comparative illustration showing the two ordinances different rate structures and threshold provisions is appended below, entitled Table 7.5.

Table 7.5
Property Rate Amendment: Schedule of Rates

<u>1844 Ordinance</u>		<u>Proposed 1845 Amendment</u>	
	RATE		RATE
£50	£0	£25	£0
£100	£1	£50	£1
£200	£2	£100	£2
£300	£3	£200	£4
£400	£4	£300	£6
£500	£5	£400	£8
£600	£6	£500	£10
£700	£7	£600	£12
£800	£8	£700	£14
£900	£9	£800	£16
£1,000	£10	£900	£18
		£1,000	£20
Composition	£12	£1,100	£22
		£1,200	£24
		£1,300	£26
		£1,400	£28
		£1,500	£30
		And	Upwards At
			2%
		Composition	£20

Sources: the 1844 Ordinance: *New Zealand Ordinances*, (1871)
Amendment rates: *New Zealand Spectator and Cook's Strait Guardian* (March 22, 1845)

When the two tax laws are compared, it can be seen that *The Amendment* contained three key matters of interest for taxpayers. First, there was the rate increase from 1% to 2% on all property and income. Second, the bottom threshold was halved; down from

£50 to £25¹²⁷. Third, the top threshold (Composition) was increased upwards from £1000 to £1500. In combination, these three initiatives would not only have increased the effective tax burden of all taxpayers, but would also have extended the effective tax base in both a regressive and a progressive manner¹²⁸. However unpleasant for taxpayers these intended changes to Fitzroy's key tax law (*The Ordinance*) may have appeared, they do represent the logical development of a tax system constructed according to the augmented benefit and ability-to-pay principles, as contained in *The Act*.

Reference above to *The Act* leads us to recall that income tax legislation in Britain had undergone extensive changes over the course of forty seven years, as indicated in Section 6.3 of Chapter 6 above. Also shown in the previous chapter was that Fitzroy was reasonably well acquainted with the 1842 passage of *The Act* and, on that basis, the proposed rate changes to *The Ordinance* were an expected result of *observation* and *communication*: two of the three headings of the transference framework. Thereafter, the ideas and concepts of taxation were *assimilated* into tax policy in the colony (the third heading of the transference framework).

In the colony, the potential effect of Fitzroy's new policy changes was well understood. The editorial of the newspaper which printed the proposed new schedule of rates, noted the following comment by Sir Roger Cloverly. "Much may be said on both sides; but an appeal to the pocket comes home to everyone" (*New Zealand Spectator and the Cook's Strait Guardian*, March 22, 1845, p. 2). Sir Roger Cloverly was right, and the public response to Fitzroy's tax proposal was received in a less than positive way and the response was immediate. The taxpaying public sensed a need for urgency and, it may be asserted that the debate was most definitely not about optimal taxation. Why? Because, besides *The Amendment to The Ordinance*, taxpayers were also aware that the tax base was about to be extended by way of a new addition to the tax system, a new tax that was designed to further empty their pockets.

¹²⁷ For information pertaining to the income levels for the years 1843 to 1846, the reader is directed to Simkin and Hardie (1954, p. 98).

¹²⁸ I have used the technical terms regressive and its counterpart progressive, in this instance, in a very flexible way. Extending the tax base to impinge on the less well off, those previously exempted, I term regressive. Further, increasing the upper limit to taxation (and the composition) I have loosely termed progressive.

The property rate *Amendment* was only part of the ongoing tax initiatives of Governor Fitzroy's. His intention was "to form such a direct taxation as should lead more to future than present revenue. He was perfectly aware that now the amount of revenue was small, but five years hence he trusted the result would be widely different" (*New Zealand Spectator and Cook's Strait Guardian*, April 5, 1845, p. 2). Fitzroy's next proposal would be even more unpopular than his first; a consumption tax that was applied in a direct manner.

7. 4. 2. The Dealers' License

As previously mentioned, *The Dealers' License* was not a new idea; it had been in use in Britain for many years as a charge for licensing of retailers and manufacturers. In the context of this discussion, in New Zealand however, this proposed tax law demonstrates the further, partial, transference of another tax system across geographic boundaries (i.e. the transmission of ideas and concepts of taxation). Attached below is the information pertaining to *The Dealers' License*, the illustration is entitled Table 7.6.

Table 7.6
Dealers' License Rate Schedule

When the amount for which goods shall have been sold during the last quarter, shall not exceed			
	RATE		RATE
0 - £50	£1. 10 _s	> £350	£12
> £50	£3	> £400	£13. 10 _s
> £100	£4. 10 _s	> £450	£15
> £150	£6	> £500	£16. 10 _s
> £200	£7. 10 _s	> £550	£18
> £250	£9	> £600	£20
> £300	£10. 10 _s	And upwards	

By Command of
Andrew Sinclair
Colonial Secretary

Supplement to *The New Zealand Spectator and Cook's Strait Guardian*, Wellington, January 11,
Saturday Morning, 1845, Vol. 1, No. 14, p. 6.

Table 7.6 sets out the schedule attached to the proposed *Dealers' Licensing Ordinance*. Its initial impact was a £2 payment (a lump sum tax); thereafter it was determined by way of a variable-rate schedule. Full liability was dependent on the quantity of goods the merchant sold. In this manner, Governor Fitzroy was to attempt to augment his revenue and shift incidence back onto those previously relieved from the burden of

indirect taxation when he repealed Customs Duties, viz. the general merchant and the general consumer.

Returning to the New Zealand context, the general public, via the popular newspapers, were initially informed that the tax rate was to be set at 3% on all sales. At that level, 3% of every transaction, the tax was considered by the editor of a local newspaper to seriously impact upon the profit rate of the general merchant (also estimated, it is assumed, by the editor, to be about 7.5% of gross sales). The tax was therefore, assumed to diminish their profits by nearly fifty percent (*The New Zealand Spectator and Cook's Strait Guardian*, March 8, 1845, p. 2). Clearly the mechanics of demand and supply were not well understood at the time. In the case of *The Dealers' License*, some of the merchants' tax burden would have been passed on to the consumer, depending on the elasticities of demand and supply. Nonetheless, it is plausible that Fitzroy's licensing proposal would have raised prices and negatively impacted trade. The potential effect on demand, in an economically depressed and struggling economy, may also have simply compounded the social discontent then prevalent in both cultural groups (Maori and settlers). However, some specific concerns were about to be expressed by some of those who would have to bear the incidence of *The Dealers' License*.

Discord over the impending implementation of *The Dealers' License* was reinforced by the fact that it was due to be paid quarterly. Furthermore, payment was to be made in advance; this made it even more unpopular. In Britain this type of taxation (for want of a better term, a combined lump sum and sales tax) had not been acceptable in the eighteenth century and was still unpopular in the nineteenth century. It would be no more acceptable in the context of nineteenth-century New Zealand. Those who would have to pay the tax in New Zealand would not see *The Dealers' License* as either optimal taxation, or fair. Rather, they would see *The Dealers' License* as simply, a bad idea.

In the public media there were many unfavourable comments on the proposed *Dealers' Licensing Ordinance*. It was said that "a more unjust, a more arbitrary, unequal and despotic measure has never before been concocted in any British Colony" (*New Zealand Spectator and Cook's Strait Guardian*, Wellington, March 8, Saturday Morning, 1845, p. 2). The reason for the editor's point of view was that the trading

classes of the community were again about to come under the pressure of what was perceived to be, iniquitous and unjustifiable taxation. “A more iniquitous tax can hardly be imagined, it strikes at the root of all trade, it attempts to throw the whole weight of taxation on one portion and that an inconsiderable portion in point of numbers of the community” (*New Zealand Spectator and Cook’s Strait Guardian*, March 8, 1845, p. 2).

7. 5. The Repeal of the Ordinance, 1845

Fitzroy’s *inherited* initiatives in tax law (Step four, five and six in the development of direct tax in early New Zealand, as outlined in the introduction to Chapters 6 and 7) have all the hallmarks of a tax policy that, in 1844 Britain, and even in contemporary terminology, can be described as a comprehensive tax reform package. For Fitzroy and his Administration, all that the implementation of the full package required was the stamp of the Legislative Council. This was to be the forum for discussion and dissent, otherwise known as policy debate. Aside from Fitzroy’s Legislative Council much debate would also be undertaken in the popular mass-media (as seen above). The mass-media would be the forum for public discussion and dissent. Irrespective of any ideology, free trade or otherwise, or even the need in the colony for pragmatic applied economic policy, the colony’s taxpayers clearly did not want a comprehensive tax reform package, (fair, optimal, or otherwise) and their response to its possible implementation was immediate.

The anti-tax response (discussed above in Section 7.4.2 and briefly above) to the two proposed changes to tax policy arose because Fitzroy’s intention was, to implement a comprehensive tax system that would impact upon all sectors of his colonial economy. Thus, in the very short term, the weight of taxation would have increased in two ways: first, there was Fitzroy’s *Amendment*; this tax was intended to increase the burden associated with *The Ordinance* and to widen the tax base. Besides the rate increase, those in receipt of an especially low income would have been exposed by the new bottom threshold of the rate system; and those at the top by the new top threshold and the composition rate. Second, there was Fitzroy’s *Dealers’ License* to contend with. The new tax would have dramatically extended the tax base a second time and effectively recaptured those previously exempted by the repeal of indirect taxation (customs duties) including some Maori.

The public opposition to the new tax measure was reported in a popular newspaper of the period, *New Zealand Spectator and Cook's Strait Guardian*. It was asserted that the new tax impositions would have been “downright robbery”; even Auckland’s *Southern Cross*, formerly a supporter of direct taxation was “aghast at his [Fitzroy’s] actions” (*New Zealand Spectator and Cook's Strait Guardian*, May 3, 1845, p. 2). It was also reported that the opposition in the Legislative Council was strongly against further changes to taxation and, given their strenuous deliberation over appropriations in preference to the revenue Bill of 1845 (*British Parliamentary Papers*, 5: 191-193), new or increased taxation was not a preferred option. Consequently, Fitzroy’s entire package of fiscal reform was undermined. In short, Fitzroy was left with little choice but to repeal *the Ordinance*, and to re-instate the customs duty. “Six months’ trial have shown that a revenue nearly sufficient for the most economical expenditure on the public account could not, under the peculiar circumstances of the colony, be raised by direct taxation” (*New Zealand Spectator and Cook's Strait Guardian*, March 8, 1845, p. 3).

On account of the Executive’s inability to easily pass *The Property Rate Amendment Ordinance* and *The Dealer’s Licensing Ordinance*, in the short-term, the original mainstay of fiscal reform (*The Ordinance*) was limited in its ability to assist in raising sufficient revenue. Thus, *The Ordinance* was deemed to have failed and therefore, after only seven months trial it was repealed. This repeal of *The Ordinance* was Step seven. Tabled at the 5th Session of the Legislative Council, on 8 April 1845 was *The Customs Ordinance*. In effect, the repeal and re-enactment of customs was the end of stage one and, the beginning of stage two in the development of direct taxation in New Zealand.

Section 1 of the proposed ordinance repealed *The Ordinance* and re-instated the Customs Duties. Section 2 made the arrears of the property rate recoverable; and Section 3 provided for the commencement of *The Customs Ordinance 1845* at Fitzroy’s increased rates of June 20, 1844. Unable to fully implement all of the planned tax policy changes, a sufficiency of revenue was never going to be achievable and the colony returned to exactly where it was before Fitzroy arrived in the colony.

7. 6. Conclusion

This chapter has concentrated on the hypothesised fourth, fifth and sixth foundational steps in the development of direct taxation in New Zealand. Those steps were: (4) *The*

Ordinance; (5) the proposed *Amendment to The Ordinance*; and (6) *The Dealers' License*. All three legislative changes occurred between September 1844 and April 1845, and followed closely, the arrival in the colony in 1843 of Schedule E, of *The Act* from Britain. Pursuant to the transference framework, the subjects of the chapter, *the Ordinance* and the two proposed additions to tax law, *The Amendment* and *The Dealers' License*, are seen as the expected developments which would logically follow the arrival of Schedule E. *The Ordinance* and the two contingent proposals clearly represent the *assimilation* of ideas and concepts in taxation into the policies of another, recipient, nation.

The Administration's English inheritance (see Chapter 5 and Chapter 6) provided the guidelines for fiscal policy. From the inception of *The Act* in Britain, the Mother country had begun to scale down its reliance on indirect taxation, and to redirect their focus toward direct taxation (the reasons are discussed in Chapter 5). The physical presence of Schedule E (Chapter 6), the partial transfer of tax law, was: (1) the advance guard of political economy, and the then prevalent idea for fiscal policy; and (2) the precursor of colonial fiscal policy. This is evident in *The Ordinance* and in the next two developmental steps (Step five and Step six) in the evolution of direct taxation. *The Amendment* and the *Dealers' License* should have been expected and were the necessary additions required, in time, to raise a sufficient revenue. The Administration's chosen method was similar to that of the Mother Country, viz. the variation of a more comprehensive tax system based on the direct taxation of property and income. This was seen in the enactment of *The Ordinance*.

The Ordinance (an unsophisticated derivation from *The Act*), was clearly an adaptation of British tax policy to the needs of the colony. Further, unsophisticated or not, *The Ordinance* performed remarkably well in a short space of time and the amount of revenue it raised was as to be expected. In short, as a proportionally structured global property and income tax law, with compliance and collection issues, it worked well (see Chapter 4 and Subsection 7. 3.2 of this chapter). The material discussed in this chapter however, indicates that *the Ordinance* was never designed to be the tax system, and on its own, was never expected to raise sufficient revenue.

The Administration's proposed Step five and Step six, *The Ordinance's* rate rise (the *Amendment*) and the new tax (*The Dealers' License*), were seen as the way to meet expenditure needs and establish a sufficient revenue for the colony. Governor Fitzroy's additions and changes to tax law reflect the Mother Country's approach to fiscal policy in time of economic crises. This is transference in action, and it highlights the development process which both initiates and follows as part of the process of *assimilation*, as per the Chapter's transference framework.

The hypothesis for Chapter 6 was that the transfer to the colony of Schedule E of *The Act* also transferred the accumulated knowledge, up to that time, of British political economy, and this laid the foundation for New Zealand fiscal policy and the public attitudes in regard to matters of taxation. For this chapter, the second part of the transference story, there were three hypotheses. For each of those hypotheses (and they are repeated below) the work of this chapter has reinforced the importance of transference in the development and implementation tax policies between nations.

Thus, the chapter has found the three following hypotheses to be valid. First, on the basis of *observation* and *direct communication*, *The Ordinance* represents a full *assimilation* of the ideas and concepts of taxation from another country into New Zealand. It is a legitimate representation of the transference process. Second, the attempted *assimilation* of *The Amendment* into public policy on the basis of *observation*, *direct communication* and *assimilation*, which *The Ordinance* represents, is logical and a further demonstration of the transference process. Third, the attempted *assimilation* into public policy of *The Dealers' License* on the basis of *observation* and *direct communication* and *assimilation*, which *The Ordinance* represents, is also logical and a further demonstration of the transference process.

In closing, Part C (Chapter 6 and Chapter 7), has reacquainted scholars of fiscal history with past (and largely forgotten) New Zealand tax law, and by way of the applied method, transference, explained their importance to the story of New Zealand taxation. From the pool of accumulated knowledge that was the source of early New Zealand's ideas, concepts, and applications in taxation (New Zealand's English inheritance), came also the ideas and concepts of political and economic thought. This transmission ideas and concepts of political and economic thought, is manifest in Schedule E, and

Governor Fitzroy's subsequent development of *The Ordinance* and its contingent parts *The Amendment* and, *The Dealer's license*.

It is worthwhile to repeat therefore, that Chapter 6 clearly demonstrated that *observation, direct communication* did occur. The discussion of Chapter 7 has shown that the *assimilation* of extant British tax policy did also occur in early New Zealand. The discussion has strongly reinforced the transference concept of *assimilation*. Furthermore, Chapter 7 has also shown that the rejection of another nation's ideas and concepts in taxation (the repeal of *The Ordinance* and the passing of *The Customs Ordinance, 1845*) a tax policy reversal, which is also quite possible according to the 'transference framework'. This negative (anti-tax) response is hypothesised as being associated with the transmission of ideas and concepts of fiscal policy and political economy. For example, in the economic climate of 1845, Fitzroy's Administration had found the politics of taxation an insurmountable problem. In the end, the collective action of localised interests determined the path of taxation for the next forty-five years. This matter, the New Zealand politics of tax 1843-45, is a focus of the chapter which follows, Chapter 8.

Part D

The Development of Tax Policy

Chapter 8 and Chapter 9 will extend our discourse beyond the frontiers established in Part C (Chapter 6 and Chapter 7), viz. the development of individual tax laws. Part D can be interpreted as a results section. To date however, there has been no examination of the development process which determined Governor Fitzroy's approach to tax policy in New Zealand. The solution to the problem is arrived at by first having some knowledge of what occurred i.e. what the tax laws in question were, and then, of why each individual tax law was important. Having acquired this knowledge in the earlier chapters, the focus now turns to: (1) explaining the political process of the politics of tax the study period; and (2) offering a hypothesised economic objective for the very process that is described in successive chapters of the thesis.

Chapter 8

The Politics of Tax, 1844-45

This chapter will discuss the politics of tax; the interaction of the polity's key players within the institutional framework of the Crown Colony Administration. The problem was clearly identified in the introduction to the thesis, namely the lack of knowledge concerning the past development of New Zealand taxation, is stated below. In the context of early New Zealand, "has, any rule[s] of normative behaviour been applied to the development of tax policy"? (Musgrave, 1959, p. 5) To answer that question, the chapter will utilise a "politics of tax" framework to aid analyse of the development of tax policy during the early Crown Colony period, 1844-45. This chapter will extend the work of previous chapters and make a further contribution to the New Zealand tax history literature.

8. 1. Introduction

While "some individuals might view the development of tax systems as a process of rational reforms in changing circumstances....[this however,] does not reflect the actual process [and it does not] reflect the nature of the political process" (James, 2002, p. 107). Understanding the process of tax policy development can be a complex task, and as Peters (1991) informs us, there are many issues to focus on: politics, economics, ethics and administration. To do justice to any of these subject areas will be a thesis in its own right and, it will not be attempted here. Peters (1991) however, comments that "when talking about tax policy politics is trumps; nothing else will carry much weight unless government is willing to accept [tax policy proposals] and to enact [those policies] into law through the political process" (Peters, 1991, p. 3). Thus, any tax initiative, either a single tax law or a body of tax laws (tax system) is constructed subject to a politics of tax process. To date, there has been no economic inquiry of how a single body of early New Zealand tax laws developed, and certainly none with a politics of tax focus.

This chapter has three objectives: First, to fit an analytical structure around the tax policy decisions made during the tenure of Governor Fitzroy. The second objective is,

to establish an explanation for the group behaviour and the conflicts that are reflected in the tussles between Fitzroy and his colleagues, and also, by Fitzroy and his taxpayers. Third, there is a secondary (subordinate) objective: to show that what Fitzroy succeeded in achieving in the Colony's tax arena, contributed to saving New Zealand as a British Colony.

For analytical purposes, the chapter leverages off the transference framework of Chapter 6 and Chapter 7: the second structural element of the transference framework is thought to be highly relevant to the discussion; *direct communication* (the conscious bilateral process in which theories and experiences are verbalized and exchanged)¹²⁹. Immediately, and without extensive theoretical explanation, a connection can be made between the work of Part C of this thesis and to that of Chapters 8 and 9 in Part D. This connection is also visible in the politics of tax methodology of Pollack (1998), for example, the analytical framework of the chapter, adopted principally from the work of Pollack, directs the analysis under the following interdependent headings: *preferences and bargains; pressure and influence; fiscal illusion; and the need to pass tax laws*. I discuss the structure of Pollack's work in greater detail in Section 8.2 below.

The hypotheses for Chapter 8 are quite easily understood and, are derived from the work of all the preceding chapters. The first hypothesis is that, the politics of tax determined the final form of tax policy in New Zealand and, the future direction tax policy would take from 1845 onwards (which ends of the study period of this thesis). The second hypothesis is that the development of tax policy was influenced and directed by the very factors extensively discussed in the subordinate framework, "the politics of tax" (*Preferences and bargains; pressure and influence; fiscal illusion; and the need to pass tax laws*). The third hypothesis is that during the study period, the foundations of a uniquely New Zealand approach (philosophy) to fiscal policy were laid. At this juncture, a further hypothesis relating to the chapter's third objective is stated. Thus, the chapter's fourth hypothesis is that the fiscal events of Fitzroy's governorship established the beginnings of an intergenerational attitude, which, with

¹²⁹ A connection to the historical institutional theory of Peters (1991); Pierson (1993); and Steinmo (1998); is well apparent. Theory "explains different tax systems as the slowly evolving result of *interactions of ideas and interests* with social and economic forces, *within existing institutions and political cultures*" (Smith, 2008).

qualifications, was to oppose direct taxation of wealth and incomes for many years into the future.

The discussion below is organised in the following way; Section 8.2 describes the subordinate method of the chapter and the mechanics of the chapter. Section 8.3 will outline the historical narrative and weave the four headings of the analytical framework into the discussion. In Section 8.4 the secondary hypothesis (number three) will be tested and the conclusion follows in Section 8.5.

8. 2. Analytical Framework

The chapter's analytical method is adopted from the theoretical foundations of the following researchers: Peters (1991, pp. 3-13); Pollack (1998, p. 2); and Fauvelle-Aymar (1999, pp. 391-398). The theoretical foundation for the analytical method however, is Pollack (1998). Four key theoretical concepts are derived from the work of the aforementioned authors, and these form the basis of the chapter's analytical framework. First, tax policy is the product of *preferences* and *bargains*. Second, the tax policy making process is susceptible to the *pressure* and *influence* of interest groups, and crisis (either internal or external, or both). Third, politicians, bureaucrats, constituents, and citizens all suffer, in some form, from *fiscal illusion*¹³⁰. Fourth, to raise revenue, it is actually necessary *to pass tax laws*. These four conceptual understandings underpin the chapter's analysis of tax policy development and implementation during the study period. A key point to note is that the four headings are not mutually exclusive, and are, strongly interdependent. Thus, the four headings are discussed simultaneously throughout the chapter.

Let us start by elaborating on the first structural heading: *preferences* and *bargains*. This heading refers to the tax law *preferences* of the key participants in the development process, and the subsequent *bargains* they attempt to make, and are ultimately determined, within the adversarial construct of the polity. The political culture of society and of the institution influences the participants to the interaction (i.e. are they

¹³⁰ The following points derive from Sorensen (1992). The argument is that people underestimate the costs of providing public goods, and overestimate the benefits of government programmes. According to this argument the (misinformed) citizen demands greater amounts of public sector goods than if he or she had been completely informed. Democratic competition leads political parties to adjust to the perceived demands of the voters rather than to the true (fully informed) interests of the electorate. Therefore, the supply of public goods and services tends to be greater than the social optimum.

anti-tax or pro-tax); this can direct *preference* selection and determine the final form of the *bargain*.

Second, the tax policy-making process is susceptible to *pressure and influence*. Each faction (interest group), involved in the political process is expected to attempt to reduce their present and future tax burdens, and often that reduction will be at the expense of the other factions. To achieve this, each will apply whatever *pressure* they can in an attempt to *influence* the political process. A second aspect is also worthy of consideration, viz. Leverage, and specifically, the leverage of *pressure* from macroeconomic events and social factors. *Pressure* from these sources can mean that the participants in the political process are induced to arrive at a *bargain*, sooner rather than later. Equally as valid is the question: do the participants have the ability to effectively leverage *pressure* in order to *influence* the political process? In essence, crisis (real or perceived), applies *pressure* and accentuates the need to act, and thereafter, heavily *influences* the policy process. Thus, assistance is given to the final determination of tax policy i.e. the *bargain* that is finally realised, and that becomes law.

Third, politicians, bureaucrats, constituents, and citizens, all suffer (in some form), from *fiscal illusion*¹³¹. For the purposes of this chapter, (as the study period is a moment in New Zealand history when democracy was a philosophical convention rather than an established rule, as there was neither a parliamentary democracy nor any other form of representative democracy in operation in New Zealand between 1840 and 1852), for the purposes of this thesis, and this chapter, it is sufficient to define *fiscal illusion* in the following manner: taxpayers consider that they pay too much tax and get too little in return. Conversely, the ruling authority considers there to be more demands for

¹³¹ Fiscal illusion is a term that describes how people (even participants in the policy determination process) commonly underestimate the cost of public provision. Alternatively, fiscal illusion describes how participants and non-participants in the policy process, often overestimate the benefits to others of government largesse and the cost to themselves, via taxation, of government programmes. According to this view the (misinformed) citizen demands either a greater amount of public sector goods or a retrenchment of government activity and lower taxes, than if he or she had been adequately informed. The down side [to this is, that] in a democracy, competition among interest groups can lead political parties (and politicians) to adjust to the perceived demands of the voters (or powerful minority elites) rather than reacting to the true (fully informed) interests of the electorate. Therefore, the supply of public goods and services tends to be greater than the social optimum, and I might add taxes higher than socially optimal (Sorensen, 1992). The converse can also be true; a lower supply of public goods and services than is socially optimal and lower taxes than is economically efficient.

expenditure than there is revenue, and therefore, new taxes or increased rates of taxation are frequently required to meet the perceived need for public provision. Furthermore I refer the reader to footnotes one hundred and thirty; and hundred and thirty one for additional insights on *fiscal illusion*.

The interdependent nature of all of the structural headings becomes more obvious as the discussion proceeds. For example, from the second structural element of the transference framework, *direct communication*, the process of debate can be understood as the verbalisation of *preferences* and the consequent *bargaining* process. At all times, participants in the process are subject to the reality of *fiscal illusion*. Furthermore, the debate is also conducted according to a set of (usually, but not always, unwritten) rules (or conventions). The rules of the politics of tax game, we are told by North (1991), are determined by the construct of the institution through which the game is played. Furthermore, those rules of the game effectively recognise the existence of *fiscal illusion*, and informally construct a framework to manage *pressure*, focus *preferences*, and establish the *bargaining* parameters. Thereafter, tax policy can be decided and *tax law passed*.

The stage is now set to discuss the fourth heading: *passing tax law*. Tax policy (the *passing of tax laws*) is commonly decided after political deliberation, during which, *pressure* and *influence* are applied, *preferences* are expressed and *bargains* struck, subject to *fiscal illusion* and the need to *actually pass tax law*. The final decision on what direction policy should take is often made by a select group of politicians (political participants who verbalise the *preferences* of their interest groups within the context of the institution). The *tax law* that is finally agreed to, and *passed*, will reflect the operation of compromise, consensus, coalition-building, and partisan politics within the polity by participants of the select decision making group. The decision however, will have been made on the basis that to raise the revenue required for appropriations, a political *bargain* needs to be struck, and a *tax law* needs to be *passed*.

Without this end point (the *passing of a tax law*), the political game could potentially go on indefinitely. However, it is accepted that intentionally deliberating *over tax policy* can be a legitimate political strategy, and in fact, deliberation is the very process of displaying *preferences*, applying *pressure*, and attempting to *influence* the final *bargain*.

Deliberation was also a tactic that was repeatedly employed by Governor Fitzroy's opposition in the Legislative Council in 1844 and again in 1845. A *tax law*, nonetheless, still needs to be *passed*.

The political factor which drives the policy process toward *passing a tax law* (the end of the game), is the ruling authority's need to annually pass the Appropriations Bill (expenditure). No organisational institution can continue to undertake expenditure without first raising revenue, and there are really only two ways to fund the public provision: One, implement taxation; or two, use the savings of others. A decision to *not pass tax law* and then to borrow to meet expenditure, is still the same as *passing tax law*. Deficit funding, otherwise known as borrowing, is an intergenerational transfer and merely shifts incidence, therefore it is possible to assert that deficits, and debt funding, represent the indirect *passing* of a *tax law*. In addition, the decision to *not pass a tax law* and acquiesce to the *status quo* (the existing tax law), is still considered the *passing* of a *tax law* by default.

The four mutually supporting structural headings of the politics of tax framework (described above) will adequately explain the process of tax policy development during the tenure of Governor Fitzroy, 1844-46. Consider again the four interdependent observations: *preferences and bargains*; *pressure and influence*; *fiscal illusion*; and the fiscal need to *pass tax laws*. If these determinations are found to play an important role in tax policy development, then tax policy is not decided on the basis of first-best economic arguments. "Politics" determines tax policy development and the final form of any tax law(s).

8. 2. 1. The Assumptions of the Chapter

One function of Modern government, according to Bentley (1908 in Olson, 1965, p. 120), is to ensure that the burden of taxation (who pays and how much they pay), does not fall disproportionately on one particular group or another. Not all governments however, can be assumed to adhere to this concept, and the Crown Colony Administration in early New Zealand is not considered to have been a modern government. Furthermore, the underlying argument of the early settlers in New Zealand is hypothesised as been that they (the settlers) considered that taxation policy was unfair

and applied unequally (*British Parliamentary Papers*, 4: 265-267). Therefore, in order to progress the discussion of this chapter, the following assumptions are required.

First assumption, that taxation, a coercive process, was applied by Governor Fitzroy on as wide a tax base as was politically possible, and also economically practical. Second assumption, as mentioned above, to raise the revenue required for expenditure purposes in the short term, neither debt funding nor deficit financing were available options; *tax laws* needed to be *passed*. The third assumption, “in reality group interests and their behaviour are the primary forces in economic as well as political behaviour” (Olson, 1965, p. 118), and thus, the politicians, and the political institution to which they belonged, are assumed to adhere to this theory of social behaviour.

8. 2. 2. The New Zealand Institution, 1844-45

It was a small group of seven individuals who decided tax policy for early New Zealand and this select group met irregularly in the undemocratic forum of New Zealand’s Legislative Council (Moon, 2000). The Legislative Council was the institution of government in Crown Colony New Zealand, and it contained two distinct groups: first, the Executive (four persons); and the opposition, the unofficial appointees (three persons)¹³². The Executive represented the Crown and bore ultimate responsibility for the wellbeing of all persons resident in the colony. Governor Fitzroy, as the senior appointed official of the Colony’s Administration, is assumed to be the representative of the Executive, and his recorded statements are taken to be the authoritative view of the Administration.

The three unofficial appointees on Council were: Mr Charles Clifford¹³³, Mr. William Brown¹³⁴, and Dr. Samuel Martin¹³⁵. Clifford (a New Zealand Company man)

¹³² In 1844 New Zealand, the larger institution of government was the officially appointed Administration; an association bound and directed by the conventions of a bureaucratic tradition, the dictates of Parliament and a qualified democratic legacy that was derived from many centuries of social development.

¹³³ He was an early pastoralist, one of the nation’s future large landholders, and the first Speaker of the House of Representatives of New Zealand. Following the early debates, Mr. Clifford’s voice (and thus the voice of the New Zealand Company) was not as prominent as the other two appointed members; the latter two were more inclined to support policies that were friendly to commerce. The reason for this is that Mr. Clifford did not attend the important September sessions of the Legislative Council. Incidentally, immediately after the passage of the Property Rate Bill, and the demise of indirect taxation, all three non-official appointees resigned from the legislative Council (Laing and Simpson, 2007).

represented the interests of the major European political competitor to the Administration, and the southern settlers in general. Brown and Martin, the other two members of the opposition, represented the northern commercial interests, and those of the Auckland settlers. In combination, these three men - the political voice of the major European interest groups - represented a minority opposition whose input in the policy formation process, prior to any deliberation over policy, is assumed as limited.

Much of the initial policy-formulation process (for tax law), was, by assumption, the responsibility of Fitzroy's appointed officials. The Executive would then attempt to pass these pre-prepared ordinances in the Legislative Council (i.e. *pass tax laws*). While the Council was not a democratic forum, Fitzroy operated his Council in a manner which mimicked the bureaucratic tradition, and the democratic tradition of Parliament. This convention-bound approach to institutional organisation would enable the opposition in the legislative Council to show their *preferences* and consistently attempt to *bargain* with the Executive.

8. 2. 3. Passing Tax Law

Let us return to the issue of the *passing of tax law*. The final decision on the type of tax law any ruling authority passes reflects the ideology of the day, or the type of tax law chosen can reflect the politics of the day. To simplify the argument however, it is assumed that when it came to choosing which type of *tax law* to *pass*, Governor Fitzroy and his Council had only three choices: indirect taxes, direct taxes, or a combination of both¹³⁶. As Governor Fitzroy was finally to realise, irrespective of ideology, none of the

¹³⁴ William Brown was a dedicated merchant who, by 1855, had become one of the wealthiest businessmen in Auckland. With the assistance of William Brown, the other unofficial appointee representing the business interests of Auckland, and John Logan Campbell (proprietors), Dr. Martin edited the *Southern Cross*. This newspaper had, traditionally, been opposed to the Administration; however, at least on the issue of income taxation the paper was very supportive of Fitzroy (I remind the reader that this occurred while Brown and Martin were both still members of the Legislative Council). (Stone, 2006)

¹³⁵ Dr Martin was supposedly a radical during the Reform movement of 1832. In 1844 he served as the editor of what had been formerly a very anti-government publication, the *Southern Cross*. Incidentally, Dr. Martin was a large purchaser of land prior to 1841; he had forfeited much of this land to the Crown due to 1) pre-emption and 2) the subsequent regulations concerning the allocation of land purchased prior to the Treaty of Waitangi.

¹³⁶ The key differences between direct and indirect taxation are the following: who pays (incidence); and how much they pay (the tax burden). In the case of indirect taxation, the full incidence does not always fall on the initial taxpayer; only a portion of the burden may fall on the initial taxpayer and to a lesser, or greater degree, the (remaining) burden is passed on to others. In the case of direct taxation, the burden of the levy is directly borne by the designated taxpayer. This simple distinction is often central to any debate on tax policy; New Zealand in 1844-45 was, I assume, no different.

available options for new tax law were going to be publicly acceptable in the short term, other than a minor increase in customs duty in 1844 (*British Parliamentary Papers*, 4: 295). Without external assistance or change of some sort occurring, altering the fiscal *status quo* in the colony in the medium term was going to be politically unachievable. The complete explanation for the colony's anti tax attitude is not necessary to state, or understand at this juncture, and while argument thus far relies on the assumption in Subsection 8.2.1 (above) an additional factor of some importance is the chapter's concept of *fiscal illusion*.

8. 2. 4. Fiscal Illusions

Having discussed in some detail in previous footnotes of the chapter (130, p. 182 and 131, p. 183) the technicalities of fiscal illusion, to aid discussion this subsection takes a circumscribed approach. With respect herein to *fiscal illusion*, there is a tendency for those who are either subject to taxation, or are about to have their tax burden increased, to underestimate the costs of providing public goods, and overestimate the benefits of government programs; this is called *fiscal illusion* (Sorenson, 1992). According to this view, the (misinformed) citizen's expectations diverge from the fiscal reality. The misinformed tax payer will, thereafter, actively seek to reduce his/her tax burden. The proposition is relevant to the case of New Zealand in 1844. At that time, taxpayers' *preferences* were clear; they were reluctant to bear the burden of taxation and they would apply *pressure* in order to *influence* the policy development process and to arrive at a *bargain* which suited them.

8. 2. 5. Preferences and Bargains

Fitzroy's *preference* was for a fiscal restructure of the New Zealand economy, a restructure which included a *fundamental* reform of the established, and unresponsive, indirect tax system. *Fundamental* tax reform along the ideological lines of free trade would mean (as Chapter 7 discussed), that in the absence of customs duties, "something else had to make up the [revenue] shortfall and somebody else had to pay" (Hansen, 1990, p. 547). The second tax law passed by Fitzroy in 1844 was to be the foundation for his new system of direct taxation; that tax law was *The Ordinance*¹³⁷. *The Ordinance* was that something else (tax law); and as a consequence the somebody (those subject to the tax law) would initially comprise small, but powerful interest

¹³⁷ The first tax law was the *Customs Amendment Ordinance, 1844*.

groups in the emerging colony - merchants, small capitalists, and the landowning classes.

Direct taxation, imposed in the manner of the Mother Country, should have been well known to New Zealand's older settlers, and quite possibly not much liked by them (see Chapter 5 and Chapter 7) however much interest group representatives clamoured for them (*British Parliamentary Papers*, 4: 267). In addition, some of Fitzroy's European population were born before income tax became a hard reality; meaning, that many had grown up when there was no income tax (the Mother Country repealed the income tax in 1816 and it was not re-enacted until 1842). Furthermore, the response of the New Zealand official cadre to Schedule E is a good example of individual and group behaviour in 1840's New Zealand (see Chapter 6).

A further example of the settlers attitude toward any form of taxation is the fact that the less-complicated and economically sound taxes (in the developing economy context), land taxes, had not been implemented by any Administration prior to Governor Fitzroy's arrival and Fitzroy himself thought it "impossible to raise an adequate land tax" in 1844 (*British Parliamentary Papers*, 4: 295). Therefore, it is logical that proposed new taxation, of a type which increased the burden of taxation and redistributed incidence, was not going to be liked by those who would have had to pay the tax. Thus, opposition by the colony's settlers to tax policy change was guaranteed.

The response of the Maori population to Fitzroy's direct tax system is not quite a moot point: Fiscal reform was initiated, in part, by Maori grievances, one of which was taxation. It is possible to hypothesise that many Maori already enjoyed the benefits of "free trade" prior to Fitzroy's arrival in the colony, and the initial repeal of the indirect tax laws (an event which preceded the general repeal and *The Ordinance*), did no more than reinforce that reality. In addition, Fitzroy's initial direct tax law, *The Ordinance*, did specifically exempt Maori from liability. On the basis of Maoris' ability to apply *pressure* and directly *influence* the political process, their *preferences* were acknowledged and a *bargain* was made. Therefore, it is highly likely that Maori were as supportive of Fitzroy's initial tax policy changes as were the merchants of Auckland. As an aside however, further projected tax policy changes, for example, the proposed

Dealer's License of 1845 would have made Maori interests just as uneasy as it did those of the European settlers.

Initially, the European settler population considered Governor Fitzroy's initial tax policy changes (the removal of customs duties and the implementation of property and income tax) just as acceptable as did Maori (*Southern Cross*, 1845, 3, 105: 2). The settlers were however, opposed in general to new and increased taxation (*Southern Cross*, 1844, 5, 354: 2), and here it is necessary to think in terms of expressed *preferences*. The reason for this anti tax attitude was their supposed inability (reluctance) to fully fund of the colonial administration's establishment costs or the Administrations funding of social programmes for Maori. These fiscal activities were seen by many settlers as a responsibility belonging to the Mother Country (*New Zealand Gazette and Wellington Spectator*, 1844, 5, 355: 4).

The European community of 1844 comprised only fifteen percent of the colony's entire population and many colonists considered that their share of the total taxation revenue should reflect this. (This anti-tax attitude reflects the presence of the foundational principle for New Zealand taxation: the benefit principle, discussed in Chapter 5). Furthermore, the European population would decline to support any tax policy changes on the grounds that, in their view, the then existing burden of taxation was already unjustly applied (*New Zealand Gazette and Wellington Spectator*, 1844, 5, 354: 4). In essence *fiscal illusion* ruled the day and the new fiscal approach (the *preferences*) of Governor Fitzroy, those which suggested new or additional, taxation in the future would not be seen as an acceptable *preference* and thus no *bargain* would be made. The Administration would encounter serious opposition from the European settlers, and they would attempt to *influence* the direction of the colony's fiscal policy by applying *pressure* for change.

8. 2. 6. Pressure and Influence

Fitzroy's total package of tax reforms, including the additional tax laws proposed after the passage of *The Ordinance*, would have constituted a comprehensive direct tax system. The burden of Fitzroy's comprehensive tax system would have been borne heavily by a European population who were against new and increasing taxation. In the very short term, after the introduction of *The Ordinance*, the burden of taxation (as a

result of step five, *The Amendment* (see Chapter 7), would have significantly increased. Furthermore, those in receipt of an especially low income would also have been exposed by the new lower threshold of the tax rate. Similarly, there would have been a heavier burden placed on those at the top by the new, upper threshold. In addition, Fitzroy's next tax proposal, step six, *The Dealers' License*, (see Chapter 7), was seen as an unwelcome extension of the tax base. The principal reason for the anti-tax attitude, was because the tax would have made those persons and interest groups (commerce), previously exempted from taxation by the repeal of indirect taxation (customs duties), subject to taxation once again.

To be generous, it is possible to suggest that Fitzroy's *preference* for tax law was simply intended to broaden the tax base in accordance with horizontal and vertical equity considerations. Here we see a link back to Chapters 5 and 6, and the discussion of Fitzroy's underlying economic principle for the application of taxation: the shift from a simplistic benefit principle to a principle which combined the benefit principle with an ability-to-pay component. In the context of the study period, it is interesting to note that Fitzroy's philosophical approach to taxation (the benefit/ability principle), was also discussed in *The Southern Cross* (1844), the newspaper which, early in Governor Fitzroy's tenure, was supportive of the Administration (*British Parliamentary Papers*, 4: 375-377). This revised (mixed) principle was in accord with the views of the "Manchester Liberals such as Say or Mill" (Musgrave, 1959, p. 91). A conclusion is (and this was indicated in Chapter 6), that *the Ordinance* was conventional, applied, political economy of the period. But for the presence of severe *fiscal illusion*, a perception which was then channelled into concerted opposition to tax reform, Fitzroy may well have succeeded in achieving an advance in the public welfare.

Fitzroy's non-Maori opposition, the representatives of the European land owners and merchants were also Fitzroy's opponents in the Legislative Council. Collectively, on the basis of *fiscal illusion*, the opposition figures would apply *pressure* for change and thwart (*influence*) the further development of *The Property Rate Amendment* and to *The Dealer's License*. The settler population of New Zealand (due to *fiscal illusion*) quite simply considered themselves already heavily burdened by taxation and many believed that they did not receive sufficient goods and services from the Administration in return for that taxation.

Opposition to change would ensure that Fitzroy's new tax system, reliant on a single tax law (*The Ordinance*; also the subject of Chapter 7), was rendered ineffective. Fitzroy's Administration would be *pressured* to return to the fiscal status quo ante of August 1844 (*The Customs Amendment Ordinance*). Fitzroy was left with little choice. Thereafter, the development of the colony was constrained, and *influenced*, by a tax system reliant on a single indirect tax; such a tax system which would prove unresponsive to the growing expenditure needs of the colony. The problem, which, it is possible to assert, would affect the manner of national development for years to come, was the following: how could the Administration raise sufficient revenue to meet fiscal purpose with a public attitude which soundly opposed direct taxation and the philosophical tenet of the ability-to-pay principle?

8. 3. Fitzroy against the Taxpayer

In Section 8.3 there were assumed to be three choices when it came to passing tax laws: indirect tax; direct tax; and a balance of the two types of taxation. In 1844, there would be two main options (*preferences*) available to Fitzroy: (1) to increase the rates on existing (indirect) taxes and, (2) to add new (direct) taxes, to bolster the public revenue (see Chapter 6 and Chapter 7). Neither of these approaches to raising revenue was to the opposition's liking (as discussed in Chapter 7 and mentioned in earlier sections of this chapter). If a *bargain* which suited the "opposition" was unlikely - and given the construct of the institution and the economic condition of the colony, it was - then the opposition were more than willing to debate the matter and filibuster in the Legislative Council¹³⁸.

The obvious gap between the Executive and the opposition's *preferences* would require bridging. In the interim, Fitzroy had to confront the realities of managing an

¹³⁸ During the debates over expenditure principally, the opposition took the opportunity to (1) express their supporter's *preferences*, and (2) to *influence* the Executive. The opposition used the Appropriations debates in an attempt to *pressure* the Executive into a *bargain* which suited their interest groups. They were to be disappointed however as the Executive held a majority, and Fitzroy had almost autocratic powers. Fitzroy did not need the opposition's votes to pass ordinances in Council; although, from a political standpoint Fitzroy was very aware of the oppositions' ability to impact his Administration and consequently the development and implementation of policy. The opposition well realised their inability to determine tax or any other policy (subject to the chapter's topic, the *passing of tax laws*), therefore, they utilised the debates in Council and other public avenues to express their *preferences* and to direct *pressure* onto the Administration. The opposition's main, and exceedingly powerful ally, was the popular media. Furthermore, the opposition also maintained their personal connections in the Mother Country as these could also be used to *influence* the political process in the colony.

Administration without funds. On June 13, 1844, Fitzroy informed the Council that, due to financial difficulties (financial crises create *pressure*; they *influence* the policy process, and the consequent *bargain*), from July onwards of that year, government officials would be paid only part of their salaries. Following the passing of the *Appropriations Ordinance*, Fitzroy then had to display his *preferences* and attempt to pass a revenue ordinance.

The ordinance Fitzroy proposed, *The Customs Amendment Ordinance* (an ad valorem duty of 5%), was an attempt to increase existing indirect taxation. On June 18, 1844, in the Legislative Council, Fitzroy faced a protest (*pressure*) over Fitzroy's clearly expressed *preference* for tax law (*British Parliamentary Papers*, 4: 272-276). Mr Brown attempted to further *influence* the debate by arguing that the settler population was already struggling to pay the existing taxes; to prove his point the people of Auckland (at least the commercial interests) petitioned the government on June 20, 1844, seeking a reduction in taxation (*pressure*).

At this point in the debate on the *Customs Amendment*, Dr Martin raised a tangential argument that there should be no taxation without representation (*pressure* and *preference*). In the absence of self-government, however, Dr. Martin (with the approval of Mr. Brown), returned to two ideological policies of the period's political economy: Free trade and direct taxation (by stating these clear *preferences* he was attempting to arrive at a *bargain*). Despite the opposition, Fitzroy proceeded with his first *preference*, an indirect tax law; viz. the *Customs Amendment*. On June 20, 1844, Fitzroy's customs bill was passed and it became, Ordinance, No. 6, Sess III, 8 Vict: (*New Zealand Ordinances*, 1841-53). Fitzroy however, also pass a minor measure of tax relief for business interests (namely, the *Licensing Amendment, 1844*). This minor measure was a direct result of *pressure* and *influence* driving a *bargain*: a *bargain* that was arrived at on the basis of a clearly articulated *preference*.

In summary, as a result of previous decisions, the colony was facing a consequence of needs. Financial crises opened the window of opportunity, and Fitzroy leveraged the *pressure* they created to pass the Administration's first *preference* for tax law, the customs amendment. The *influence* of the business community however, did drive a limited *bargain*, the *Licensing Amendment, 1844*. Nonetheless, further crises in the

colony would interrupt the politics of tax process and accelerate (*pressure*) the further development of tax policy in the colony.

8. 3. 1. Crisis

A crisis places *pressure* on legislators, and reduces the need to debate *preferences*. Crisis ensures the likelihood of arriving, in the very short-term, at a *bargain* which is acceptable to interest groups. Aside from the financial crisis facing Fitzroy, there were also fast-developing social problems (crises) to confront. For example, the economically active Maori population, principally in the upper North Island were experiencing economic difficulty (Sinclair, 2000, p. 80), and localised violence and disorder were the result¹³⁹. Fitzroy's Executive agreed that the cause of the crisis was not the new customs rates, rather the very existence of any customs duties¹⁴⁰. Hence, Fitzroy had the justification for removing customs duties in the north of New Zealand. Subsequently, at the request of European interest groups and the Legislative Council's opposition members (*pressure* led to a new *bargain*), viz. customs duties were repealed throughout the colony.

In despatches, Fitzroy acknowledges the perilous state of not just some northern Maori (*pressure*), but of the entire colony's economy (*pressure*), and this *influenced* his policy decision. In one of his despatches Fitzroy states his intention (*pressure*) to abolish customs duties. This act, he perceives, will "avert extreme misery and save the colony" ([*Copy of a Despatch from Governor Fitzroy to Lord Stanley*. No.17 September 16, 1844], *British Parliamentary Papers*, 4: 355).

¹³⁹ The economy of Northern Maori was closely linked to the shipping trade conducted through Kororareka. Trade had reduced over time and the fault was laid at the door of Crown. Principally, the Administration's application of indirect tax policy in the coastal settlement was seen as being responsible for the business downturn (without the shipping, the opportunities for trade were much diminished). A principal reason posited for the decline in trade was that Kororareka became one of the five official ports of entry, and had its own customs post and it was actively engaged in tax gathering. Small matters, like the imposition of taxation on tobacco (a favourite of Maori), in combination with the larger issues, made a real impact on their standard of living.

¹⁴⁰ In retrospect, it is now easy to look at the assembled evidence and say that an increase in the customs duties had very little to do with the loss of economic rent that many in the far north had garnered for many years. The participants in trade also failed to acknowledge the effect of a global depression and a shift in the activities of the seasonal whaling fleet (extract from the *Southern Cross*, September 28, 1844. *British Parliamentary Papers*, 4: 375), and the growing European settlements further south. Whaling ship visits to New Zealand had been declining for some time because new and more profitable whaling grounds had opened further to the north of New Zealand (Kullberg, 2003).

In the place of customs duties, Fitzroy, in a move clearly designed to *influence* the policy development process, indicates another of his *preference* for tax policy. The *preference* was for a proposed tax on all property at a rate of 1% on its current marketable value; returns would be voluntary and made by owner occupiers. In a second despatch (on the same date, September 16, 1844), Fitzroy recognises that his Administration's financial situation is critical (crisis means *pressure*), and thus, a quick *bargain* is sought. In the despatch Fitzroy comments on the lack of funds and currency, and how these problems were compounding the land issue¹⁴¹ (*British Parliamentary Papers*, 4: 356). At this juncture, Fitzroy clearly begins to focus attention on, (declare his *preferences* for), a major restructuring of the tax system, and he suggests to the Legislative Council the possibility of imposing (Fitzroy's *preference*) a property tax. This tax is the revenue substitute for customs duties (and this is almost the end point of Fitzroy's *bargaining* process).

On September 19, 1844, an emergency meeting of the Council was held. On the agenda of the meeting were two major issues. The first was the critical state of relations with northern Maori (crisis). The second was another crisis, namely, the Colonial bureaucracy; it was "without funds [and] almost without credit" ([Enclosure No. 1, Despatch No. 18], *British Parliamentary Papers*, 4: 358)¹⁴². The economic climate of crisis, lent further support (*pressure* and *influence*) to the policy debate. *Fiscal illusion* could not hold out against the trump of multiple and severe crises. The *bargaining* process was circumvented and Fitzroy's new *preferences* were adopted. The revised tax reform package would now become a general property rate, inclusive of *income*.

Recall from Chapter 7 that, at the 4th Session of the New Zealand Legislative Council, the foundational revenue gathering ordinances for Crown Colony New Zealand (customs duties) were repealed. Customs duties were simultaneously replaced with *The Property Rate Ordinance, 1844*. The passing of this ordinance brought to an end the Fitzroys reliance on a narrowly based, simple indirect taxation to raise ordinary revenue. Future, revenue requirements (for nearly eight months) would be met from the

¹⁴¹ See Subsection 6.8.1 of Chapter 6.

¹⁴² A major cause and precipitator of this financial crisis was the defaulting on land payments by the New Zealand Company. While this had occurred the previous February, the failure of the New Zealand Company was leveraged to the problem of the Administration being unable to raise sufficient revenue.

new direct system of taxation; this was referred to throughout earlier chapters as, *The Ordinance*¹⁴³.

8. 3. 2. Public and Political Responses to Policy Change

The tax package was hailed by an appointed non-official member of the Council, Dr. Martin, as an attempt to impose taxation on just principles (*British Parliamentary Papers*, 4: 375). Just principles or not, in the short term Fitzroy's European taxpayers would respond to it positively. By early 1845 the popular press, or at least some sections of it, had begun to report that *The Ordinance* was a success: it was returning revenue, as expected (see Chapter 6). In time the southern newspapers would express a different view however, the end of the year (1844), while the public debated the new tax policy initiative and whether or not the policy process had been hijacked by Auckland commercial interests¹⁴⁴, further policy development was underway. If the unofficial appointees to Council had previously directed policy, then imagine their surprise when, after they had resigned from Council, the *Property Rate Amendment Ordinance* and the *Dealers' Licensing Ordinance* were proposed¹⁴⁵!

Of the two proposed ordinances, *The Dealers' Licensing Ordinance* was the more objectionable; it was the last straw for Fitzroy's taxpayers. The interest groups in Auckland, which previously supported direct taxation, would now abandon Fitzroy and begin to exert *pressure* to undo change. As mentioned in Section 7.4.2 of Chapter 7, the reason for outrage was the proposed *Dealers' Licensing Ordinance*. "A more iniquitous tax can hardly be imagined, it strikes at the root of all trade, it attempts to throw the whole weight of taxation on one portion and that an inconsiderable portion in point of numbers of the community" (*New Zealand Spectator and Cook's Strait Guardian*, March 8, 1845, p. 2). European public opinion was firmly against Fitzroy's further

¹⁴³ *The Ordinance*, as a single tax law was levied on a potential taxable population of 12,000 settlers. If you remove dependents, those not working, those on low incomes and those with little real property and the taxable population is significantly reduced. The initial burden of *the Ordinance* fell on perhaps as few as four thousand individuals. This limited number of taxpayers, in an economically depressed and developing colony, was in my view, an inadequate population to support a system of economic organization for a total population of 92,000 (many of whom required substantial economic assistance).

¹⁴⁴ It is a plausible hypothesis that the removal of customs duties was beneficial to the business sector. The repeal of customs would have reduced their costs. On the other hand if merchants did not reduce prices (pass-through) they increased their profits in the short term.

¹⁴⁵ An interesting question is the following: were: Mr. Brown and Dr. Martin really surprised by the new tax proposals? Perhaps they saw events of 1845 coming and resigned out of protest at the two proposed new tax initiatives. This was not unlikely, as I discuss their written protest against the repeal of the property rate later in the chapter.

proposed changes to tax policy. On behalf of at least the southern settlers (if not all settlers), the editor of the *New Zealand Spectator and Cook's Strait Guardian* (March 8, 1845, p. 2) commented as follows: “[T]he most despotic Turkish tyrant that ever reigned would never have attempted this [tax package]”.

In the midst of the political turmoil, Fitzroy would inexplicably follow the same political, if not legal procedure that he had used in the previous year to progress his tax initiatives: inclusion of the opponents in the Legislative Council; debate with them on the issues; and finally negotiation (declare *preferences*, apply *pressure* to *influence* the debate and thereafter to drive a *bargain*). Unfortunately, the time for debating *preferences* or attempting to make *bargains* was over; procedure would have to be broken; *pressure* and *influence* would now combine with *fiscal illusion* and continued crises (military and financial) to decide tax policy. Regardless of the public outcry, in early 1845, Fitzroy would again set about (attempt) the process of policy development in his undemocratic forum. The Legislative Council was where the combined effect of *preferences* and *bargains*, *pressure* and *influence*, and *fiscal illusion* would meet the reality of actually having to attempt to *pass* these new *tax laws*. The core elements of the politics of tax would now combine to make it abundantly clear that, irrespective of further financial crisis or escalating military conflict in the north (which required further expenditure), passing the *Amendment to The Ordinance*, and the contentious *Dealers' Licensing Ordinance*, was politically impossible.

The window (or rather windows) of opportunity Fitzroy had used to enable the passage of (1) *The Customs Amendment*, and (2) *The Ordinance*, had closed; further, the supporters of direct taxation had resigned from the Council. To compound matters, the three new opposition members of Council - Frederick Whitaker¹⁴⁶, William Donnelly¹⁴⁷

¹⁴⁶ Frederick Whitaker (1812-1891) trained as a solicitor and arrived in New Zealand in 1840. Governor Fitzroy appointed him to the Legislative Council in 1845. By the 1850s Whitaker had been drawn heavily into politics and administration, at a time when the two dimensions of business and politics were almost inseparable. Whitaker was described as an unprincipled devourer of Maori lands (in the Waikato) and a stereotypical settler-conservative on some matters. He was also a liberal on other matters, advocating closer settlement of the land and opposing the well-to-do merchant clique. He was known to have advocated manhood suffrage, proportional representation, and more equal electoral districts. He was a large shareholder in the Bank of New Zealand and its president in the 1880s. He was also on the New Zealand boards for the Colonial Sugar Refining Company (New Zealand Sugar Company), the New Zealand and River Plate Land Mortgage Company, and the Equitable Life Assurance Company of New York (Stone, 2007).

and Theophilus Heale¹⁴⁸, would prove an able opposition to Fitzroy's Executive¹⁴⁹ however, and they had two points on which they could stand united, and which Fitzroy himself would later support (*British Parliamentary papers*, 5: 189). First, a case had been made for the colony being unable to fund its required expenditure (i.e. full colonial expenditure) through colonial taxation (taxation imposed primarily on the settlers). Second, that, with the arrival of the year's annual Parliamentary Grant, the urgency for new and increased taxation, especially taxation in a form to which public opinion was opposed, was unwarranted and thus, they could therefore continue to *pressure* the Administration into a new *bargain*.

Fitzroy's first attempt to drive his proposed taxation ordinances through, under a sense of urgency, was halted on the grounds that it was convention in British colonies to debate expenditure before revenue (*British Parliamentary Papers*, 5: 191). For the second time in little more than a year, the process of fiscal reform had been derailed in this manner. As the focus shifted to expenditure, tax policy reform was delayed while expenditure costs were debated at length and the public opposition to Fitzroy's tax policy (*preferences*) mounted. A popular newspaper of the period, the *New Zealand Spectator and Cook's Strait Guardian*, asserted that the new tax impositions would have been "downright robbery", with even Auckland's *Southern Cross*, formerly a supporter of direct taxation, "aghast at his actions" (as reported in the *New Zealand Spectator and Cook's Strait Guardian*, May 3, 1845, p. 2).

Lacking public and political support, Fitzroy felt unable to pass *The Ordinance's* contingent tax laws of the *Amendment* and the *Dealers' License*. Consequently, he was unable to raise sufficient revenue to meet the Administration's expenditure needs. "Six

¹⁴⁷ I have been unable to find any information relating to William Donnelly. On that basis I make no assumptions. It is possible that the life and work of William Donnelly is a worthwhile topic for future research and I leave it to others to pursue.

¹⁴⁸ Theophilus Heale (1816-1888) was classically educated and a ship's captain at age 24. He did captain the *Aurora*, which brought the first New Zealand Company settlers to New Zealand in January 1840. In 1844 he gave evidence to the Select Committee on New Zealand and in 1845 was called to the Legislative Council of Governor Fitzroy. He was a partner of Frederick Whittaker. The two partners were involved in general business, finance and land speculation. He served the colony as an explorer, a surveyor, and a judge (on the native land court in the 1870's) (*Cyclopedia of New Zealand*, 1897).

¹⁴⁹ As an aside, here is recorded in at least one early newspaper (dated 1844) that even Fitzroy's executive colleagues were, on occasion, found to be unsupportive when matters of taxation were tabled in the Legislative Council. Without a second or even third statement to that effect having been found, this thesis has not pursued that line of enquiry. However, it may explain some of Fitzroy's difficulties in passing ordinances in an institutional environment where he held a majority.

months' trial have shown that a revenue nearly sufficient for the most economical expenditure on the public account could not - under the peculiar circumstances of the colony - be raised by direct taxation" (*New Zealand Spectator and Cook's Strait Guardian*, March 8, 1845, p. 3). Fitzroy was left with little choice but to repeal *The Ordinance* and to re-instate the customs duty.

The politics of tax - which Fitzroy appears to have used to his advantage in 1844 - had effectively controlled Fitzroy's course of action in 1845. Against the background of a written protest by Dr. Martin, William Brown and Charles Clifford (the original Council members involved in the development and implementation of *The Ordinance*) a repeal Bill was tabled in the Legislative Council (*The New Zealand Spectator and Cook's Strait Guardian*, May 31, 1845, p. 2). Even at that juncture (April 1845), the new unofficial members of Council sought to hinder the development of tax policy as they engaged in debate on the appropriate rate level attached to the tabled *Customs Ordinance*.

At the Fifth Session of the Legislative Council, on April 8, 1845, however, *The Ordinance* was repealed (the *Property Rate Repeal Ordinance, 1845*). *The Ordinance* had lasted seven months. Section 1 repealed *The Ordinance* and re-instated the Customs Duties. Section 2 made the arrears of the property rate recoverable (this became a future bone of contention). Section 3 provided for the commencement of customs duties at the new and increased rates of the previous year, June 20, 1844 (the extra 5% ad valorem tax). This amounted to the *passing of tax law*.

Thus, nearly two years of debate over taxation had come full circle; tax policy was back at the point of departure. The end point in the "politics of tax game" was, effectively, the status quo of early 1844. Why this occurred can, no doubt, be related to the underlying argument of the period, namely, how was the establishment of the colony going to be funded, and also, who was going to control and direct progress in the colony. In more simplistic terms however, as the chosen battle ground was taxation, the final resting place of taxation policy in 1845 New Zealand is easily explained. In early colonial New Zealand, both Maori and European wanted the benefits of an organised and efficient society however, neither Maori nor the European settlers wanted to adhere to social contract theory and relinquish control and, while "[all] citizens want the goods

and services.... [and economic structures].... that modern states [organised society] can provide,.... they would rather that someone else pays (Leiberman, 2001, p. 93). In short neither Maori nor the European settlers wanted to accept any of Crown colony New Zealand's associated development costs, viz. taxation. This attitude toward taxation, and fiscal policy in general would become the cornerstone of early colonial politics, and something which would constrain economic progress in the colony for many years into the future.

8. 4. Fitzroy: Saviour, Martyr or Both?

In summary, during the study period economic need was the rationale and successive crises offered the opportunity for a major restructuring of the colonial tax system. It is stated by Peters (1991, p. 12) that "due to their unpopularity, changes to tax policies require windows of opportunity and, in taxation as in politics, timing counts for a great deal". It is observable that, in the context of 1844 New Zealand, Peters may well be right¹⁵⁰. Large scale tax policy changes do require advance preparation and, the colonial newspapers of the period (1844-45) do report Fitzroy's interest in free trade and his interest in levying a system of direct taxation in the colony in place of customs duties. Furthermore, there is evidence that a property and income tax (direct taxation) was to be the preferred option (*preference*) of the Administration prior even to the arrival in the colony of Robert Fitzroy.

A colonial newspaper, the *Southern Cross*, claimed that Fitzroy had come out to New Zealand with these existing *preferences*. His intention was to impose a system of direct taxation that included an income tax. In order to do so, timing was everything. Fitzroy, apparently, had simply waited for an excuse to implement these taxes (push for a *bargain*). The newspaper also claimed that Lord Stanley, of the Colonial Office, had sanctioned the property rate and income tax in April 1843, seventeen months previously (*British Parliamentary Papers*, 4: 373). This demonstrated three things. First, the external *influence* on Fitzroy's Administration was great; external actors exerted real *pressure*. Second, it showed that representatives of the settler population, and the

¹⁵⁰ In addition, it is possible to argue, that the dual coincidence of an external crisis and internal an crisis were compounded by the continuation of domestic difficulties. In combination these economic difficulties did divert attention away from the co-joint reality of *fiscal illusion* and thereafter, the mentioned economic events *influenced* the policy development process, and exerted the necessary *pressure* needed to force changes to tax policy.

general readership of their newspapers, had some knowledge of Fitzroy's intentions (*preferences*); further, they were not keen on the possible *bargain* that Fitzroy had in mind. Third, it is evidence that the economic restructuring undertaken by Fitzroy was not in response to fiscal crisis *per se*; it does appear that it may have been predetermined, a planned restructuring of the colony's economy. Crisis, however real (and in 1844, there was a crisis), was used as the leverage instrument and public pretext for economic change. Furthermore, *as per* the transference framework, crisis also the initiated the transmission of, the then existing political economy of the Mother Country to New Zealand; free trade and direct taxation.

The starting point of what is assumed to be Lord Stanley's planned restructure of the colony's economy is his perceived (by the colonist), official sanctioning of change in 1843. This could be construed as the *pressure* of an external *influence* on New Zealand tax policy. Following the official sanction, the next step was the appointment in 1844 of a new Chief Executive (Fitzroy). The third step was a function of institutional change; while the *pressures* on the institution did not change, the membership did. There was a new Legislative Council, with all unofficial appointees personally selected by Fitzroy. Within the construct of the new polity, Fitzroy slowly negotiated with (*influenced*), the disparate interest groups and furthered the debate (worked towards a *bargain*) on fiscal reform (taxation) over a period of time (eight months).

Much *pressure* was placed on the Legislative Council members, as Fitzroy developed the concept of a property and income tax. Over time, between January 1844 and September 1844 there were four conceptual stages in the development of tax law as *preferences* were enunciated and *bargains* negotiated. First, a land tax was proposed. Second, a property tax of one per-cent was suggested as an alternative. This second initiative evolved from a mere suggestion into stage three: a firm proposal to implement a tax law which impacted upon all property owners. While not clearly defined at that stage, it did give a clear indication of the economic trade-off required for the implementation of the period's dominant ideology, free trade. Fitzroy then moved to step four: a fiscal initiative that extended the imposition to both property and income. He then used the emergency in the north to gain final political acceptance of his proposal. While somewhat less than a thorough *bargaining* approach, nonetheless a *bargain* was made. Multiple fiscal crises (*pressure*) in the colony finally gave rise to; in

other words, *influenced* major economic policy change and *the passage* of *tax law*. The question which needs to be addressed in the remainder of the chapter is: Why?

8. 4. 1. The Economic Requisites

Let us briefly summarise what we have seen. Localised economic necessity obviously played a major part in the determination of New Zealand economic policy. From the record, as detailed in Chapters 4, 6 and 7, it is obvious that the Colony's economic condition was critical; the development framework established in 1840 was not delivering the desired economic outcomes. Economic policy change however, on such a major scale, must also have been driven by imperial interests. It is quite plausible therefore, that policy change was under serious discussion prior to Fitzroy's departure for New Zealand.

Poor economic outcomes in the Colonies resulted in political *pressure* at home. The *pressure* was felt in Parliament, and it began a policy development process which culminated in the sanctioning of major policy change¹⁵¹. Thereafter, a new Governor and Council undertook major economic restructuring in an economy where the European population was decidedly opposed both to fiscal change and to imperial control of their futures. To achieve the assumed objective of major policy change, Fitzroy adopted the following strategies: in the context of emergency, he undertook inclusion, negotiation, and withstood the rigours of political competition (*preferences, bargains* and *pressure*). Thereafter, Fitzroy was able to plead economic necessity (multiple crises) as a reason for short-circuiting the *bargaining* process. Thereafter, opposition evaporated (due to the *pressure* of untoward economic events) and a policy decision was made: *The Ordinance* was passed into law.

¹⁵¹ There was also the external *pressure* created by the establishment of a Select Committee on New Zealand in the British Parliament in April 1844. The following sentence is the title page of the Select Committee's published work. "In April 1844 a Select Committee on New Zealand was "appointed to inquire into the state of New Zealand; and into the proceedings of the New Zealand Company", and to report the Minutes of Evidence, and their Opinion thereon to The House, and to whom Two Petitions were referred" (*British Parliamentary Papers*, 2: 3). I also suggest that the establishment of the Committee and their possible conclusions would have been something Fitzroy was likely to have realised, or had communicated to him, at the very least when briefed by the Colonial Office prior to departure for New Zealand. It is also known that he received an update on the Select Committee's progress/findings in August of 1844, well before the passage of *the Ordinance* (*British Parliamentary Papers*, 4: 145).

Fitzroy had few other choices available; New Zealand (a small colony in the process of establishment), was caught up in the throes of an international economic depression, the local economy of the colony was in tatters and, there was also the always possible, impending cultural conflict to contend with. Only Fitzroy's timely imposition of debentures and concurrent economic restructuring saved the colony, and the settler population from more serious suffering. Furthermore, Fitzroy's acquiescence to Maori in Wairau early in 1844, and again in the north in late 1844 was an attempt to postpone the inevitable conflict between Maori and European. It is not without good reason that Governor Fitzroy is remembered as the man who lost Kororareka but saved New Zealand (Thomson, 1859, p.123)¹⁵².

It is also worth recalling that New Zealand, at the time, was not a parliamentary democracy, nor a representative democracy. While convention may have dictated that the officially appointed Administration adopted a civilised and democratic approach, New Zealand was on the edge of the Empire and twelve thousand settlers (all looking for a free lunch) were at the mercy of seventy eight thousand Maori who were not inclined to simply acquiesce to settler demands. Governor Fitzroy needed to lead and to find sound economic solutions to the colony's serious economic problems.

¹⁵² See the *Encyclopedia of New Zealand* (1966). Before 1840 Kororareka was the largest European settlement in New Zealand. Originally a watering base for the whaling ships which visited the Bay of Islands, it had developed by the 1820s into an important whaling, sealing, and mercantile centre. Trading posts were well established by the 1830s and supplied stores to visiting ships. On January 29, 1840 Hobson arrived at Kororareka. After negotiating the Treaty of Waitangi, he established his seat of government a few miles away at Okiato, which he renamed Russell. A few months later, when the seat of government was removed to Auckland the town of Russell was destroyed by fire. As Kororareka was a part of the Port of Russell, it gradually assumed the latter's name. In January 1844 this change was ratified when Governor Fitzroy decreed that Kororareka should be a part of the town of Russell (Bay of Islands). In the early 1840s when the price of whale oil fell Kororareka's prosperity declined. Fewer ships called and the local Maoris, influenced by settler malcontents, became convinced that the British Flag and what it may have represented was responsible for all their troubles. Accordingly, on 5 June 1844, The Maori leader Heke, cut down the flagstaff on Maiki Hill, near Kororareka. On 10 March 1845 his men sacked and burned most of Kororareka. In affect this was the demise of the settlement itself. Responsibility for the matter was laid at the feet of Governor Fitzroy. It has been suggested that due to Fitzroy's supposed indecisive and illogical decision making and administrative blunders, that the sacking of Kororareka occurred (McKlintock, 1958, p. 184). It is worthwhile to note that Fitzroy perceived that his administrative approach had managed the possibility of widespread racial tension, something which had escalated since the Wairau incident of the previous year. Fitzroy's approach to possible internal warfare had in fact ameliorated the rise of large scale racial conflict in the colony (Fitzroy, 1846). Fitzroy's approach therefore, it can be said, in conjunction with his economic policies, did save the colony but not Kororareka. The settlement never re-gained its previous position (in any sense) and modern Russell now stands on the site of Kororareka; but, it is not the site of Russell (Okiato), Hobson's first capital.

8. 5. Conclusion

This chapter had three separate objectives. First, it sought to fit an analytical structure around the tax policy decisions made during the tenure of Governor Fitzroy. Second, it tried to establish an explanation for the group behaviour and conflict which is reflected in the tussles between Fitzroy, his political opposition within the institution of the Legislative Council, and with his taxpayers. Third, the chapter had, what might be called, a secondary objective: to show that what Fitzroy succeeded in achieving in the Colony's tax arena, contributed to saving New Zealand as a British Colony.

The first objective of the chapter was, the finding an analytical structure to explain the development of tax policy during the study period, and this has being successfully achieved. The chapter adopted from the work of Pollack (1998), an analytical framework consisting of four structural headings: *preferences and bargains; pressure and influence; fiscal illusion; and the need to pass tax laws*. The first section of the chapter, Section 8.2, explained the framework, and connected the economic overview with the chapter's assumptive material. Thereafter, from Section 8.3 through to Section 8.4, the interdependent structural headings of the subordinate framework were productively integrated into the historical narrative. *Preferences and bargains; pressure and influence; fiscal illusion; and the need to pass tax laws* became central to explaining the story of early New Zealand tax policy development. To conclude, the four structural elements of the politics of tax analytical framework do assist in the difficult task of explaining the development of tax law during the study period.

Subject to and concurrent with the above analytical process, a start was made on the second objective of the chapter: the establishment of a plausible explanation for group behaviour and conflict during the development of early New Zealand taxation. Using the theoretical politics of tax framework the chapter shed light on the relevant policy-making institution and the participants (the polity) who effectively decided tax policy. These were the Executive of the Legislative Council, and Governor Fitzroy in particular. Also demonstrated in the chapter was the very important role which the opposition (unofficial appointees to Council) and the mass media played in influencing the development of tax policy in that undemocratic period in New Zealand. Adopting the politics of tax framework directed the discussion and, did highlight the necessary

information which was contained in the process of verbalisation, exchange and group behaviour.

Closely connected to the three analytical sections of the chapter was the premise that, if the determinations of the structural framework are found to play an important role in tax policy development, then tax policy, which this chapter has argued is an exercise in political economy¹⁵³, is not decided purely on the basis of first-best economic arguments. Nevertheless, the development of tax policy during the study period does appear to fit the neoclassical paradigm of rationality, something which is perceived to be clearly apparent in the behaviour of all participants in the policy development process during the period under study. All participants were actively seeking to maximize utility, if not profits, and in the case of the Administration, revenue. Furthermore, the independent actions of the participants' in the political process did appear to be reasonably well informed. However, on the basis of the analysis conducted in this chapter, and in Chapters 6 and 7, the final determinant of any tax law(s) does appear to be politics, and not first-best economic arguments.

The third objective of Chapter 8 was to highlight the fiscal policy achievements of Governor Fitzroy during his tenure in Crown colony New Zealand. While the chapter focused on the politics of tax at all times, the preceding chapters, and especially Chapter 7, formed a strong backdrop to the narrative. Thus, in combination, the third purpose has been achieved in Chapters 7 and 8. Governor Fitzroy's contribution to fiscal policy and the economic history of New Zealand, even in the narrow context of taxation, is large. His tax policies did not set the precise direction of future fiscal policy in the colony but, Fitzroy's failed attempts at free trade and direct taxation did decide who, ultimately, would govern New Zealand and, who would pay for future progress in the colony. Furthermore these momentous decisions can be hypothesised as having set the

¹⁵³ The line of reasoning taken in this chapter; that taxation policy is an argument in political economy, is not intended to convey the opinion that this is something new or something which is in contrast to popular contemporary views. The intention of the chapter's approach is to disabuse practicing economists who perceive that the neoclassical approach to applied economics contains the answers to the analysis of tax policy and seriously influences political decision making. For example; there is an increasing mountain of economic analysis which describes in great detail matters such as the optimal tax policy for economic growth. However, little of their findings are ever implemented. The question therefore is; why do economists persist in continuing the practice? I refer the reader to Drazen (2000) for a full understanding of the position taken in this thesis.

foundations a national fiscal philosophy; a philosophical position which is further hypothesised, as still existing today.

Let us return now to the Chapter and its hypotheses. There were three hypotheses for Chapter 8. The first was that the politics of tax did decide the final form that tax policy in New Zealand would take by the end of the study period. This hypothesis is found to have been corroborated. The second hypothesis was that the development of tax policy was influenced and directed by the four structural headings of the chapter's framework: *preferences and bargains; pressure and influence; fiscal illusion* and the need to *pass tax laws*. The four structural headings of the framework are found to have much merit. Nevertheless, the politics of tax framework is a loose structure and still requires much work. The third hypothesis questioned whether the development of tax policy, during the period, was subject to the politics of tax?

If the politics of tax is found to be the final arbiter of tax policy then this is a significant finding. In an age when neoclassical economics reigns and there are never ending tax reviews and academic studies to guide policy makers how is it that the tax system remains unscathed and seemingly unchanged over time. The answer is that politics decides taxation policy and not economics. This chapter has shown that tax policy during the study period *was* influenced by the politics of tax. Further, the chapter has also shown us that the development of tax law, during the study period, did lay the foundation for a uniquely New Zealand approach to fiscal policy after 1845.

From the work of this chapter, it is possible to assert that, the historical narrative has successfully delivered a coherent story of tax policy development during the early Crown Colony period. The subordinate method of the chapter, the politics of tax, has enabled the conduct of those persons (public figures) who deliberated over tax policy during the study period, and the conduct of the general public, to come to light. This examination has determined the rules of normative behaviour which directed tax policy development during the study period. Furthermore, the politics of tax, framework has added value by suggesting a central theme to focus upon when examining not just past tax policy development but, perhaps, also the development of future tax policy: the ongoing politics of tax. The politics of tax process is commented upon by Adams (1928, in Pollack, 1998, p. 2); the *politics of tax*, he observes, “is first of all a hard game

in which, he who trusts wholly to economics, reason, and justice, will in the end retire beaten and disillusioned". This, state of beaten-disillusionment was, quite possibly, the reality for Robert Fitzroy.

Fitzroy's tangible legacy to New Zealand tax history, *The Ordinance*, was repealed in April 1845 and New Zealand's first experiment with free trade was abandoned. Further, Governor Fitzroy was replaced by Governor Grey in 1846. Sir George Grey would oversee the rest of the Crown Colony period - a time when both Maori and European wanted the benefits of government and organized society but none of the associated costs. This attitude to fiscal matters would restrain progress in the colony for years to come but, that story must be left for future research.

Chapter 9

Fitzroy's Tax Reform: The *Fundamental* Model

The objective of this chapter is singular: via an inductive analytical process, to build a conceptual model which explains Governor Fitzroy's first fundamental tax reform of 1844 – *The Ordinance*. Chapter 8 has prepared a pathway for this chapter, considering as it did, whether any rule[s] of normative behaviour had been applied to the development of tax policy in early New Zealand. The problem of this chapter is similar to that of Chapter 8, namely, the lack of knowledge concerning the past development of New Zealand taxation. The question of this chapter derives also from Musgrave (1959, p. 5), and it is: was there a guiding principle at work in the context of tax policy development in early New Zealand (1843-45)?

9. 1. Introduction

Tax reform, as undertaken by Fitzroy in 1844-45, does not appear to have been as simple as Owens (2006, p. 131), for example, suggests: an *ongoing* and *effortless* process. The notion that tax systems *continually* adapt to reflect changing economic, social, and political circumstances does not do justice to the events of 1844-45 New Zealand. Chapters 6, 7 and 8 have explained the mechanics of Fitzroy's reforms (the tax laws and proposals, and the consequent political debate) but, there is still no adequate theoretical model to explain how a tax policy change of such serious magnitude was achieved. This chapter is a pioneering attempt to create such a model for an early New Zealand event, namely a *model* of the first *fundamental* tax reform in New Zealand economic history.

It is plausible to suggest that incremental tax reform is usually conducted on the basis of the theory of second best, and often, are partly the result of conflicted negotiation by the polity. That political process of deliberation is often conducted by individuals or coalitions, both of whom represent interest groups. These aspects are already adequately modelled by the *Force-Field Approach* to the development of taxation (Lewin, 1951; James, 1997, and James, 2002, p. 108). This approach to incremental change for tax systems can be viewed as *adaptive* reform, and thereafter, James's

explanation of incremental tax change can be viewed as purely maintenance of the existing fiscal *status quo*. Thus, the continual process of tax policy development constitutes either peripheral tinkering, or the latest round of negotiated policy change. Both of these occur after a *fundamental* tax reform, and also between points of economic and institutional disjunction.

The existence of such points of disjuncture would make sense for example to Kuhn (1962), who comments that: scientific advances often occur through paradigm shifts rather than incremental adjustments. A paradigm shift is an occurrence which the political science literature terms, a critical juncture (Hogan 2006). Similarly, this conceptual understanding can also be applied to *fundamental* (major) tax policy changes, such as those which have occurred in the economic story of colonial New Zealand.

The argument developed in this chapter will focus on just such a temporal moment of disjuncture, viz. the evolutionary process of tax policy development between 1843 and 1845, all of which are highlighted in Chapters 6, 7 and 8. The method of economic analysis for the chapter's core sections is inductive, and therefore, the derived model does not appear until after a strong theoretical position is developed. In essence, certain key events are observed, patterns recognised, and thereafter, with the assistance of existing abstract theory, tentative hypotheses are formed. The headings (the structural elements of a conceptual theory) are then created from the tentative hypotheses. Nevertheless, let us anticipate what will follow. The headings that are subsequently developed are: (1) the *Consequence of Needs*; (2) the *Institutional Change*; (3) the *Policy Formulation Method*, and (4) the *Constant Disequilibria*. These headings provide the structure of a theoretical model to explain the political process undertaken by Governor Fitzroy in order to achieve a *fundamental* reform of Crown Colony New Zealand's tax system. The observations/patterns relating to the headings above were not marked as the discussion advanced through the previous chapters. However, the reader will be reminded of the frameworks relevant points when the need arises.

To close the chapter, the developed model is subjected to testing. Comparative analysis is undertaken using a second New Zealand tax reform; an event which can also be considered a *fundamental* tax reform. Testing is undertaken to assess the validity of the

theoretical model: if the model is to have any veracity beyond explaining Governor Fitzroy's reforms, it should also be applicable to other instances of major tax reform in New Zealand. However, the chapter is about the construction of an adequate model and not the testing of said model thus, only one event will come under consideration. The hypothesis for this chapter is the following: that the events of 1844 New Zealand, and the consequent tax reform, provide sufficient material to construct a theoretical model. That model should be able to adequately describe the first *fundamental* tax reform in New Zealand economic history.

The chapter is laid out as follows: Section 9.2 provides the theoretical foundations of the chapter, and Section 9.3 the theoretical development. Section 9.4 discusses the theoretical framework, while in Section 9.5 the conceptual model itself is presented. In Section 9.6 the model is tested and the chapter's conclusions are found in Section 9.7.

9. 2. Theoretical Foundations

The starting point for the theoretical discussion is an old idea of Feldstein (1976), restated more recently by Thorndike (2004). According to Feldstein and Thorndike, *fundamental* tax reform only comes about following economic crisis. This insight is something that is noted in the reasonably extensive body of literature on the subject of crisis induced tax reform. For example, reference may be made to the following: Ben-Porath and Bruno (1977); Radian (1979); Keeler (1993a and 1993b); Drazen and Easterly (2001); Tomassi (2002), and Alesina et al (2006). Even Goldfinch (1998) and Aberbach and Christensen (2001) mention crisis in respect of the economic reform process in New Zealand during the 1980's and 1990's. Crises theory was however, first developed by Thomas Kuhn. The view of Kuhn was that advances occur through paradigm shifts, i.e. points of disjuncture (also, elsewhere called, periods/moments of critical juncture, a term first used by Collier and Collier, 1991).

The *Historical Institutionalism* literature also acknowledges that a critical juncture, an entire period of significant economic change (Hogan and Doyle, 2006), generally follows a period of social political and/or economic crisis (Leiberman, 2001b, p. 526). Theoretical developments in the critical juncture field, in the past decade, can be found in the *New Institutional Economics* literature; for example, Goldfinch and t'Hart (2003). Even more recently Hogan (2006) made the critical juncture theory the sole focus of

enquiry, and did so in a similar manner to that of James (2002) who attempted to model the adaptive tax policy development process. Thereafter, Hogan and Doyle (2006), constructed a simple sequential model to explain the process of a critical juncture, and thus, his work is of relevance to this chapter and it is discussed further below.

In Hogan's early work he develops a sequential, two-step, framework (theoretical model) to explain what constitutes a critical juncture. The model is as follows: (1) a *Generative Cleavage* + (2) a *Change* event; which is significant, swift and all encompassing, equals a *Critical Juncture*. Generative cleavage is an unanticipated event which leads to widespread tension, and triggers change. Further, exactly what constitutes a *generative cleavage* will vary, depending on the event being studied (Hogan, 2006, p. 664). For this chapter, a *generative cleavage* is considered to be a macroeconomic crisis. The events which follow Hogan's first step, a *generative cleavage*, are sequential; and they all need to occur and, in the order indicated above, for the change event to be accurately termed a critical juncture.

Hogan's critical juncture model was very quickly extended by Doyle and Hogan (2006), on the basis that other researchers/authors were incorrectly specifying the causes of critical junctures and, thereafter, wrongly labelling economic events as turning points. In addition, they also did so because the available analytical models which attempted to explain a critical juncture lacked a predictive quality, something Doyle and Hogan considered to be less than adequate. Their new model sought to explain the critical juncture model of state development in more detail, viz. three-step framework. The detail of the model is as follows: (1) *Macroeconomic Crisis* + (2) *Ideational Change*; and then (3) *Radical Change in Economic Policies* (Doyle and Hogan, 2006, p. 4).

Macroeconomic Crisis needs little explanation for economists. However, Doyle and Hogan (writing in the Political Science journals) explain macroeconomic crisis at some length. In short, they specify that the following are the key elements of any macroeconomic crisis: Decade-long lows in key macroeconomic variables and widespread agreement within key sectors of the community about the existence of ongoing poor economic performance, viz. politicians, the mass media, and the general public. If these criteria are fulfilled, then the existence of a *macroeconomic crisis* is

confirmed, according to Doyle and Hogan. Somewhat more complex, however, is the idea of *Ideational Change*.

Once an economic crisis has enabled a *generative cleavage*, policy choices need to be made, and this process will be decided by the “domestic political and *ideational* processes” (Golob, 2003, p. 375). “Crisis” opens a window of opportunity for new ideas, and one of them, among the many competing ideologies, becomes the preferred option and, thereafter, the new ideas overthrow the prevailing paradigm (Doyle and Hogan, 2006, p. 13). The new paradigm (previously seen as radical) becomes the new *status quo*, and is speedily *assimilated* into policy¹⁵⁴. As in Hogan’s first sequential model (shown above), Doyle and Hogan’s three-step framework is also considered to be sequential, and, once again, all three steps need to occur (and in the order indicated) for the change event to be termed a critical juncture.

9. 3. Theoretical Development

For the purposes of this chapter, the discussion will continue on the basis of four assumptions. (1) The purpose of a *fundamental* tax reform is to assist in the reallocation of the economic resources of an economy. (2) A *fundamental* tax reform changes one or more of the following: the underlying principle of taxation; the balance of taxation; the tax base, and/or the instruments of taxation change. (3) The degree of change would dramatically alter the previously existing social contract¹⁵⁵. (4) The fundamental tax reform of 1844 was guided by a process that Chapter 8 terms the politics of tax¹⁵⁶. (5) The 1844-45 politics of tax process directed the effective redistribution of the tax burden among the differing sectors and groups in the Crown Colony economy.

9. 3. 1. Observation and Pattern Discernment

The politics of tax debate which decided tax incidence and resource allocation in 1844 New Zealand was fought over by the few who were willing and able to actively participate in the politics of the period (Leiberman, 2001a). The social behaviour of the polity’s participants, recorded in previous chapters, leads to the assertion that, from the

¹⁵⁴ *Assimilation* of another nation’s ideas and concepts into their own economic policies is the last of the three key structural headings which constituted the analytical framework of transference (see Chapter 6, and 7 of this thesis).

¹⁵⁵ Therefore, a *fundamental* tax reform is unlike the peripheral tinkering of James (2002), and, in fact, bears a closer resemblance to the crisis explanation of Feldstein (1976) and Thorndike (2004).

¹⁵⁶ See Chapter 8, Subsection 8.2.

historical narrative of Chapters 6, 7 and, indeed, Chapter 8, behavioural observations can be discerned. Those observations are commented on below.

The four hypothesised sequential stages in the political process, i.e. the observations, are as follows: (1) the undesirable outcomes of previous policy decisions give rise to a mandate for change; (2) an institutional change event occurs in the form of a new leader, and thereafter, an entirely new polity emerges; (3) from the foundational framework of a clearly articulated ideology the new ruling institution begins a strategic re-evaluation of existing economic policies which thereafter, are usually but not always, publicly debated to the point of change. Well recognised politically is the fact that, however much a policy change is debated, given the institutional construct of political decision making, opposition to a change can only modify the policy outcome and not radically alter it; (4) an emergency is usually necessary to bring about major changes in tax policy. In some circumstances however, it is enough simply to generate a feeling of urgency in the economy, without the reality of a real crisis existing. Thus, in simple terms, when these events do occur in sequence they do deliver a *fundamental* tax reform.

Those observations have led to the recognition of a pattern, namely, there exists a staged development to the political process which engendered Fitzroy's *fundamental* tax reform. Thereafter, some tentative hypotheses emerge: first, the development process did appear to be highly dependent on its initial starting conditions, something this chapter describes as macroeconomic crises; and second, the method is clearly a sequential four-step development process, something which thereafter, explains the periods identified critical juncture by way of titling it; Fitzroy's *fundamental* tax reform.

9. 3. 2. Tentative Hypotheses Development

However, a *fundamental* tax reform is more than a small part of a critical juncture event. A *fundamental* tax reform is the means to achieve a paradigm change, and thereafter, to lock in place the changes wrought as a result of the critical juncture event. Furthermore, a *fundamental* tax reform does not happen as a result of crises. *Fundamental* tax reform occurs because of other events/needs, and *recurrent crisis is used only as a pretext or reason for change.*

The requirement for economic reform of the magnitude of a critical juncture is constructed on the basis of an *a priori* fiscal and social need. An *ideational* position is something which is known to exist prior to the reform occurring. The need for change is therefore, assumed to be, widely acknowledged as existing, among politicians, technocrats and, the mass media. Furthermore, the need for change is generally well accepted by the public (see Goldfinch and t'Hart, 2003). This formative period for *ideational change* usually persists for some time before a *generative cleavage* actually occurs. This state of early awareness and the acceptance of a need for change by multiple sectors within the economy is a point emphasised in Hogan (2006), and Hogan & Doyle (2006).

The explanation above implies that the promulgated idea[s] - and there may be more than one - for policy change already exist and the proponents of change simply need suitable economic conditions to prevail for that change to be initiated¹⁵⁷. This idea is common in the critical junctures literature and also in the tax reform literature. For example, the windows of opportunity hypothesis of Peters (1991), testifies to this. The economic conditions which open a window of opportunity (what the critical juncture theory considers as necessary to determine a *generative cleavage*) in this chapter are termed a *consequence of needs*, and further, the need is based on the existence of Doyle and Hogan's *macroeconomic crises*.

The pre-existing knowledge base - the link to Chapter 5, Chapter 6 - and the ideas of transference are the foundation of *policy formation*, a vital constituent part of the overall *policy formulation method*. In essence, this concept is very similar to Doyle and Hogan's explanation of *Ideational Change*. Furthermore, both of these – the *consequence of needs*, and the foundation of the *policy formulation method* - are the basic necessities required to begin a *fundamental* tax reform. Thus, the *fundamental* tax reform process has a sensitive dependence on its initial starting conditions. The argument, therefore, is that, without the *consequence of needs* (Hogan and Doyle's *macroeconomic crisis*), and the foundation of the *policy formulation method* (the beginnings of Hogan and Doyle's *ideational Change* process), a *fundamental* tax reform cannot eventuate.

¹⁵⁷ See Chapter 8, Subsection 8.4 for a discussion of the degree of predetermination which gave rise to The Ordinance and the fiscal reforms which occurred in 1844 New Zealand.

The theoretical development thus far is as follows: Adverse economic conditions (macroeconomic crises) establish a *consequence of needs*; further, the identified economic *need* is then connected, via the foundation of the *policy formulation method*, to an ideology (for example, in the present context, the Manchester School and free trade). A further step in the process is required, and it needs to be sequential. A change to the existing rules of the game must occur; something termed here, an *institutional change* event.

Thus, a *consequence of needs*, and the foundations of the *policy formulation method*, are given life by a third occasion, an *institutional change* event. This kind of a political combination permits the previously articulated alternative economic policy or policies to be brought in by the (elected) agent[s] of change. Thereafter, a fourth sequential event is required, and it is a succession of crises - *constant disequilibria*.

Recurring crises are required (needed) to galvanize opinion among all economic interests groups, i.e. those opposed and those in agreement, to provide further support for any new paradigm (economic restructuring). The end point in this game is the implementation of the new economic paradigm. This, arguably, explains the process of how the need for a *fundamental* tax reform is arrived at, and also why a *fundamental* tax reform is implemented. In order to control and direct an economic organisation such as government, it would be necessary to control its fiscal heart, i.e. taxation policy.

9. 4. Theoretical Framework

The focus now turns to clearly detailing the structural elements (observations) of the developed theoretical framework in a manner that is hopefully timeless (i.e. not simply contextualised in the events of 1844). The reason for doing so is that the developed model will be tested against another tax reform event in New Zealand economic history. The desired, final abstract model will need to have some enduring attributes that will make it more generally applicable. The observations (structural elements of the model) will in their timeless forms constitute the headings of an abstract model to explain a *fundamental* tax reform.

9. 4. 1. Translating Hypotheses into Structural Headings

The first, observational hypothesis: A crisis may occur as a *consequence* (result) of some prevailing *needs*. An example of *need* would be the coincidental occurrence, for example, of a balance of payments deficit and a budget deficit¹⁵⁸ (a concurrent internal and external deficit requiring policies to achieve balance in both). While these may precipitate the change process, they are assumed to only do so if they occur in conjunction with a second, key, element, viz. the observational hypothesis which is (2) *Institutional change*.

The *institutional change* process needs to be significant, something such as a change of government, which (in modern terms) ushers in a new cabinet and a new leader of government; and this is where the realised new concepts and ideas of policy are formed. Having clearly articulated the new economic concepts and ideas, and differentiated these ideas from the other available options, the general public provides the newly elected polity with a mandate for change following an electoral poll (the *institutional change* event). The newly constituted polity may, thereafter, be able to effectively direct and control economic policy to a large degree. However, this still may not be how policy is ultimately determined; the political *status quo* is not always that easily changed (Hogan and Doyle, 2006, p. 16, for example, refer to the *status quo* as armoured policies¹⁵⁹). Further pressure may be required to accomplish complete *ideational* collapse. The assertion is, that any policy package which stems from, and constitutes, a critical juncture event, is decided in a manner which has given rise to the chapter's the third observational hypothesis, viz. (3) the *policy formulation method*.

The *policy formulation method* is the ongoing process of *ideational change*, a logical extension of the necessary starting conditions. Following crises, there is usually a loud call for "economic reform" or economic restructuring¹⁶⁰. Much of the groundwork for

¹⁵⁸ It is not, altogether implausible, that a the coincidental occurrence of a balance of payments surplus and a budget surplus would also initiate a similar *consequence of needs* and thereafter, begin a sequence of events that would be similar to those described above.

¹⁵⁹ See Hogan and Doyle (2006, p. 16). "Armoured policies represent policy continuity, whereby once policy has become institutionally imbedded; *policy making becomes possible only in terms of these ideas*" (Blyth, 2001, p. 4, in Hogan and Doyle, 2006, p. 16)

¹⁶⁰ "Restructuring is short hand for the radical changes to economic and administrative structures by most governments in the OECD over the [previous two decades]. It is not restructuring *per se* but restructuring in a specified direction. This direction can be summed up as: a move away from government control of the economy and towards greater reliance on competition and market solutions" (Mulgan, 1997, p. 1).

this phase of policy change, to repeat, is usually prepared well in advance, and it does not contain any previously unknown or new ideas. In fact, widespread acceptance of the new economic ideas is evidenced by the *institutional change* event. Nonetheless, it is not unusual for the articulation of a need for a critical juncture level of change to be contained in a single ideological phrase such as free trade or market liberalisation (the free market), or even something as simple as freedom itself. What is important is the public understanding of the phrase or expression which, for some time prior to the change, has been loudly and fully articulated (for example, an electioneering slogan). The ideological expression may be, and quite often is, the only requirement necessary for normative opinion to gain acceptance when faced with open and reasoned economic debate.

After *institutional change* has occurred, the *policy formulation* process has a final goal. In the present context that goal is the reallocation of economic resources, and a redistribution of the burden of taxation according to a newly constructed social contract. This last point, incident-shifting, and public acceptance of it, is fundamentally important to successfully achieving a critical juncture event. Changes in taxation are used to promote/support fiscal and social change, and to lock economic reforms in place. Tax changes reflect the very real change that has occurred to the social contract, and which an *institutional change* has previously approved.

Fundamental tax reform however, is still not necessarily assured by the presence of economic crises, prior knowledge, *institutional change*, public opinion, or negotiation within the polity. Even when all of them occur together, and in sequence they can still be insufficient to engender a major fiscal change or social restructuring. For a *fundamental* economic reform to occur, the continuing existence in the short-to-medium term of pressing reasons which validate the need for these changes is required. In addition, those pressing reasons need to be constantly acknowledged by the citizenry.

Therefore, it is absolutely necessary that the polity makes liberal use of the interim, peripheral, and recurring economic events (crises) to reinforce and enable the decision making process between the two key temporal moments of the initial starting point and, the end point of the game! Thereafter, a *fundamental* tax policy change becomes a reality. For example, Evans, et al (1996, p. 1871) claim that the creation of a series of

disequilibria helped to justify and accelerate the reform process in the 1980's New Zealand. This process, the creation of a series of disequilibria, has given rise to a fourth observational hypothesis, viz. (4) *constant disequilibria*.

Recurring fiscal disequilibria can be represented by the presence of repeated financial crises or, in the present context, ongoing *macroeconomic crises*. When a nation's fiscal position is viewed as poor, and new economic crises continue to surface at regular intervals then, as was shown in Chapters 7 and 8, they provide the final impetus for change to tax policy. In many instances, a perceived sense of emergency can often be enough to initiate the *fundamental* tax change. The latter, a *fundamental* tax reform, can then be seen as an expected outcome of the change process. In short, a proposal for *fundamental* tax reform becomes legislated policy after a further series of *untoward fiscal events*.

Thus, from the theory so developed, four structural elements have been identified and these will constitute the structural headings of the model. Those headings are: the *consequence of needs*; the *institutional change* event; the *policy formulation method*, and the existence of *constant disequilibria*. A strong logical framework is now given to the theory, and attention can turn to a discussion of the model of *fundamental* tax reform.

9. 5. Theoretical Model

In the context of Crown Colony New Zealand - a period in New Zealand history when macroeconomic variables were few and uncomplicated) - economic crisis had these features: the colony was attempting to establish itself amid a world depression; the Administration had expenditure needs far greater than its domestic revenue would support (see Chapter 4), and there was a high level of unserviceable public debt. In the colony's European settlements unemployment was present, and in, Maori settlements, there was much underemployment. The colony also suffered from a lack of circulating medium, and, the ever present prospect of racial conflict.

The financial condition of the Administration by the end of 1843 reinforced the colony's dismal economic outlook. The economy (and its limited financial sector) was enduring constant domestic financial crises, and labouring under the external constraint

of the British Treasury (*British Parliamentary Papers*, 4: 167), Furthermore, many sections of Crown Colony New Zealand's population were dissatisfied with the colony's state of progress, and with the constraints the Administration was imposing on their own personal progress. Many colonists (and Maori) were openly opposed to the Crown's influence in the affairs of the colony and, unhappy about the performance of its agent, the colony's Administration (see Chapters 6, 7 and 8).

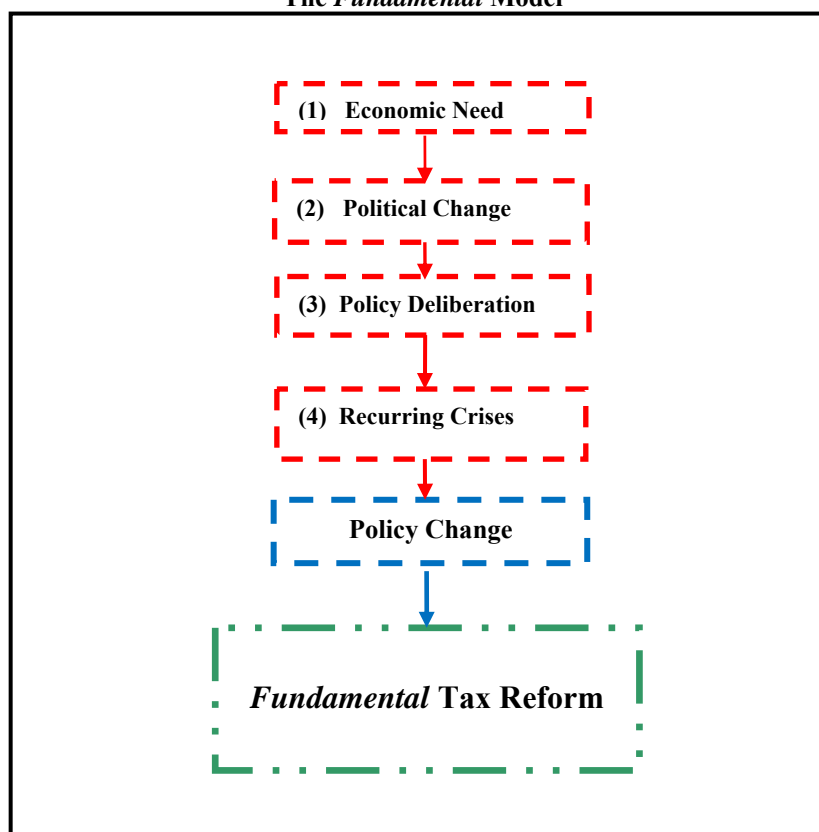
9. 5. 1. Contextualising the Theory

First, the foundations of *ideational change* had existed in colonial New Zealand and in the Mother Country for some time prior to 1844 (see Chapter's 5, 6, 7 and 8). Second, the macroeconomic condition of colonial New Zealand in 1844 constituted a valid *consequence of needs* (see Chapter 4, p. 64). Third, the arrival of a new governor at the end of 1843, and the appointment of a reformed Legislative Council in early 1844 were the *institutional change* events which initiated the process of economic restructuring in the colony. Fourth, the ongoing *policy formulation method* – the *ideational change* process which occurs after the *institutional change* event – was extensively discussed in Chapters 7, and 8. After enduring *constant disequilibria* (crises), Fitzroy, it is argued, leveraged these economic events in order to pass *The Ordinance*.

9. 5. 2. The Model

Thus, from the four identified sequential events (1) the *consequence of needs*, (2) *institutional change*, (3) *policy formulation method*, and (4) *constant disequilibria*, a conceptual stage model is derived which explains the *fundamental* tax reform which occurred in 1844 New Zealand. The next step is to logically structure the headings of the *Fundamental Model* and, this is achieved by first addressing the dynamics of the economic event that the model describes, and secondly by simplifying the headings. Thus, Economic Need, Political Change, Policy deliberation, Recurring Crises, and thereafter, Policy Change are the result. The final stage model therefore indicates that the *fundamental* model of tax reform is an interdependent and for the purposes of this chapter, is recognised as being a sequential economic process that is highly dependent on its initial starting condition. The model is summarised as a schematic in Figure 9.1 below.

Figure 9.1
The *Fundamental* Model



In essence, the method of the *Fundamental* Model conforms to the critical juncture model of Doyle and Hogan (2006). (1) Economic need + (2) political change + (3) policy deliberation + (4) recurring crises equals policy change, viz. a *fundamental* tax reform. The staged process, as the chapter suggests, is seen as being sequential; all stages need to occur (and in the order indicated above) for the change event to be accurately termed a *fundamental* tax reform.

From one of the four assumptions of Subsection 9.3: (1) the purpose of a *fundamental* tax reform is to assist in the reallocation of the economic resources of an economy. Thus, the existing economic status quo undergoes a process of reform. The end result is a structurally different economy with a new system of fiscal management that has at its centre a new tax system. This process is illustrated below in Figure 9.2.

Figure 9.2
Economic Reform

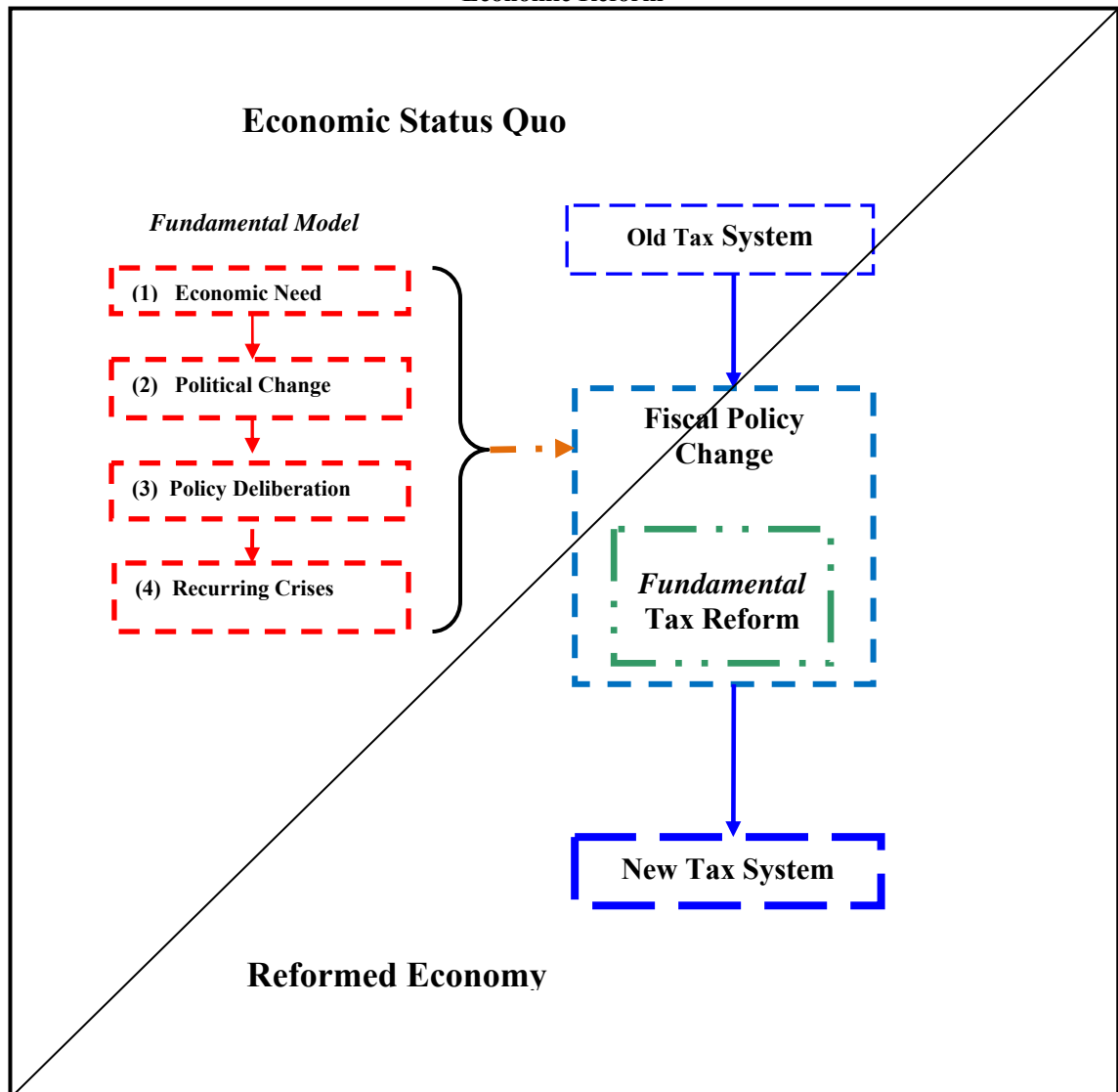


Figure 9.2 above, is an extremely simplified model of reality. However, the role that the *fundamental* model plays in the process of fiscal policy change is clearly shown. Also shown are the key relationships between the Fundamental model, fiscal policy change, tax reform and a reformed economy

The presentation above of Figures 9.1 and 9.2 brings to a close the theoretical analysis of Governor Fitzroy's tax reforms of 1844. Theory, however, is only the first step; the second is a graphical representation, and while both of these have been achieved, there is a third step to consider; a test of the derived model. Testing is undertaken by way of simple comparative analysis whereby, the model is assessed against another known tax reform in New Zealand economic history.

9. 6. Testing the Model

There are limitations attached to the testing procedure undertaken within this chapter. First, preliminary testing of a conceptual, stage model is not the focus of the chapter nor is it even a secondary objective. Second, the testing undertaken below is a simple comparative analysis of on other economic event. Third, the simple test is the preliminary beginnings of any possible future research which may be undertaken in order to assess the model for validity and veracity. Nonetheless, a second New Zealand tax reform will now be used to serve an analytical purpose.

The tax reforms undertaken in New Zealand after 1984 have received much attention in New Zealand. Revenue reforms of this period (1985-86) consisted, in part, of a change to the philosophical basis of the tax system, viz. an extension of the tax base, a redirection of taxation (principally from direct tax to a more direct/indirect balance), and a reduction of rates of the existing direct taxes. Even these few aspects of tax policy change are substantive enough to have resulted in a very real redistribution of the burden of taxation and, arguably, a re-allocation of the economic resources within the New Zealand economy.

9. 6. 1. A Consequence of Need

The economic condition of New Zealand in 1984 was the outcome of previous policy decisions and, a crisis in the world's advanced economies. The economic condition of New Zealand in 1984 does, however, constitute a legitimate *consequence of need*. A simple statistical record of the long-run performance of several economic indicators of the New Zealand economy is presented below.

**Table 9.1
New Zealand's Macroeconomic Performance, 1956-95**

	1956-65	1966-75	1976-85	1986-95
Growth in Real GDP (% of GDP)	4.2	3.8	1.6	1.5
Output Gap (% of GDP)	1.2	2.5	2.2	2.1
Unemployment (%)	0.1	0.2	2.4	9.1
Inflation (%)	2.8	6.7	13.4	6.7
Interest Rate (%)	5.3	7.2	13.4	14.2
Balance of Trade (% of GDP)	-0.4	-1.2	-2.5	1.1
Current Account Balance (% of GDP)	-1.9	-2.8	-5.6	-3.5
Misery Index	2.9	6.9	15.8	15.8

Source: Wooding (1997, p. 15)

From Table 9.1 above, it is apparent that from 1975 onwards to 1985, that real output growth has fallen. Real GDP growth, the measure of New Zealand living standards had halved by the nineteen-eighties. Unemployment had risen tenfold since the period of the 1950's; inflation had continued its steady increase, and New Zealand borrowers were experiencing double digit (nominal) interest rates. The nation's current account balance continued to deteriorate and, the overall misery index shows that economic conditions in New Zealand were, for many in the community, almost twice as difficult in the nineteen-eighties as they were in the nineteen-seventies.

New Zealand's credit rating had been downgraded on April 30, 1983, the year before the crucial election of early 1984; however, the exchange rate was still considered by many to be overvalued. Many sections of the community were dissatisfied with the state of the economy and the policy approach of previous governments. It is possible to say that, overall, many New Zealanders were unhappy about the government's imposed exchange restrictions, trade controls and the effect these were having on the economy.

On the fiscal front, there was much understandable annoyance with a tax system that promoted multiple economic inefficiencies; increased the deadweight loss associated with compliance, and maintained iniquitous redistribution. Furthermore, the existing tax system encouraged widespread market distortions many of which constrained and thwarted enterprise and, actively discouraged productivity growth. All of these negative

externalities, attached to the tax system, were widely acknowledged as being detrimental to the long-term needs of the New Zealand economy and of its people. Therefore, constituents were openly opposed to the previous government's economic policy and, for some years, the main political opposition to government had articulated an alternative economic policy package (the foundations of the *policy formulation method*) for use when they would come to office.

9. 6. 2. Institutional Change

The election of a new government and Prime Minister in 1984 was the *institutional change* event which initiated the process of economic restructuring. In addition, immediately after the 1984 election, a constitutional crisis developed in the interim between one government leaving office and the other taking over. This constitutional crisis was precipitated by the anticipated policy direction, which the incoming government had clearly articulated to the public prior to the election. Reinforcement for the earlier arguments of pre critical juncture *ideational change* and the role this plays in laying the foundations for the *policy formulation*. Thereafter, as all relevant economic information was already known to many in the financial markets, it was hardly surprising that, starting on the election night, the financial markets acted, and consequently, there was a large capital outflow. This event was eventually countered with a devaluation of the exchange rate by the incoming government, even before they formally took office (Bishop, 2004, p. 20). The outcome of this (post *institutional change*), was a reinforced mandate for major economic change on the basis of a perceived continuation of another *consequence of need*. This occurrence was amply demonstrated to the public in the form of a constitutional *crisis* and an exchange *crisis*.

9. 6. 3. Policy Formulation Method

From the framework of a clearly articulated ideology, in this instance 'market liberalisation' (the free market), a series of strategic re-evaluations commenced, whether artificially or not, these moves were negotiated and debated¹⁶¹. Such negotiation and debate was artificial for the simple reason that the ideological capture

¹⁶¹ Australia had a Summit; an Accord with the trade unions, and a Tax Summit (Goldfinch and t'Hart, 2003). Similarly, in New Zealand there was a Summit and Tax Review undertaken (Easton, 1989). In similar fashion Ireland underwent similar policy negotiation and deliberation with trade unions in the 1980's. I comment here, that the process, in essence, describes a method of arriving at an understanding with opponents, whereupon negotiation (submissions), however hollow, take place and the passage of policy is assisted, not formulated.

of policy direction had already been achieved, and was subject to the control of the key personnel of the new polity. As indicated, the economic policies of the new polity were clearly enunciated prior to the election of 1984. Over an undefined period after the 1984 election, the *policy formulation method* and the subsequent direction for policy was accomplished by an elected executive (cabinet). While negotiation and debate are assumed to have occurred even within the new government itself, opposition to change was only able to modify policy at the margin, but not to radically alter it, once it was decided upon.

9. 6. 4. Constant Disequilibria

The direction for economic policy after 1984 was clearly promulgated prior to the election and, the process of change was driven by a sense of emergency; in the earliest stages change was driven by economic and financial crisis. For example there were two runs on the New Zealand dollar (one immediately prior to the election of 1984 and another some months later as a response to policy change). Thereafter, urgency replaced emergency, and to avoid further occurrences of *crises*, previous events were used as the means to initiate major fiscal restructuring. Thus, *constant disequilibria* finally wrought change; the *fundamental* tax reforms were announced in the budget of 1985/86.

The descriptive analysis undertaken in this subsection of the chapter amply portrays a much more recent *fundamental* tax reform in New Zealand economic history. The development process can be said to closely mirror the 1844 *fundamental* tax reform of Governor Fitzroy. Furthermore, though it is not mentioned above, just as Fitzroy had a reversal of circumstances - and a second *fundamental* tax reform eventuated - the tax reforms of the New Zealand Government, the post-1987 phase of economic development, also took a step too far, and consequently, also suffered a crisis-induced policy reversal. That story, however, is a matter for others to research.

9. 7. Conclusion

The theoretical argument presented in this chapter is a simple descriptive explanation of what was observed in the historical narrative (data) of the thesis. The observations, primarily from Chapter's 4 to 8, led to the recognition of a pattern to tax policy development. From the two initial inductive steps, observation and pattern discernment,

it was possible to then suggest some tentative, explanatory, hypotheses. Those hypotheses were developed further by connecting to the substantial work of critical juncture and crisis theory. Thereafter, an extension to the existing theory on crisis-induced tax reform was proposed. The final conceptual stage model was illustrated in Figure 9.1 (above) and entitled, the *Fundamental Model*. Thus, abstract theory offered a plausible explanation for how Governor Fitzroy achieved his *fundamental* tax reform of 1844. Therefore, the chapter has met its stated objective which was the development of a theoretical model to explain the *fundamental* tax reform of Governor Fitzroy.

The theoretical analysis of this chapter has shown that the *fundamental* tax reform of Governor Fitzroy was not an effortless process; nor was it part of a continual process of incremental (and fiscally neutral) adaptation (something difficult to achieve in a colony as young as New Zealand was in 1844). A *fundamental* tax reform such as that undertaken by Governor Fitzroy in 1844 requires much knowledge, skill, planning, and public support (Goldfinch and t'Hart, 2003, p. 236). Furthermore, as analysis has shown, a *fundamental* tax reform also requires the untoward and usually coincidental occurrence of certain macro-economic events (the *consequence of needs*).

The occurrence of serious fiscal need was identified as both the initial starting point for Fitzroy's major reform and also the agent of change. The interim methods of *institutional change* and the *policy formulation method* were the means, and thereafter, *constant disequilibria* were the key to restructuring of the early New Zealand economy. This critical juncture approach to economic policy, essentially the creation of a new economic paradigm, is clearly displayed in the documented evidence of 1844. The process was illustrated within the chapter by way of Figure 9.2; an extremely simplified economic model.

However, returning to the *fundamental* model. The 1844 *fundamental* tax reform of Governor Fitzroy was the result of a structured sequential process, and this is fully acknowledged in the chapter's final model (Figure 9.1). Quite simply, the *fundamental* model shown in Figure 9.1 is understood by addressing the dynamics of that sequential process: economic need, political change, policy deliberation, and recurring crises. Combined with ideological purpose, this approach to policy change, in the context of 1844, has been seen to work. However, tax reform is not exclusive to 1844 New

Zealand, and therefore, the chapter's derived model, Governor Fitzroy's *fundamental* tax reform, was subjected to logical testing in another era, viz. the tax reforms which occurred in New Zealand in the nineteen-eighties.

The comparative analysis undertaken in this chapter has shown that the tax policy development process which explains the major New Zealand tax reforms of 1984-87, can be said to closely mirror the 1844 *fundamental* tax reform of Governor Fitzroy. Therefore, early results suggest that the abstract model developed here may also have the *potential* to explain other past New Zealand tax reforms. Furthermore, by implication, if a pattern can be discerned in past tax policy developments then, this simple *fundamental* model may also have implications for future tax policy development. That endeavour, anticipating future tax policy development, is however, left for others to research.

Finally, the question remains as to how the work of this chapter fits in with the initial hypotheses. The introduction posited that the New Zealand tax reform of 1844 did provide the basis for a workable model of a *fundamental* tax reform. In short, the chapter has enabled the development of an abstract model to describe the tax policy development process of Governor Fitzroy in 1844 New Zealand. In response to the question posed at the start of this paragraph, findings are that events of 1844 do provide the necessary details to construct a simple model, and one that may have potential for further study. This final chapter and its result is a useful beginning for any derived model of a *fundamental* tax reform. In addition, it is also indicative of the successive and incremental contributions to knowledge that are evident throughout the thesis.

There is, however, a final matter of importance to comment on, and that is, the question posed in the chapter's preface and, thereafter, indirectly addressed by the chapter's core analysis. Was any guiding principle apparent in the development of tax policy during the study period (1843-45)? There *was* a guiding principle determining the development of tax policy during the study period, and that principle related to the underlying fiscal argument of Crown Colony New Zealand. That argument is, as a result of the analytical methods chosen throughout the six core chapters of the thesis, very apparent. The argument centred on a single question: Who was going to pay for the colonisation and economic progress of New Zealand? The likely options were (1) New Zealand Maori,

(2) the British government, (3) the settlers, or (4) all groups in combination. The answer that Fitzroy and Parliament received in 1845 made it quite plain that neither Maori nor the colony's early settlers were willing (or perhaps able) to pay, and thus, if the colony was to succeed the British taxpayer would need to underwrite the venture for some time to come. Fitzroy's reforms in the fiscal area helped pave the way to sustaining a workable future for the colony.

Chapter 10

Conclusion

There are few New Zealand studies dealing with New Zealand taxation in an historical setting, and even fewer that discuss direct taxation: Paul Goldsmith's recently completed study into the politics associated with the historic development of New Zealand taxation is an exception. This thesis, concerned as it is with the genesis of direct taxation in New Zealand, will however, go a small way towards filling what is still a large gap in the tax history literature of New Zealand. This thesis is, therefore, a significant contribution in the field. In addition, this thesis also makes a contribution to the ever expanding knowledge base of New Zealand fiscal history and of New Zealand's early economic history.

When the work of this thesis began, to the best of my knowledge, there were only three studies of real relevance to the thesis topic that merited inclusion. Those studies are: Cowie (1994), Hooper and Kearins (2003), and Facer (2006). The first of the three studies mentioned, i.e. Cowie's, was the only work which provided much in the way of contextual material, or for that matter, provided any real insights. For example, Cowie observed that "more attention will be spent [in the future] on Fitzroy's failed attempt to raise revenue and cut expenditure and on his ideological pressures and precedents" (Cowie, 1994, p. 102). In addition, Cowie highlighted eight important areas that required further research. I believe that Chapters 4-9 of this thesis have attempted to do exactly that; this thesis has subjected all of the possible questions raised by Cowie (1994), to critical examination.

The only other study of real significance to the story of direct taxation in early New Zealand was that of Facer (2006). In the work of Facer there was a suggestion that the crucial turning point for the direct taxation of incomes in New Zealand was the *Land Tax Act, 1878*, which, in essence, provides a single-event theory to explain the development of past New Zealand tax policy. The early phases in the development of New Zealand tax law have made a significant contribution to New Zealand's overall tax policy. Acceptance of Facer's single-event theory would tend to minimise that

contribution. Furthermore, the thesis has discussed the progress of four of those very early tax laws in some detail in order to highlight their importance to New Zealand tax history. Therefore, some further detailed comments are required and these are attempted below.

To begin with, some further comments on the foundations of this study are required. In critically examining the development of the four identified early tax laws of the study period, this thesis has done more than simply attempt to rationalise the hypotheses of Cowie. Furthermore, this thesis does not simply focus on Facer's single-event theory, or merely extend the foundations of New Zealand's tax system as suggested by Hooper (1998) viz. New Zealand's English Heritage. Nor has the work simply followed on from that of Hooper and Kearins (2003). This thesis is, in its own right, a substantial extension to the pioneering works of those authors that are mentioned above. In addition, the thesis has also added the foundations which, no doubt, Facer's study found lacking when undertaking its research into early New Zealand tax history. Additionally this thesis has provided the qualitative foundations for future history scholarship of the Crown colony period (and beyond) in the work of Chapter 4. Furthermore, this thesis has achieved all of this by focusing narrowly on the development of New Zealand taxation between 1843 and 1845. This was an exciting period in New Zealand's economic history - a period when, arguably, the foundations for direct taxation in New Zealand were laid, and perhaps, even the future pathway for all forms of taxation in New Zealand was indicated.

This claim about the place of the thesis in the literature on New Zealand tax history is of a general nature. However, the concluding observations will now proceed to outline how we are now better informed by the finished work of this thesis. To accomplish that aim, a description of how the work better informs scholars of the importance of the period, and of the importance of its tax laws, the thesis offers a few brief statements below. The information contained in the preceding chapters of this thesis has brought new insights into New Zealand's early tax history. This, in turn, has shed light on some of the many factors that are associated with the historic process of New Zealand's fiscal development.

A key factor which came to light in the course of the research was that, immediately prior to the period under study, over the years 1840-42, three main tax laws and a system of regulation were in existence, and these few fiscal tools established the revenue for Crown Colony New Zealand. Those tax laws were the Treaty of Waitangi and the laws relating to Customs Duties, and Fees, Fines, and Other Charges. During the study period 1843-45, there occur, in New Zealand, five additional and important tax policy events. Four of those tax policies intended to build on the established foundations of direct taxation, viz. the Treaty of Waitangi; Fees, Fines, and Other Charges. The first of those four early developmental steps was Schedule E of the British *Land and Income Tax Act, 1842* which arrived in New Zealand 1843. The second was *The Property Rate Ordinance, 1844*, and the third was the proposed *Amendment* to the *Property Rate Ordinance, 1844*. A fourth was a new tax law, *The Dealers' Licensing Ordinance*. The latter two were proposed in 1844 and abandoned in 1845.

This thesis has discussed in some detail the four additional, and very important, policy developments for direct taxation in early New Zealand. Each individual tax law is commented on at length below. Let us begin, however, with comments on the fifth important policy event for direct taxation, viz. the *Repeal* of the *Property Rate Ordinance*. This tax law has not been discussed in the thesis in any great detail, but it is covered in the final section of Chapter 7. The repeal of *The Ordinance* also forms a backdrop to Chapter 8. The assumption of the thesis, in relation to the repeal of *the Ordinance*, was similar to that of the first foundational direct tax laws, viz. that the repeal of *the Ordinance* in 1845 (and the return to the tax system of 1844), is a well understood event. Furthermore, as it represents a move from direct back to indirect taxation, technically it falls outside the focus of the thesis. However, the repeal of *The Ordinance* is not considered to be the end of the story; rather, the repeal of *The Ordinance* can be seen as a legitimate starting point for future research into New Zealand tax history.

The contents of the core chapters (the tax laws) of this thesis will now be discussed in a little more detail. The first tax law the thesis considered was Schedule E of *The Act*. Its arrival in New Zealand occurred via the British Treasury and, an official directive from the Colonial Office. The official directive applied not just to New Zealand, but to every colony and possession in the British Empire. In New Zealand, Schedule E was

implemented in September of 1843, but applied retrospectively, and thus, it was effective from April of 1842. The tax was promptly and effectively evaded by most, if not all, of the few persons in the colony to whom it applied. The importance of this partial transfer of another nation's tax law to New Zealand is that Schedule E's arrival in the colony also represented a legitimate transfer of the concepts of taxation, and of British economic thinking, and applied economic policy (in the fiscal area), to New Zealand – a transfer from the Mother Country. Schedule E was an aftershock of the critical juncture which had occurred in Britain in the previous year. This thesis has argued that Schedule E significantly influenced the economic policies of Crown Colony New Zealand between 1844 and 1845.

The logical next step in the development of New Zealand tax law fully reflected the past fiscal experience of the Mother Country, something which, arguably, was already transferred along with Schedule E. All that was required to implement the economic policies of the Mother Country in New Zealand was the arrival of an agent of change, with some fiscal experience. Governor Fitzroy arrived in New Zealand in December 1843, and quickly set about the task of re-igniting the desire for progress in the colony. Fitzroy was looking to assist economic progress and to revolutionise an economically depressed developing colony with fresh ideas and policies. At the core of Fitzroy's restructuring programme were tax policies; among them, the repeal of the existing *Customs Ordinance* and the enactment of the 1844 property and income tax, known as the *Property Rate Ordinance*, which was the second important tax law of the period. *The Ordinance* was not Fitzroy's first attempt at implementing fiscal policy in the colony, but it may well be considered his last. It was a vitally important component of Governor Fitzroy's attempted economic restructuring of early New Zealand's economy and, with *The Ordinance's* demise in 1845 Fitzroy's economic restructuring of colonial New Zealand came to an abrupt end. Shortly thereafter, Governor Fitzroy was ignominiously sacked.

Fitzroy's *Property Rate Ordinance* may have been inappropriate in the context of 1844 "developing" New Zealand. However, it did meet the public policy requirements of the colony's Administration. In addition, *The Ordinance* was a further application of the accepted economic doctrine of the period, and it was, in practice, simply an applied fiscal policy. Both doctrine and policy were the result of transference - the transmission

of the Mother Country's system of economic organisation. This matter is identified and reinforced in Chapter 6, which has treated it as one of the many intangibles that *The Ordinance* represented, viz. the *assimilation* of British tax policies into the fiscal system of early New Zealand.

To the new immigrants to the colony, the general population of New Zealand in 1844, *The Ordinance*, as a method of taxation, would not have been unfamiliar. Furthermore, *The Ordinance* was initially accepted as the required trade-off for Fitzroy to fully implement throughout the colony the free trade policies then current in Britain, and asked for by the colony's commercial interest groups. Fitzroy however, did not consider the imposition of a low-rate property and income tax as a complete deal. Instead, he fully intended *The Ordinance* to be the foundation of a much larger, and more comprehensive, tax reform package. Fitzroy's further initiatives for tax reform (*The Amendment* and *The Dealers' License*) however, had not been clearly articulated or discussed prior to *The Ordinance*. When they were first revealed, in late 1844, they were to prove a step-too-far for Fitzroy and his Administration. The step-too-far however, should have been just as expected as the property rate, given the extent of past fiscal knowledge that arrived in the colony with the settlers, viz. a high degree of British influence on economic matters in the colony. This would also have included control and direction of the political and bureaucratic systems, and the colonists' recent experience with Schedule E. Furthermore, there was also Fitzroy's own past political and fiscal policy development experience, and his implementation of *The Ordinance* itself, to consider.

Expected or not, and whether the tax laws of the period represent a legitimate transfer of another country's fiscal system or not, the comments above on expectations (of the potential taxpayers) were among the questions the thesis has asked. In addition, the thesis also asked, why were the reforms of governor Fitzroy, and especially, his main tax policy reform (*The Ordinance*), widely considered to have been a failure? The answer that our extensive analysis has provided is that the condemnation of Fitzroy and his tax policies stemmed from the next two expected, tax policy proposals of the period, viz. *The Property Rate Amendment*, and *The Dealers' License*. The *Amendment to The Ordinance* intended to change the top and the bottom thresholds; to double the rates, and, with the addition of a new tax in 1845, the two proposed tax laws, in combination,

would have pushed the acceptable boundaries of the tax base. Moreover, the two proposed tax laws would have increased the effective tax burden on the settler population. The settlers and their representatives openly opposed Fitzroy on this matter (taxation) on the basis that the new and increased taxation constituted an unacceptable tax burden. Thereafter, as conflict with Maori in the north placed increased pressure on Fitzroy's fiscal system and, without his proposed additions to the tax system, the raising of sufficient revenue by way of direct taxation was not going to be achievable. Facing further financial crisis, Fitzroy was left with little choice, and he quickly decided to repeal *The Ordinance* (New Zealand's second *fundamental* tax reform), and return to the 1844 *status quo*, i.e. bring back the Customs Duties.

Fitzroy's second *generative cleavage* and his succumbing to the colony's *ideational* pressures, in the short period of less than a year, resulted in the repeal of *The Ordinance*, and the reinstatement of customs. This re-enactment of past tax policy is not extensively discussed in this thesis. However, the re-enactment marked a significant turning point in the economic history of New Zealand. With all of Fitzroy's economic reforms rendered unavailable by the repeal of *The Ordinance*, a failure of, effectively, governance, was guaranteed. The demise, or failure, in 1845 of governor Fitzroy's Administration did then allow for a *fundamental* shift in the powerbase of colonial New Zealand (Cowie, 1994, p. vii). Consequently, economic progress in the colony, after 1845, and how that progress was going to be paid for were also decided by the repeal of *The Ordinance*.

The era after 1845 and the story of revenue-raising under Governor Grey however, are left for further research. Nevertheless, an overall understanding of the economic reality for the entire Crown Colony period was thought to be essential background information for the thesis, and a necessary requirement. It provides valid quantitative data and factual information to support the qualitative arguments of the thesis. Initial research indicated however, that the fiscal record for the period was less than adequate, and that scholarly understanding and use of the qualitative data was poor. Further, the existence of multiple and conflicting accounts complicated research into the period, and added to the uncertainty surrounding the activities of successive Administrations.

The fiscal record of successive Administrations of Colonial New Zealand is no longer an open question: The analysis conducted in Chapter 4 has eliminated much uncertainty for future scholars. Chapter 4 provides detailed and highly reliable sets of data which, while subject to the limitations described in the chapter, do record the revenues and expenditures of successive Crown Colony Administrations (see Chapter 4, Tables 4.8 and 4.9, p. 64). In addition, the work has identified a long run data series (*AJHR*, 1888, B12), that had been forgotten, and this series has exciting potential for future research. Chapter 4 provided the fiscal overview necessary for the project, but it did not provide a complete foundation for the study. The economic basis (body of knowledge) which enabled the analysis of the core chapters to begin is to be found in Chapter 5.

In Chapter 5 of the thesis there is a brief discussion of the origins of New Zealand's fiscal foundations. These have been hypothesized as residing in British tax history over the period 1600 and 1850. From the perspective of tax policy, Chapter 5 clearly draws attention to the cyclical nature of tax policy development and implementation. In Chapter 5, the constant process of tax policy change, over time, in response to the social and economic pressures of the time, was discussed. Quite often tax policy changed in one direction, only to then change back again over the longer-term. The chapter's findings were that the hypotheses of the tax history literature do appear to hold, viz. that war and debt are the drivers of taxation. However, the chapter also found that there were other economic factors which also influenced tax policy. Those other tax factors included, first, an internal crisis - the interactions between government and the financial intermediation sector that was directly involved in the issues of the crisis; and, second, the impact this mutual relationship had on inflation. Both of these factors did contribute to constraining the collection of sufficient revenue, increased rates on existing taxes, and drove the development of tax policy (prior to 1850).

Following on from Chapter 5 are the central chapters of the thesis which discuss the important tax laws of the period. Those tax laws were covered analytically in some detail. It is appropriate in this chapter that some further brief comments are made on the relevant issues. The tax events described in Chapters 6 and 7 help establish that our system of taxation was imported from the United Kingdom (this is the link to Chapter 5: our English heritage). Sometimes this transference of policy was in partial form only, but sometimes it could be a complete tax system. Also apparent is that the decision-

making process for public policy in Crown Colony New Zealand was heavily influenced by the transference of ideas and concepts in taxation and the economic policy of the Mother Country to New Zealand. Furthermore, policy was also directed (driven) within New Zealand by its own politics of tax, and the economic constraints of a less-developed and emergent nation.

The politics of tax chapter, viz. Chapter 8, is the starting point of the last part of the thesis (Part D): an examination of the development of the New Zealand tax system (1843-45). Part D can be described as the results section of the thesis. Essentially, Chapter 8 took the tax laws outlined in the thesis's central chapters, and considered them as a single body of tax laws. Thereafter, the impact political debate and public opinion had on the outcome for policy was assessed. The findings of the chapter were that tax policy in Crown Colony New Zealand, between 1843 and 1845, was not decided on the basis of need nor was it decided on the basis of sound economics. Instead, tax policy was heavily influenced by external (British) direction, and the politics of tax within the colony. Furthermore, it was the internal politics of tax which ultimately determined the final form that tax policy would take in the colony - both during the study period of the thesis and after it.

The final chapter of the thesis (Chapter 9) focused on offering an explanation for how and why Governor Fitzroy undertook major tax reforms in a small and struggling emergent colony, a colony that was clearly opposed to tax reform of any sort. The chapter drew on all parts of the thesis for information, and developed, on that basis, a simple conceptual stage model (the *Fundamental Model*) to explain the method adopted by Fitzroy to promote and implement a critical juncture event in early New Zealand. The end outcome of a critical juncture event is a reallocation of economic resources, and a redistribution of the tax burden. The nature of this outcome is thought to be the measure of its success. Furthermore, a *fundamental* tax reform is one method of ensuring that economic restructuring, once locked in place by reform, becomes difficult to retreat from.

Finally, the model of Chapter 9 was tested against another, more recent, New Zealand tax reform and found it to have fitted that reform also. Thus, the model suggested two policy implications: first, that a critical juncture method of policy change is an approach

to developing tax policy which, while delivering a radically new tax system, may not be conducive to economic growth in the short or medium term. Second, the model also drew attention to the periods between *fundamental* tax changes, and observed that perhaps, there exist a significant number of opportunities between points of disjuncture to develop and implement tax policies that would be something more than just maintenance or incremental change. If that is the case, then such changes would avoid having to confront regular and challenging critical juncture events. They can be part of regular alterations that become necessary, and get introduced routinely.

Fitzroy's approach to policy in the colony, while adhering to the critical-juncture theory and the crisis theory of tax policy development, does appear to be the actions of a competent nineteenth-century administrator. In fact, when observations were contextualised in the developing economy framework of Musgrave (1969), Fitzroy showed up as having applied sound nineteenth-century economic solutions to clearly identified nineteenth century economic problems. Further, Fitzroy almost succeeded in establishing a new economic system, backed by a new system of taxation in Crown Colony New Zealand. This thesis's specific findings on Fitzroy, as governor, addressed two questions, one posed in the preface section of Chapters 8 and the other in the preface section of Chapter 9.

The first question was: were there rules of normative behaviour evident in the tax policy development of the period? Chapter 8 has indicated that there was, and one of those rules was termed the politics of tax. The second question was: Did tax policy during the study period of this thesis, irrespective of all the institutional and economic changes, have a major guiding principle? Chapter 9, building as it does on all the information found in the early chapters of thesis, reinforced the idea that there was a guiding principle at work in Crown Colony New Zealand between 1843 and 1845. It was argued that the guiding attitude rested not on the benefit principle nor on the ability-to-pay principle; it existed rather on a basic premise: that everyone (all societies) want the benefits that an efficient economic organisation can deliver, but nobody opts to pay the taxes needed to fund that desired system of economic organisation. The guiding principle that inspired Fitzroy's policies therefore was incidence-shifting, together with the means to achieve this, which was the normative behaviour associated with the "politics of tax".

In conclusion, in addition to being a pioneering effort, perhaps ranking alongside those of Hooper and Kearins (2003), Facer (2006), and now Goldsmith (2008), this thesis also contributes in many other ways to the New Zealand fiscal history literature. In the six standalone but, not mutually exclusive chapters of this thesis can be found the many other ways. Therefore, the contribution of each individual chapter of the thesis is briefly commented on below.

In Part B of this thesis, Chapter 4 advances our knowledge of the developments during the Crown Colony period, and of successive Administration's financial performance, something not previously attempted. Chapter 5 introduces the foundations of the tax system which arrived in New Zealand during the course of the nineteenth century, a first in a New Zealand tax history study. In Part C of this thesis Chapter 6 uses a new methodology - the transference of ideas and concepts in taxation - to introduce a forgotten tax law which influenced policy-making in every colony in the Empire. Curiously, this event has not previously been discussed. Chapter 7 was an extension of the work covered in Chapter 6, focusing on the *assimilation* of ideas and concepts in taxation into colonial tax policy. The chapter also introduced two little-known events in New Zealand tax history, viz. the two proposed tax laws which had not previously been seriously discussed in the New Zealand literature.

Chapter 8, the first chapter in Part D, helped to round out the discussion with an overview of the politics of tax involved in the process of tax policy development in early Crown Colony New Zealand. This, too, is something that has not been done before in the context of early New Zealand. Finally, Chapter 9 summarised the discussions of all the previous chapters, and then went on to develop an abstract *model* to explain the first *fundamental* tax reform in New Zealand history, and to offer a plausible reason as to why that tax reform was undertaken. In addition, Chapter 9, after drawing on all the work of the thesis, attempted a brief analytical connection to a more recent tax policy initiative. Developing a theory to describe and explain past tax policy changes in New Zealand has not been attempted before in a New Zealand tax history context.

This thesis has proved that the tax policies which have evolved into the income tax of today had their beginnings in the 1840s. The analytical work has also shown that the direct tax polices of 1843 and 1844 are, plausibly, a valid starting point for the

sequential development process which resulted in the income tax of 1891 and, by implication, the income tax of more recent times. This thesis makes a significant contribution to the New Zealand tax history literature, and it is therefore, a contribution to New Zealand's economic history literature.

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