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**Trading Our Way:  
Developments in New Zealand's Trade Policy  
1930s to 1980s**

**A thesis presented in fulfilment of the requirements for the  
Doctor of Philosophy  
in  
History**

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## Abstract

This thesis examines developments in New Zealand trade policy from the 1930s to late 1980s. Over this period New Zealand's trade activities changed from being very narrow in scope and highly controlled, to being greatly diversified and liberalised. This thesis investigates successive New Zealand governments' ideas about how external trade should be developed over that period, and why they instigated substantial changes in the nature of trade policy. The research identifies the dominant ideas, and influences, that shaped those changes.

Because trade has been so central to the New Zealand economy, this thesis holds that ideas about trade development have been intrinsically linked to more general economic, political and social objectives for the country.

This research has been built on an understanding that trade policy over this time had many dimensions that were located in both the domestic and foreign policy realms. In domestic terms, trade policy was focused on achieving economic and industrial development objectives. From these perspectives, trade policy was developed in ways that sought to ensure security and opportunity for the domestic economy and for New Zealand society. The substantial changes from regulated trade to liberal trading within the domestic context can be viewed in relation to the story of import licensing's existence. The growth of diversity of goods traded can be viewed in terms of the changes in domestic production priorities.

In the realm of foreign policy, diplomatic pursuits focused on pursuing New Zealand's national interest through trade development. Trade policy was focused on achieving access for markets through political means, and advancing New Zealand's interests in the economic and political international arenas. From this perspective, trade policy informed diplomatic strategies that sought to enhance New Zealand's 'place in the world'.

The research highlights the challenges for New Zealand of pursuing external trade to meet its own objectives while operating within economic and political contexts over which it had little influence. Most ideas and policy decisions made over the period can be viewed as stemming from some form of external influence. Trade policy tended to develop in response to external changes rather than through independent initiative.



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## Abbreviations

AJHR	Appendices to the Journals of the House of Representatives
ANZUS	Australia New Zealand United States Security Treaty
APEC	Asia Pacific Economic Co-operation
ASEAN	Association of South East Asian Nations
ATL	Alexander Turnbull Library
CER	Closer Economic Relations/ Australia New Zealand Closer Economic Relations Agreement
ECOSOC	Economic and Social Council (United Nations)
EDC	Export Development Conference
EEC	European Economic Community/European Community
EFTA	European Free Trade Area
FTA	Free Trade Agreement
GATT	General Agreement on Tariffs and Trade
IDC	Industries Development Commission
IMF	International Monetary Fund
ITC	International Trade Commission (USA)
ITO	International Trade Organisation
MEC	New Zealand Monetary and Economic Council
MERP	Manufacturers' Export Research Programme
MP	Member of Parliament
NA	National Archives
NAFTA	New Zealand Australia Free Trade Agreement
NDC	National Development Conference
NZIER	New Zealand Institute for Economic Research
NZIIA	New Zealand Institute of International Affairs
NZIPA	New Zealand Institute of Public Administration
NZMF	New Zealand Manufacturers' Federation
NZMPB	New Zealand Meat Producers' Board
NZOYB	New Zealand Official Yearbook
NZPD	New Zealand Parliamentary Debates
OECD	Organisation for Economic Co-operation and Development
RTAA	Reciprocal Trade Agreements Act (USA)
SEATO	South East Asian Treaty Organisation
SMP	Supplementary Minimum Prices
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
US, USA	United States of America
WEA	Workers' Educational Association
WTO	World Trade Organisation



## Introduction

The current global economic environment is characterised by great uncertainty. New Zealand's National-led government has noted that the global financial crisis presents significant challenges for development strategies in a wide range of areas, including external trade,<sup>1</sup> community investment<sup>2</sup> and health.<sup>3</sup> Prime Minister John Key has made a point of the historical significance of the current situation, stating that 'not since the Great Depression has the world experienced such a significant financial crisis'.<sup>4</sup> Indeed, to read an analysis of the 1929 stock market crash one might be forgiven for mistaking this for a reference to recent events. In 1972 Anthony Figge explained it in these terms:

Gifted with hindsight, we can now say that the whole crash was inevitable. Society can build so much credit superstructure on a given foundation and then it will topple. If the foundations are shaky or are not expanded to cope with the superstructure, then similar crashes could occur again under the same circumstances.<sup>5</sup>

That a similar context currently exists for New Zealand's trade policy as at the start of this thesis' period is providential. A reading of the historical context provides a basis for understanding the current policy setting. It also presents an opportunity for these and future trade policy options and responses to be understood.

The government has made statements which highlight the importance of New Zealand's external trade to surviving the current economic crisis. In November 2008 Key stated that a critical factor for getting New Zealand out of the downturn was 'our ability to trade our way out of it'. He also summed up his view of New Zealand's place in the current international economic environment; '(W)e're a small cog in the global

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<sup>1</sup> Tim Groser, 'Cancelled WTO Ministerial Meeting Disappoints Minister', Beehive release, 15 December 2008, retrieved 07 January 2009 from:

<http://www.beehive.govt.nz/release/cancelled+wto+ministerial+meeting+disappoints+minister>

<sup>2</sup> Tariana Turia, 'Tariana Turia Sees Early Impacts of Global Capital Crisis', Beehive release, 27 November 2008, Retrieved 07 January 2009, from:

<http://www.beehive.govt.nz/release/tariana+turia+sees+early+impacts+global+capital+crisis>

<sup>3</sup> Tony Ryall, 'Speech Notes From Address to DHB Chairs in Wellington', Beehive release, 8 December 2008, Retrieved 07 January 2009 from:

<http://www.beehive.govt.nz/speech/speech+notes+address+dhb+chairs+wellington>

<sup>4</sup> John Key, 'Address to the CEO Summit, APEC Business Advisory Council (ABAC)', Beehive release, 22 November 2008, Retrieved 07 January 2009 from:

<http://www.beehive.govt.nz/speech/address+ceo+summit+apec+business+advisory+council+abac>

<sup>5</sup> A.H.Figge, *Introduction to Economic Policies in New Zealand*, 2<sup>nd</sup> edition, Wellington: Butterworths, 1972, p.2.

economy and we know that the only way we can lift our living standards is by growing our role in global markets.<sup>6</sup> Similar sentiments have regularly been expressed through the course of New Zealand's trade history and have under laid strategies for pursuing trade development.

The notion of 'trading New Zealand's way', especially through difficult economic times, reflects the common understanding that the New Zealand economy has been built on external trade. Even before formal colonisation, inhabitants traded goods found and produced in New Zealand for items from overseas producers and merchants. This continued with the development of a permanent settler population and broadening productive base. The more exporting that could be done, the more new goods could be acquired. The import of new things equated with the idea of progress for New Zealand's economy and society. As well, export revenue became integral for funding both development objectives. Economic and social development has accordingly been intrinsically linked to the success of New Zealand's trade activities. Because of this, external trade has not only been economically important for New Zealand, but also politically important.

New Zealand's external trade has been mediated by government policies because trade between countries is inevitably political. The international marketplace exists as both an economic and political entity, and market access is often determined more by the latter than the former. The political strategies a country develops to pursue trade tend to be understood according to that country's position in the international system, which is both economically and politically hierarchical in nature. How trade objectives can be sought and achieved internationally is intrinsically linked to the power of the state to represent and assert itself in that environment. New Zealand's power in this context has tended to be limited. Its smallness, geographical isolation and limited range of natural resources with which to develop production, as well as the influence of its colonial history, have accordingly shaped views of its options in terms of developing the economy and securing trade opportunities.

This thesis focuses on the political importance of trade to New Zealand and the way that policies and government activities have were developed over the periodto

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<sup>6</sup> Key, 'Address to the CEO Summit, APEC Business Advisory Council (ABAC)'.

achieve national interests through trade. Trade policy is defined here as the actions and decisions of government in respect to external trade, the focus in the main is on visible trade, because this was the main way in which trade policy was framed over the period. Those factors which contribute to invisible trade such as overseas investment and monetary policy are explored here principally in relation to their impact on visible trade, but it is acknowledged that they were an important part of the policy mechanisms, especially from the 1980s.

The main objective in this thesis has been to identify and explain those actions and decisions which have been focused towards developing New Zealand's trade to meet economic and social objectives. The guiding questions have included identifying what the dominant ideas were behind those actions and decisions; who the key actors were who influenced them; and how different actions and decisions contributed to what was an almost complete turnaround in trade policy approaches and trade activity by the end of the period under study.

#### **THESIS TIME FRAME**

The time frame for this thesis extends from the 1930s to the late 1980s. Over this period substantial change occurred in the nature of New Zealand's external trade and in its trade policies. Seventy years ago, New Zealand's trade interests were largely one-dimensional, and were based on a long-standing relationship with, and dependency on, Britain. Most of New Zealand's exports, which were mainly agricultural products, were directed to the British market, and Britain's industries in turn were the major sources of New Zealand's consumer and capital goods. This earned New Zealand the title of Britain's 'farm in the South Pacific', and there was an implicit – and often explicit – expectation that this relationship would continue to be the basis of New Zealand's economic security for some time.

By the 1980s, however, New Zealand's trade interests were dispersed world-wide, and a significantly wider range of products were exported from, and imported into, New Zealand. The objective of diversification, which had been a central focus of trade policy for some decades, appeared to have been achieved. The New Zealand economy was characterised as having significantly 'evolved'. James Belich for example described the export economy as transforming from a 'one-legged animal' in

the 1960s to a 'four-legged beast' by the end of the century.<sup>7</sup> Some of these changes had been expected, others less so. Most were in some way or other affected by the actions of the New Zealand government's trade policy activities over that time. This research seeks to explain the contexts and processes which influenced these changes.

The period under study is a distinctive one in New Zealand's trade history not only because of the substantial change that occurred in New Zealand's trade patterns, but also because for most that time there was a high level of governmental intervention in the economy. Gary Hawke called the late 1930s to the late 1960s the period of the 'controlled economy', where notions of insulation and protectionism were given importance in meeting economic objectives. This, in his view, symbolised the willingness of the New Zealand government to 'accept broader economic responsibilities' and the predominance of the idea that 'the course of the New Zealand economy should be determined less by events overseas' and more by the choice of domestic actors.<sup>8</sup> How the government viewed its responsibilities and how it sought to carry them out in relation to trade is a key consideration in this thesis.

It is no coincidence that this period coincides with what might be considered the 'heyday'- and decline - of New Zealand's welfare state. The establishment of the rigorous trade structures through import and exchange control in 1938 were part of strategies to provide for the welfare state which the Labour Government had accelerated since 1935. The trade policies that were developed over the following decades were fundamentally based on the welfare state's objectives. This was particularly so in relation to 'full employment' policies which were considered the means to a better standard of living for all New Zealanders through the optimal use of labour and material resources.<sup>9</sup> Part of understanding the changes in thinking towards trade policy is in engaging with the story of full employment policies, the ideological interpretations of economy and welfare which informed government decisions, and how attitudes towards these changed over the period under study.

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<sup>7</sup> James Belich, *Paradise Reforged: A History of the New Zealanders from the 1880s to the Year 2000*, Auckland: Allen Lane, 2001, p.448.

<sup>8</sup> Gary Hawke, *The Making of New Zealand: An Economic History*, Cambridge: Cambridge University Press, 1985, p.163.

<sup>9</sup> Walter Nash, 'Financial Statement', *AJHR*, B.6, 1945, p.12.

Moreover, the 1930s to 1980s were also decades over which trade became an increasingly important component of foreign policy. In their establishment, import and exchange controls were initially concerned with protecting the domestic economy, but it was not long before they also impinged on – and became intertwined with – foreign policy objectives. As trade objectives increasingly oriented towards diversification, this also meant that diplomatic activities formed a more important part of trade policy. By the 1980s, then, trade was so interconnected with external or foreign affairs work that it was absorbed into its administrative structures. This demonstrated a very different understanding from that in the 1930s of what trade policy was and how it should be administered.

### **PUTTING CURRENT TRADE POLICY IN HISTORICAL CONTEXT**

New Zealand trade policy today tends to work mainly through external diplomacy and negotiation, and generally with bipartisan political support. The objectives guiding these negotiations are compatible with historical activities, and focus on New Zealand pursuing as much market access for its export products as possible. Today's National-led government, for example, has indicated that changes should be made to New Zealand's domestic economic strategies in the current global climate, but also that it will seek to carry on – if not accelerate – a similar focus to the previous administration in the international trade negotiation environment. Bilateral free trade agreements continue to be supported, especially in relation to the new China-New Zealand Free Trade Agreement (FTA), and in the negotiations toward one with Korea. The recently signed regional FTA with Australia and ASEAN is another example of attempts to liberalise international trading conditions as much as possible.<sup>10</sup> Support for a continuation of New Zealand's approach in World Trade Organisation (WTO) negotiations was apparent in National's retention of Crawford Falconer as a New Zealand representative to the negotiations, at the end of his negotiating term in December 2008.<sup>11</sup> Widespread support for this facet of trade policy has more often

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<sup>10</sup> Tim Groser, 'New Zealand Signs 12-Country Regional Free Trade Agreement', Beehive press release, 27 February 2009, retrieved 28 February 2009 from:

<http://www.beehive.govt.nz/release/new+zealand+signs+12-country+regional+free+trade+agreement>

<sup>11</sup> Falconer had been appointed to that position by the Labour Coalition Government. Tim Groser, 'Extension to Term of NZ Chair of WTO Agriculture Talks', Beehive press release, 16 December, 2008, retrieved 07 January 2009 from:

than not been the case over the post-World War Two period, and since New Zealand dismantled most of its trade barriers in the mid-1980s, this has been even more the case.

The bipartisan acceptance of these strategies today tends to lead to assumptions that this has always been so. In 2006 British academic Christopher Dent concluded that New Zealand had taken a 'society-centric' approach to foreign economic policy making, especially in taking societal interests into account in the development of free trade agreements. He further noted that all 'business' groups – including farmers – were supportive of advancing trade liberalisation.<sup>12</sup> This analysis perpetuates the impression that widespread support for New Zealand's trade policy has long historical roots, but this research will show that that support evident now was not always apparent, and rather can be attributed to a change in the structure of the economy and trade policy that is the result of a historical process.

Views like Dent's fail to acknowledge the important role that import and industrial development considerations played in the past in New Zealand trade policy. Throughout the period that this thesis examines a number of mechanisms geared to protect New Zealand industry were in place, which meant that trade policy was at times highly contentious. There were differing opinions amongst economic actors as to how much trade should be regulated, and those that viewed it in their interests to do so would argue for the continuation of trade control. This also ran through to party politics. For most of the period under review, the Labour and National parties tended towards opposite sides in debates over import control. Labour held to the view that controls were necessary to protect domestic industries. National, on the other hand, argued for liberalisation of those controls, if not their total removal. From the 1940s to 1970s these different perspectives were clear in New Zealand party politics. With liberalisation from the late 1970s, however – and ironically, pushed to near completion by the party traditionally most committed to trade controls – the divisions in thinking became blurred.

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<http://www.beehive.govt.nz/release/extension+term+nz+chair+wto+agriculture+talks>

<sup>12</sup> Christopher M. Dent, *New Free Trade Agreements in the Asia-Pacific*, New York: Palgrave MacMillan, 2006, p.92.

Now that New Zealand has an almost completely liberalised economy, businesses and industries have little choice but to engage with international trade liberalisation, explaining views like those of Dent. Unlike in earlier decades, there is little chance of developing a significant New Zealand business or industry without engaging and trading internationally. Import competition is also accepted – if grudgingly – as part of the ‘natural course of events’. How these structures came to exist is part of the longer history of New Zealand’s trade policy examined in this thesis.

### **THE FACTORS CONTRIBUTING TO NEW ZEALAND’S TRADE POLICY**

Those historical differences of opinion on how much New Zealand industry should be exposed to international competition are tied up with contests between domestic and foreign policy priorities. They also highlight the variations in understanding of what trade policy actually is. This research has been built on an understanding that trade policy has a broad reach, a wide range of actors influencing it, and both domestic and foreign policy dimensions to its formation and operation.

Highlighting the domestic ‘side’ of trade policy process fits with approaches of scholars like Joan Spero and Jeffrey Hart, who argue that trade policy is positioned mainly within the domestic context.<sup>13</sup> Viewed in this light trade policy is oriented mainly towards domestic economic development objectives, including industrial and agricultural policy and social welfare, and the political importance placed on these factors in framing national wellbeing. The actors involved in the domestic context include officials such as government ministers and public servants from a range of bureaucracies, and private interest groups such as business leaders, industry sector representatives, unions, producer groups, and analysts. These actors’ ideas about trade are built on notions of production and resource use, on how best to pursue exports, and on opinions of how vital protectionism or liberalisation is to meeting their objectives.

As a means to bring external funds into the domestic economy, export trade tends to be treated in domestic policy in relation to its ability to optimise both agricultural and

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<sup>13</sup> Joan E. Spero and Jeffrey A. Hart, *The Politics of International Economic Relations*, 6<sup>th</sup> edition, Belmont: Thompson Wadsworth, 2003, p.66. Nixon and Yeabsley also support this idea; Chris Nixon and John Yeabsley, *New Zealand’s Trade Policy Odyssey: Ottawa, via Marrakech and On*, Wellington: New Zealand Institute for Economic Research, 2002, p.v.

industrial production. In the New Zealand context exporting was traditionally based on agricultural production and providing revenue by which imported materials, equipment and consumer goods could be acquired. As export development and diversification policies evolved, however, significant shifts took place in perceptions of what the best avenues for pursuing export revenue were. Changes in priority regarding production quantity, quality, and variety emerged. Those changing ideas have often reflected lessons learnt from observing and engaging with international trends. They have also been influenced by what is seen as possible in relation to economic and political developments in the international marketplace.

Import policies have reflected the priorities of domestic production and development, and have historically also been the most politically contentious aspect of trade policy. Imported goods are viewed as providing competition for domestic producers on the one hand, and resources unable to be obtained within New Zealand for consumption and capital development on the other. The freedom and ability to import has accordingly been linked to perceptions of standards of living and the ability to progress technologically. Imports are also, however, viewed as a drain on the national purse. The range of consequences that can be achieved from import policy changes have ensured that a variety of actors have sought to influence them. Policy development has been tied to debates about how 'open' New Zealand's economy should be to external influence and competition, and ultimately the ideological interpretations of what the best avenues are for national development.

The historical politics of international market access have ensured that trade policy has been framed within the domain of foreign policy as well. Foreign policy, as noted by Christopher Hill, is broadly interpreted as all of the official external relations of a state.<sup>14</sup> Trade policy has featured prominently as part of New Zealand's external relations because official activity by New Zealand politicians, bureaucrats and industry officials alike have often involved trade considerations, particularly in dealing with issues of market access. This has necessitated engaging bilaterally and within the multilateral sphere.

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<sup>14</sup> Christopher Hill, *The Changing Politics of Foreign Policy*, Hampshire: Palgrave MacMillan, 2003, p.3.

The actors involved in New Zealand's trade policy over time have been varied and positioned both within and outside of the domestic context. Within New Zealand political leaders have had an important influence through their activities representing New Zealand to other countries and in international forums. Their activities in this regard have provided links between domestic politics and international relations, especially as their decisions were influenced by constituency sentiment. The bureaucracy has also substantially contributed to the trade policy process through the work of diplomatic representatives and the communications built between government departments and ministries. The links between these have been stronger at some points in history than at others. Diplomatic representation regarding trade, for example, for some time operated under two different government ministries. The Trade Commissioner Service operated from the late nineteenth century through the Department of Industries and Commerce.<sup>15</sup> The development of the External Affairs Department and the broadening of its scope of work over time also produced representatives who dealt with trade as well as other political considerations. The overlap of this work at times complicated the strategic development of trade policy.

A number of external influences have impinged on New Zealand's trade policy process. New Zealand diplomatic representatives and political leaders have interacted with other governments, international organisations and international interest groups who have both influenced policy ideas through simple interaction and also by political pressure that has been exerted to meet their own agendas. The British Government is one example of this. The traditional relationship between New Zealand and Britain was built on the idea of New Zealand developing its agricultural production to meet British market needs, and for New Zealand to import British industrial products. Britain took a close interest in New Zealand import control and industrial development policies to ensure that they would not impact on their traditional trade activity. When they did, political reaction followed. New Zealand representatives accordingly responded to those reactions in ways that sought to balance bilateral goodwill with domestic priorities. Another example of trade informing New Zealand's foreign policy work is the General Agreement on Tariffs and Trade (GATT)

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<sup>15</sup> New Zealand Trade and Enterprise (eds.), *Agents Abroad: The Story of the New Zealand Trade Commissioner Service*, North Shore: Penguin Books, 2009, p.21.

organisation, in which the conglomerate of governments sought to align national trade policies towards the goal of freeing international trade. New Zealand's participation in these forums was contingent on conforming to GATT objectives; something which for a long time challenged its domestic priorities. These are both examples of where New Zealand has been challenged to balance its sovereign right to determine policies over its need to interact and trade internationally.

Much of the story in this thesis is built around how New Zealand leaders sought to achieve what was considered the 'national interest' while balancing international obligations and needs. An enduring theme in the external aspects of New Zealand's trade policy has been a continued policy of active participation (as much as resources would allow) in international economic forums. Long-term bipartisan support for this symbolises the general acceptance within New Zealand of its need to engage internationally to achieve domestic objectives. The most obvious of these is the need to gain market access and to optimise export income, as much as possible, in order to achieve economic security. More generally, there is an understanding that strategies to pursue the national interest will best be developed by keeping track of any minor changes in the dynamics of the international economic and political environment.

Although it is useful from an analytical perspective to separate trade policy into domestic and foreign policy contexts, this research is built on the understanding that foreign and domestic policy are very much intertwined. By considering both domestic and foreign policy together, the 'intricate connections' between the internal and external dynamics of society need to be examined.<sup>16</sup> Hill takes this further by stating that 'foreign policy can never be abstracted from the domestic context out of which it springs.'<sup>17</sup> His ideas support Robert Putnam's characterisation of foreign policy as a 'two-level game' in which domestic politics and international relations are 'often somehow entangled.'<sup>18</sup> One level tells the domestic political story about how state

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<sup>16</sup> James N. Rosenau, *Along the Domestic-Foreign Frontier: Exporting Governance in a Turbulent World*, New York: Cambridge University Press, 1997, p.xiii.

<sup>17</sup> Hill, *The Changing Politics of Foreign Policy*, p.37.

<sup>18</sup> Robert D. Putnam, 'Diplomacy and Domestic Politics: the Logic of Two-Level Games', *International Organization*, Vol.42, No.3, Summer 1988, p.427.

interests are defined, while the other presents an international story about how states seek to secure their national interests.<sup>19</sup>

The close interconnections between domestic and foreign policy considerations can be easily translated into trade policy. Albert Hirschman has highlighted the tensions that can be created between the welfare and power objectives of states in formulating trade policy.<sup>20</sup> The findings of this research have proved this to be valid, because most of the tensions between New Zealand's domestic priorities and its external objectives can be framed in the same way. The government's challenge for much of the period was to provide New Zealanders with the best standard of living possible through full employment and economic development, while defending its methods of doing so to external interests at the same time as seeking to expand its diplomatic activities. These are reflective of the tensions between foreign and domestic policy in a more general sense, especially as the world has become more economically interdependent over the past half century.

The broad approach taken in this research to understanding trade policy has necessitated that a wide range of actors be observed. This is in line with Robert Baldwin's argument that the role that institutions, ideologies, and economic structures play in combination with domestic and foreign policy contexts are all important to understanding trade policy development.<sup>21</sup> In observing the key actors in trade policy, it is also important to understand the changes in dynamics that occur between actors and institutions. In New Zealand these were caused by changes in government, responsible ministers, government department leaders and strategies, and the bureaucratic structures within which policy was developed. The latter were especially important for their role in enabling inter-departmental cooperation and policy building as well as flows of information between political representatives.

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<sup>19</sup> Putnam, 'Diplomacy and Domestic Politics'; John H. Barton et.al., *The Evolution of the Trade Regime: Politics, Law and Economics of the GATT and the WTO*, Princeton: Princeton University Press, 2006, p.14.

<sup>20</sup> Albert O.Hirschman, *National Power and the Structure of Foreign Trade*, Berkeley: University of California Press, 1945, pp.3-12.

<sup>21</sup> Robert E. Baldwin, 'The Political Economy of Trade Policy: Integrating the Perspectives of Economists and Political Scientists', in Robert C. Feenstra et.al. (eds.), *The Political Economy of Trade Policy: Papers in Honour of Jagdish Bhagwati*, Cambridge: MIT Press, 1996, p.155.

This is especially important because trade policy today is dealt with within a very different administrative structure to the past. New Zealand's trade policies are formulated and administered through the Ministry of Foreign Affairs and Trade, and the strong links between foreign policy and trade are acknowledged in the way the Ministry's work is structured. This demonstrates an understanding that the domestic interests in trading and those of New Zealand's external relations go hand in hand. This was not, however, always the case. Import and industrial development policies were traditionally administered by the Customs and Trade and Industry (formerly Industries and Commerce) departments. Treasury and the Reserve Bank also played important roles in providing advice and developing strategies for economic and trade development. The Ministry of External Affairs (later called Foreign Affairs) also led the diplomatic side of New Zealand's foreign affairs, but trade diplomacy was also dealt with through the Trade Commissioner Service attached to Trade and Industry.

As well as these bureaucracies, elected political leaders also often influenced trade policy according to the importance (or not) that they placed on their own international work. Further, all of these actors also conducted their business in relation to a range of links with the public and private sector. For a long part of the period under investigation, then, a number of very different - and fragmented - channels operated and exerted influence over ideas about trade and its activities. This thesis explores how trade policy developed over time under this range of influences. Understanding who had most say and when, can often be explained by the structures that were put in place for consultation and decision making. To examine these, a wide range of sources has been accessed.

## **SOURCES**

The research has been shaped around an extensive exploration of New Zealand's government records and official reports. It has involved viewing government statements, correspondence and activities on general aspects of the economy and foreign policy and on trade-specific issues in order to understand how these have fitted together over the period and where the balance of influence over decisions made has been held.

Reading these sources has involved a close analysis of the language that has been used by officials and politicians to explain their views of economic and political priorities in relation to how and what New Zealand should trade, what it should produce, and where it should trade. Government annual reports, speeches in the New Zealand Parliamentary Debates (NZPD), and government publications such as the Foreign Affairs' bulletins have been the main sources of these.<sup>22</sup> Such official reports have also been important in tracking changes in how political leaders have perceived New Zealand's 'place in the world' as well as the state of the external context, in order to understand how they have shaped their policy priorities. Government archives have also provided important explanations of the context behind those publicly-stated ideas, because often they show how the official decisions have been shaped by a series of behind-the-scenes negotiations between official, international and private actors.

It has also been important to analyse how ideas about trade and industrial activities have manifested according to the different departments. The role that Trade and Industry (and Industries and Commerce) considered they were playing in developing New Zealand's trade was apparently different to that of Foreign Affairs (and External Affairs) at certain points. Treasury also often held views about how New Zealand should approach certain scenarios that would often subtly (or not so subtly) contrast with those of the other government departments. Their role in advising Cabinet often gave them the power to influence how political strategies were formed. Treasury archives have therefore been very important in understanding their role, which was not as publicly visible as Foreign Affairs and Trade and Industry.

The research has also been built on the understanding that policy development is never necessarily a straightforward process. In 1985 Gary Hawke asserted that it is 'easy to overrate the coherence of government policy':

The effect of government actions is not always what was intended and policy encompasses both intentions and actions. The participants in any collective decision making may have quite different understandings of either the motivation or likely result of some action, but if they agree on its desirability they may never know, let alone

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<sup>22</sup> Having varied in title over time; including *External Affairs Review*; *Foreign Affairs Review*; *New Zealand Foreign Affairs and Trade Record*.

resolve, the differences among themselves. Furthermore, a government faces a sequence of problems requiring a response, and it is often much easier to find a relationship between events with the advantage of hindsight than was apparent to the decision makers at the time.<sup>23</sup>

Hawke answers here one of the key questions of how trade policy has developed over time; to put it simply, it's not easy. Government policy was not always coherent nor always followed what might have been an expected path. Identifying why at times decisions stalled when they looked to be fully committed to beforehand, has been part of the process of this research. Part of understanding policy, then, as Claudia Scott has highlighted, is considering the inactions of government – what government chose not to do, or felt itself unable to do – as well as what it did.<sup>24</sup>

Why governments chose to act, or not to act, and the speed at which they chose to, often correlates with the influences being exerted on them from outside official circles. This research has also explored the writing of key non-governmental actors who have engaged with government to understand any influences they have had over policy decisions. The publications of 'think-tanks' like the Monetary and Economic Council (MEC) and New Zealand Institute of Economic Research (NZIER) have been useful in highlighting what 'advice' was given to governments in relation to trade policies. So too have published serials and newsletters like those of the New Zealand Manufacturers' Federation (NZMF) and Chambers of Commerce, who have voiced their own interests and concerns and recorded their interactions with government in relation to policy development.

These sources have shown that interest groups were able to influence government trade policy decisions by varying degrees over the period. While interest group participation was clearly sought in developing economic development strategies over the 1960s, by the mid 1980s this was not so clearly welcome. In 1971 Les Cleveland concluded that government efforts to gain consensus for their actions often required them to resolve a range of conflicts, which did not necessarily occur in any logical,

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<sup>23</sup> Hawke, *The Making of New Zealand*, p.147.

<sup>24</sup> Claudia Scott, 'The Nature of Public Policy', in Raymond Miller (ed.), *New Zealand Politics in Transition*, Auckland: Oxford University Press, 1997, p.247.

coherent order, but they were essential.<sup>25</sup> By the mid-1980s Richard Mulgan identified a less open attitude to lobbying that could be viewed as representing a 'market liberal' model of political engagement. From this perspective, any interest group activity is viewed as interference with market operations and a seeking of unfair privilege.<sup>26</sup> While Mulgan was merely defining an approach, Roger Douglas was more subjective. In 1991 he described interest groups as seeking to 'capture and use the coercive power of the state to seize economic gains' from which the benefits are 'reallocated as a privilege for the unearned enjoyment of favoured groups, who are thereby enabled to evade any necessity to achieve the normal level of efficiency and performance demanded by the discipline of commercial markets'.<sup>27</sup> These commentaries have complemented the findings of this research in relation to roles non-governmental actors have had in trade policy decisions.

Books and articles written by analysts and commentators over the period of this thesis have also provided important primary evidence of key issues being debated at different times. The frequency of such publications gives an indication of how much analysis from outside of government departments was being relied on in developing trade policy. This also supports the idea that professionals – especially economists – became increasingly involved in trade policy over the period, both from private institutions and in the public service.

Biographical accounts of politicians and officials have also provided an important dimension to this research. While taking into consideration the potential subjectivity of memory, the recollections of the authors have often contributed a richness and depth to the research by explaining their personal political priorities, or even obsessions, in their work, highlighting the role individual personalities played in influencing the policy environment, and how relationships between individuals and groups contributed to the dynamics of political exchanges. The wealth of such

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<sup>25</sup> Les Cleveland, *The Anatomy of Influence: Pressure Groups and Politics in New Zealand*, Wellington: Hicks Smith and Sons, 1971, p.1.

<sup>26</sup> Richard Mulgan, *Politics in New Zealand*, 2<sup>nd</sup> edition, Auckland: Auckland University Press, 1997, p.212.

<sup>27</sup> Roger Douglas quoted in Ernie Newman, 'Lobbying: Noble Pursuit of National Interest or Self-Seeking Snivelling?' *The Examiner*, 27 March 1991, p.17.

accounts on former government leaders through almost every government has helped this process.

Various aspects of trade diplomacy have also been covered through the recollections of former diplomats and foreign affairs officials. The two publications marking the fifty year anniversary of the Ministry of Foreign Affairs and Trade are useful sources in this respect.<sup>28</sup> The recently published history of the New Zealand Trade Commissioner Service and Ted Woodfield's account of the activities of the service have helped bring the contribution of that work in New Zealand's trade policy history more to the fore.<sup>29</sup> Government department histories such as those of the Reserve Bank and Treasury have been helpful in creating this contextual understanding.<sup>30</sup>

### **NEW ZEALAND TRADE POLICY IN CURRENT WRITING**

By engaging with this range of sources and analysing the contributions of various actors and institutions, this research contributes to the wider body of knowledge on New Zealand's trade policy by emphasising the links between a range of economic, political and social factors in the policy development process. Trade's importance to New Zealand has ensured that trade policy history is reflected in New Zealand's economic, political and social history. This thesis seeks to show how trade policy considerations have been quite central to New Zealand's broader historical developments.

A longer term approach to understanding New Zealand's trade policy process and trends has been relatively scarce in previous literature. Chris Nixon and John Yeabsley's monograph *New Zealand's Trade Policy Odyssey* is the most comprehensive approach towards understanding New Zealand's trade policy history. Their research explores New Zealand's trade policy experience through a series of

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<sup>28</sup> Malcolm Templeton (ed.), *An Eye, An Ear and A Voice: 50 Years in New Zealand's External Relations 1943-1993*, Wellington: Ministry of Foreign Affairs and Trade, 1993; Ann Trotter (ed.), *Fifty Years of New Zealand Foreign Policy Making*, Dunedin: University of Otago Press, 1993.

<sup>29</sup> New Zealand Trade and Enterprise, *Agents Abroad*; Ted Woodfield, *Against the Odds: Negotiating for New Zealand's Future*, Wellington: Dunmore Publishing, 2008.

<sup>30</sup> Malcolm McKinnon, *Treasury: The New Zealand Treasury 1840-2000*, Auckland: Auckland University Press, 2003; Gary Hawke, *Between Government and Banks: A History of the Reserve Bank of New Zealand*, Wellington: Government Printer, 1973; John Singleton (with Arthur Grimes, Gary Hawke and Frank Holmes), *Innovation and Independence: The Reserve Bank of New Zealand 1973-2002*, Auckland: Auckland University Press, 2006.

case studies of what they considered the major trade policy events. These were the Ottawa Agreement, Britain's entry into the EEC, NAFTA and the development of CER, GATT/WTO and the Cairns Group, and APEC. Within these studies they considered the role of domestic consensus, the power dynamics in the negotiating context, and the outcomes of the agreements for New Zealand's trade.<sup>31</sup> The research in this thesis seeks to build on such understanding by considering in more depth the role that domestic actors and actions played in shaping those external encounters. It also seeks to explain the path of trade policy in a way that shows the connections between those different episodes and longer-running domestic and international trends.

Anthony Rayner and Ralph Lattimore have also turned a longer-term lens on New Zealand's trade policy history when they explored changes in import policies as their contribution to a World Bank study into countries' liberalisation processes. They identified 'episodes' and 'sub-phases' of liberalisation in New Zealand's post-war history, with the first occurring through the early 1950s.<sup>32</sup> The phases they identify are valid, but the focus on liberalisation narrows the scope of their analysis, as the wider process of interaction between domestic and international actors and the notions of development that informed the decisions about protectionism over that time tend to be set aside. This thesis takes the broader approach required to deepen that analysis.

Most other writing focusing specifically on New Zealand's trade policy tends to concentrate on the substantial economic reforms of the 1980s and particularly on liberalisation, the dismantling of New Zealand's protective trade structures, and the consequences of those changes. Ralph Lattimore and Paul Wooding, for example, considered the effects New Zealand's trade liberalisation had on its trade performance from before to after the reforms, and concluded that while the overall nature of trade had not substantially changed, the impact on industries and their ability to compete internationally had varied.<sup>33</sup> Jane Kelsey also examined the effects of the reforms on New Zealand's trade performance, questioning the efficacy of

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<sup>31</sup> Nixon and Yeabsley, *New Zealand's Trade Policy Odyssey*.

<sup>32</sup> Anthony C. Rayner and Ralph Lattimore, 'New Zealand', in Demetris Papageorgiou, Michael Michaely, and Armeane M. Choksi (eds.), *Liberalizing Foreign Trade*, Vol.6., New York: Blackwell, 1991.

<sup>33</sup> Ralph Lattimore and Paul Wooding, 'International Trade' in Brian Silverstone et.al.(eds.), *A Study of Economic Reform: The Case of New Zealand*, Amsterdam: Elsevier Science B.V., 1996.

libertarian policies and criticising the single-mindedness of the reform process.<sup>34</sup> She concluded that New Zealand's export growth post-1984 had been 'dismal', so essentially failing in the goals of achieving international competitiveness.<sup>35</sup> This thesis is focused on trade performance only where it is seen to have influenced strategy development and decision-making. The consequences of trade policy decisions have been found to have been mediated mostly by conditions thrown up by the external context over which New Zealand often had no control.

Most other secondary writing on New Zealand's historical trade policy development tends to be included in wide-ranging surveys of New Zealand's economic or foreign policy history. The writing has tended to develop parallel rather than converging histories. Economic histories, for example, have focused mainly on the workings of the economy and domestic policy development with only minor acknowledgement of how interactions with the external context have shaped their formation. The main focus in explaining external influences has been in the fluctuations of international commodity prices.

This approach has been followed in some of the major economic histories of New Zealand. John Condliffe, for example, in *New Zealand in the Making* mapped the relationship between swings in international commodity prices and the patterns of New Zealand's economic development.<sup>36</sup> He matched periods of slow economic development with those of low price levels and the more prosperous ones with periods of high price levels world-wide. Hawke followed this up in *The Making of New Zealand* in 1985 where he argued that the impact of the external context on the New Zealand economy had mainly manifested through the effects of international price changes on export returns and terms of trade.<sup>37</sup> In *In Stormy Seas* Brian Easton also presented commodity price changes as the key means by which the external context had impacted on the workings of the New Zealand economy in the post-World War

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<sup>34</sup> Jane Kelsey, *The New Zealand Experiment: A World Model for Structural Adjustment?* Auckland: Auckland University Press and Bridget Williams, 1995, pp.2-5.

<sup>35</sup> Jane Kelsey, *At the Crossroads: Three Essays*, Wellington: Bridget Williams Books, 2002, p.39.

<sup>36</sup> John Condliffe, *New Zealand in the Making*, 2<sup>nd</sup> edition, London: Allen and Unwin, 1959, p.55.

<sup>37</sup> Hawke mentions external influences throughout his book, but concentrates most on the international context in chapter 11; Hawke, *The Making of New Zealand*, ch.11.

Two period.<sup>38</sup> This research acknowledges these approaches as valid, but argues that international prices and other market variations contribute just one dimension to trade policy developments. To gain a full understanding of the policy process these factors need to be taken into consideration alongside political developments as well.<sup>39</sup>

John Gould's work in *The Rake's Progress* is more in line with the approach of this thesis.<sup>40</sup> He focused on the development of economic policy through exploring both domestic and external influences on it. His broad consideration of the entire economy establishes a basis of understanding which this thesis builds on by examining the role trade policy has played in phases of New Zealand's economic development.

Writing considering the path of New Zealand's industrial development has helped to shape a better understanding of the role domestic developments have played in trade policies, especially in relation to importing. Steven Jones' examination of the relationship between government policy and industry structures in New Zealand from 1900 to 1970 is useful in this regard. He argues that 'the scale and nature of manufacturing industry constituted a major intellectual battleground' in post-war New Zealand, especially in relation to desirable levels of protection for industry. Jones concludes that this contributed to a failure of industry to successfully develop by the 1960s.<sup>41</sup> Jones' assessment of the lack of success in developing competitive industries in New Zealand under protectionist policies is common. John Singleton, for example, also presented the effects of insulationism as good for providing jobs and increasing technical and managerial skills amongst the populace, but limiting consumer access to goods, increasing the costs of farm inputs and decreasing the competitiveness of the export sector.<sup>42</sup>

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<sup>38</sup> Brian Easton, *In Stormy Seas: The Post-War New Zealand Economy*, Dunedin: University of Otago Press, 1997, ch.5.

<sup>39</sup> Brian Easton's economic history of New Zealand currently in development takes a broader approach to viewing historical economic change. Draft chapters supplied by author.

<sup>40</sup> John Gould, *The Rake's Progress? The New Zealand Economy Since 1945*, Auckland: Hodder and Stoughton, 1982.

<sup>41</sup> S.R.H.Jones, 'Government Policy and Industry Structure in New Zealand, 1900-1970', *Australian Economic History Review*, Vol.39, No.3, 1999, p.210.

<sup>42</sup> John Singleton, 'New Zealand in the Nineteenth and Twentieth Centuries', EH.Net Encyclopaedia, edited by Robert Whaples 10 January 2005, accessed 21 March 2007 at: <http://eh.net/encyclopedia/article/Singleton.NZ>

Jim McAloon's work in this area has, however, challenged this thinking. Firstly, he noted that in the 1950s infrastructure development had taken place within the controlled economy. Without this, he suggests, the more vigorous economic and industrial development from the 1960s could not have taken place. Secondly, he found that several companies hardly rested on the cushions of government intervention or hid behind import licensing and investment restrictions, but were proactive in business expansion and regularly contested the restrictions placed on their activities.<sup>43</sup> This approach challenges many ideas about industrial inefficiency and complacency. McAloon's focuses on large New Zealand companies to argue that elements of efficiency, forward planning and 'outward' thinking were evident in New Zealand industry over the 1950s and 1960s. This is important for considering that the great diversification of the 1970s (as it is often characterised, for example by Easton) was not simply a sudden phenomenon but one that had been facilitated by government policy rather than in spite of it.

Writing which has examined the political dimensions of New Zealand's trade history has tended to emphasise the diplomatic encounters that have shaped New Zealand foreign policy and trade relations. The New Zealand Institute of International Affairs (NZIIA) series *New Zealand in World Affairs*, so far published in four volumes from 1977 to 2005, is useful in highlighting how the emphasis on economic and trade aspects of foreign policy has altered.<sup>44</sup> This supports the idea that trade considerations increased their importance in foreign policy over time. Richard Kennaway's *New Zealand Foreign Policy 1951-1971* and the two *Beyond New Zealand* volumes published in 1980 and 1991 are similarly useful.<sup>45</sup> A key theme in each of these is the increasing diversification of foreign policy and trade interests away from the traditional British and Commonwealth framework and towards a more

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<sup>43</sup> Jim McAloon, 'The New Zealand Economy 1945 -84: Towards a New Synthesis', Paper presented to NZHA Conference, November 2003.

<sup>44</sup> Alister McIntosh (ed.), *New Zealand in World Affairs*, Wellington: NZIIA, 1977; Malcolm McKinnon (ed.), *New Zealand in World Affairs II*, Wellington: NZIIA, 1991, Brown, Bruce (ed.), *New Zealand in World Affairs III*, Wellington: Victoria University Press/NZIIA, 1999; Roderic Alley (ed.), *New Zealand in World Affairs IV*, Wellington: NZIIA, 2005.

<sup>45</sup> Richard Kennaway, *New Zealand Foreign Policy 1951-1971*, Wellington: Hicks Smith, 1972; John Henderson, Keith Jackson and Richard Kennaway (eds.), *Beyond New Zealand: The Foreign Policy of a Small State*, Auckland: Methuen, 1980; John Henderson and Richard Kennaway (eds.), *Beyond New Zealand II: Foreign Policy into the 1990s*, Auckland: Longman Paul, 1991.

independent New Zealand foreign policy approach. There tends, however, to be little explanation of how these foreign policy imperatives have interacted with domestic policy priorities in terms of industrial development and economic management. The assumption evident is that New Zealand's priorities were based on securing as much international market access (particularly for agricultural goods) as possible, without acknowledging the extent to which this could challenge domestic economic policy priorities.

A key theme brought up in literature when considering New Zealand's trade policy changes over time is one of change from dependence on Britain to independence. Malcolm McKinnon's examination of New Zealand's foreign policy in relation to notions of independence considers how this fits with external economic policy. He develops the notion of New Zealand acting in a manner of 'loyal dissent' based on 'the vigorous pursuit of interest'.<sup>46</sup> He accepted that New Zealand was dependent on the British market immediately prior to and during World War Two, but not for lack of trying to develop markets elsewhere. In his 1982 article 'Market Promotion: A Century of Endeavour', he observed that New Zealand had developed trade relations with Australia, Canada, the United States and Japan through the 1920s. These markets had contracted sharply in the early 1930s depression, however, leaving New Zealand dependent on the British market because of lack of alternatives, rather than absolute choice. This had led to a period of insecurity for New Zealand that was really only alleviated by the change of course of international security and when wartime Britain developed an 'insatiable demand for New Zealand's food output' that in the meantime 'blunt(ed) awareness of the need for an active approach to (alternative) markets'.<sup>47</sup>

John Singleton and Paul Robertson have explored more explicitly the changes in the economic relationship between New Zealand and Britain, and highlighted that the process of separation of the relationship that had been built on imperial preference

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<sup>46</sup> Malcolm McKinnon, *Independence and Foreign Policy: New Zealand in the World Since 1935*, Auckland: Auckland University Press, 1992, p.83.

<sup>47</sup> Malcolm McKinnon, 'Market Promotion: A Century of Endeavour', *New Zealand International Review*, March/April 1982, p.3.

was evident from the 1950s, well before Britain's first application to join in 1961.<sup>48</sup> The dynamics of the Commonwealth relationship focused on imperial preference in the early post-war years is also explored by Francine McKenzie who confirms that the strong bonds between Britain and New Zealand were beginning to loosen at that stage.<sup>49</sup> These conclusions support the findings of this thesis, that a specific turning point from a narrowly focused, protectionist trade policy to an open, broad-reaching policy cannot be found, but rather change was due to a range of altering processes and contexts over time.

Despite substantial changes in New Zealand's trade policies over time, an inescapable consistency has been apparent. That is the fact that New Zealand has constantly had to operate within an international economy over which it has been able to exert very little influence. Geographic realities have ensured this. The 'tyranny of distance'; New Zealand's isolated location in the South Pacific, its small land size, and lack of mineral resources are all factors which have limited New Zealand's impact as a trader in the international economy and its bargaining power in the trade negotiations arena. Perceptions of the 'context' in which New Zealand was operating were shaped by political leaders' ideas of New Zealand's 'place in the world' at any given time. Most of the changes in New Zealand's trade policy over time can be considered as responses to the challenges the external context presented for New Zealand, and their means of still seeking to meet domestic objectives against those circumstances over which they had little control.

## **THIS THESIS STRUCTURE**

This thesis is structured to identify and explain in a longitudinal way the key phases of development in trade policy from the 1930s to the 1980s. These have been marked out in relation to challenges that confronted New Zealand's economy and trade over time, especially brought about by changes in the external context within which New Zealand was operating. Each chapter identifies the key contextual issues, the 'trade

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<sup>48</sup> John Singleton and Paul Robertson, *Economic Relations Between Britain and Australasia 1945 – 1970*, New York: Palgrave, 2001.

<sup>49</sup> McKenzie, Francine, *Redefining the Bonds of Commonwealth, 1939-1948: The Politics of Preference*, New York: Palgrave, 2002.

problems' these presented for New Zealand, and how the actors involved in trade policy development sought to respond to those challenges.

Accordingly, the thesis is structured to consider four 'phases' that have been identified in New Zealand's trade policy development. Chapter One explains the background to New Zealand's external trade in the 1930s and the context in which thinking on trade policy and its role in New Zealand's economic development was emerging. It describes the structures that were put in place for trade policy in response to the effects of the Depression. The challenge for the New Zealand Government, at this stage, was to ensure that New Zealanders would not suffer in the same way again as they had during the Depression. These were the 1932 Ottawa Agreement and the 1938 establishment of import controls.

Chapter Two examines the war period and its early aftermath until 1954. This coincides with the period of the bulk purchase arrangements between New Zealand and Britain. Here, trade policy was shaped around loyalty and commitment to the war effort and through ensuring that domestic production was optimised to meet trade obligations. The security brought by the arrangements with Britain – even though they were challenged in some quarters – is shown to inform the notions that New Zealand was an international 'success story' and an affluent economy in the early post-war period. It shows how the New Zealand government sought to protect this platform through domestic and diplomatic means. There is evidence within this period, however that traditional ideas about political loyalty and New Zealand's 'place in the world' began to be challenged. This lays the groundwork for better understanding actions that appeared to be quite radical - and even sudden - in later decades.

Chapter Three explores the late 1950s and 1960s where increasing insecurity entered New Zealand's trade policy considerations. The security of traditional trade with Britain quickly diminished within economic and political changes in the international context in the late 1950s and early 1960s. Insecurity amplified further with Britain's applications to join the European Economic Community (EEC). New Zealand policy makers' responses sought to develop trade and economic policy in what were very new and different ways. These in themselves caused further questioning of

traditional policy methods. Their strategies also created structures which would lay the groundwork for further more radical policy development in the following decade.

The final chapter explores the 1970s and early 1980s in which external shocks, combined with increasing domestic restlessness over the effectiveness of traditional trade and economic structures, led the New Zealand government to rethink its traditional approaches to economic diplomacy and management and in its trade policies. Very few changes were, however, easily accepted. This period shows how a variety of interests contested and collided with each other both within New Zealand and with outside interests to bring about a substantial transformation of trade policy priorities and practices. The outcomes by the end of the period can be seen as the culmination of a variety of forces that had built up over the previous half century.

There are, then, essentially two stories that are told through this thesis. One explores the way trade policy thinking changed over the period. This involves understanding how thinking on how trade should operate to contribute to New Zealand's economic development changed over the period from the 1930s to 1980s, and essentially turned around from a Labour Government with faith in high economic controls and protectionism early in the period to one with fervent enthusiasm for almost complete economic liberalisation at the end. The other explores how trade policy changed from being treated quite separately as the domain of the domestic economy and economic and industrial policy makers but often in contest with the foreign policy domain of New Zealand's diplomats, to being explicitly infused into the a single bureaucracy which deals with trade as part of foreign policy. These stories are not, however, separate from each other. Essentially they both show how approaches to New Zealand's trade policy evolved over the mid-twentieth century in relation to the domestic and international contexts it was engaging with.

## **Chapter One: A Colonial Legacy? New Zealand Trade Policy in the 1930s**

This chapter examines the background to New Zealand's external trade in the 1930s and the context within which thinking on trade policy and its role in New Zealand's economic development was emerging. Until that time, the context had been fairly static. New Zealand's external trade followed a pattern that had been established in the late nineteenth century and the basis by which this trade operated was clear. It was to Britain New Zealand looked for its export markets and to source most of its imported goods. The colonial economy was well in place and New Zealand's role as a British 'farm in the South Pacific' was central to trade policy. The New Zealand economy had been shaped to meet that trading role.

That context underwent significant change in the 1930s, however. The severe effects of the worldwide Depression of the late 1920s triggered changes in most countries towards economic and trade policy. Britain and New Zealand were no different, altering the operation of economic policy in both the external and domestic contexts. Two significant policy developments resulted from the rethinking about trade and economic management that took place over the following decade. These were the 1932 Ottawa Agreement and the 1938 Import Licensing Act. Both of these would have significant influence on the path of New Zealand trade policy development in the decades to come.

### **BACKGROUND TO NEW ZEALAND'S 'TRADITIONAL' ECONOMY AND TRADE**

The New Zealand economy has historically been built on external trade. Even before colonisation, New Zealand inhabitants traded goods found and produced here for items from overseas producers and merchants. The economic motivations underlying the British colonisation of New Zealand ensured that these activities became even more important as the nation developed, and several writers on New Zealand's development have considered why. John Condliffe described British colonisation as 'part of that outburst of energy by which British trade and investment, power and

influence, were spread across the world.<sup>1</sup> C.B.Schedvin portrayed New Zealand's colonisation (along with Australia's) as a product of Britain's 'first flush of industrial development'.<sup>2</sup> New Zealand's economic development was then, as Condliffe argued, 'part of the process of industrialisation in Britain'.<sup>3</sup> New Zealand's role in producing primary produce for industrialising Britain was something Jim McAloon noted was part of colonisation leader Edward Gibbon Wakefield's ambitions.<sup>4</sup>

As British immigrants adapted the land they acquired to farming, especially as mined resources like gold diminished, New Zealand's development became increasingly tied to agricultural development.<sup>5</sup> New Zealand farming followed British method. It was not built on a long history like that of its European counterparts through feudalism or peasant agriculture, but was a 'transplanted system' which 'adapted quickly to becoming an amalgam of progressive export-oriented family farms and larger sheep and cattle stations'.<sup>6</sup> Harvey Franklin aptly described the colonial economy developing the nature of 'a specific form of capitalism associated with a small export-dependent economy that has distinctly British and late Victorian origins'.<sup>7</sup>

Exporting was an important part of early New Zealand farming. Trade was, as noted by Franklin, the 'dominant and central feature in the creation of the rural landscape, the rural economy and rural society'.<sup>8</sup> Wool exports were the first to dominate, and much of these went to Britain to meet the demands of the growing British textile industry.<sup>9</sup> From 1882, the advent of refrigerated shipping after the successful first voyage of the *Dunedin* made possible the export of perishable pastoral food products as well. This signalled a turning point for New Zealand production and trade; the

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<sup>1</sup> J.B.Condliffe, *The Economic Outlook for New Zealand*, Christchurch: New Zealand Institute of Economic Research, 1969, p.24.

<sup>2</sup> C.B.Schedvin, 'Staples and the Regions of Pax Britannica', *Economic History Review*, New Series, Vol. 43, No.4, Nov., 1990, pp. 533-559.

<sup>3</sup> Condliffe, *New Zealand in the Making*, p.57.

<sup>4</sup> Jim McAloon, 'Resource Frontiers, Environment and Settler Capitalism, 1769-1860', in Eric Pawson and Tom Brooking (eds.), *Environmental Histories of New Zealand*, Auckland: Oxford University Press, 2002, p.60.

<sup>5</sup> Easton, *In Stormy Seas*, p.43.

<sup>6</sup> Richard Willis, "'Colony or Nation" Revisited', *New Zealand International Review*, Vol.VI, No.2, March-April 1981, p.21.

<sup>7</sup> S.Harvey Franklin, *Trade, Growth and Anxiety: New Zealand Beyond the Welfare State*, Wellington: Methuen, 1978, p.1.

<sup>8</sup> Franklin, *Trade, Growth and Anxiety*, p.1.

<sup>9</sup> Alan Grey, *Aotearoa and New Zealand: A Historical Geography*, Christchurch: Canterbury University Press, 1994, p.190.

export of dairy and meat produce became economically important thereafter.<sup>10</sup> In New Zealand historiography it is common for this to be identified as a key point in New Zealand's economic development. Keith Sinclair noted that the advent of refrigerated shipping 'transformed New Zealand life' by changing agriculture from a means of largely subsistence living to profitable exporting enterprises.<sup>11</sup> William Ball Sutch likewise noted that since the advent of refrigeration New Zealand's 'whole economic structure and state and private institutions have been directed primarily towards grassland farmers'.<sup>12</sup>

As sheep and dairy farming became more economically significant, they also became more politically important. Central government land policies sought to take advantage of, and to spread, the economic rewards to be reaped through this trade. The Liberal Government's land policies designed to 'burst up' large estates aimed to 'put the small man on the land', and encourage the development of viable farming lots for settler families.<sup>13</sup> These were important for making farming and the processing of its products common economic activity for much of the New Zealand population.

The spread of farming influenced settlement patterns in New Zealand. As the dairy industry grew in importance, farming activities expanded northward, causing the spread of the population to significantly alter.<sup>14</sup> Dairy processing and other secondary industries developed around the new dairying communities.<sup>15</sup> The resulting changes economically, geographically and socially were of a magnitude that caused Condliffe to describe this as a period of 'economic revolution' for New Zealand.<sup>16</sup>

This 'economic revolution' was intrinsically tied to New Zealand's relationship with Britain. Britain was the predominant market for New Zealand's export produce, taking from 1920 to 1940 on average four-fifths of New Zealand's exports, of which pastoral

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<sup>10</sup> Although at first, the 'Long Depression' through the 1890s delayed real benefits or prosperity. Tom Brooking, *Lands for the People? The Highland Clearances and the Colonisation of New Zealand: A Biography of John McKenzie*, Dunedin: University of Otago Press, 1996, p.97.

<sup>11</sup> Keith Sinclair, *A History of New Zealand*, Revised ed., Auckland: Penguin, 2000, p.174.

<sup>12</sup> W.B.Sutch, *Colony or Nation? Economic Crises in New Zealand from the 1860s to the 1960s*. Sydney: Sydney University Press, 1966, p.182.

<sup>13</sup> Len Richardson, 'Parties and Political Change' in Geoffrey Rice (ed.), *Oxford History of New Zealand*, 2<sup>nd</sup> edition, Auckland: Oxford University Press, 1992, p.204; Brooking, *Lands for the People?* pp.97-102.

<sup>14</sup> Maps illustrate this shift in Grey, *Aotearoa and New Zealand*, pp.163,235,299.

<sup>15</sup> Condliffe, *New Zealand in the Making*, pp.226-253.

<sup>16</sup> Condliffe, *New Zealand in the Making*, pp.226-227.

products consistently comprised the bulk.<sup>17</sup> Likewise, about 70 percent of all New Zealand's imports originated from Britain or countries of the British Commonwealth. This justified the common label of New Zealand as Britain's offshore farm in the South Pacific.<sup>18</sup> London sources also provided the bulk of capital funding for development.<sup>19</sup>

The strong links to Britain through trade and investment ensured that New Zealand's economic development over the early twentieth century was explicitly tied with Britain. Nicholl and Boaden have described New Zealand's economy as essentially developing as 'a complement to the British economy'.<sup>20</sup> This was acknowledged at the time, for example when Professor Fred Wood described New Zealand in 1940 as having 'organised herself, on the whole with remarkable efficiency, to supply Britain (whose demand seemed inexhaustible) with the products of the sheep and cow.'<sup>21</sup>

Whether this relationship was mainly based on, in Richard Kennaway's words, a 'fortunate coincidence of mutual supply and demand of agricultural products which had facilitated the build up of New Zealand industries'<sup>22</sup> or was conscious economic imperialism on Britain's part as John Condliffe argued in 1959,<sup>23</sup> there is no doubt that New Zealand's economic development and trade activities were strongly influenced by the ideas of the British. There appears that there was little questioning of the direction of these developments, a point argued by Michael King who observed that New Zealand's early industries had been moulded to supply the British market with little consideration of alternatives.<sup>24</sup>

This also meant that in policies towards trade, New Zealand essentially followed Britain. In the eighteenth century Britain had based its policy on developing

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<sup>17</sup> Calculated from statistics provided in; *New Zealand Official Yearbook (NZOYB)*, 1920, 1927, 1935, 1940.

<sup>18</sup> For example, by W.B.Sutch, *Recent Economic Changes in New Zealand*, Wellington: Institute of Pacific Relations New Zealand Council, 1936, p.21.

<sup>19</sup> Prichard found for example that in the years 1904-05 and 1914-15 the proportion of New Zealand public debt raised in Britain was 82.4% and 76.4% respectively. Muriel Lloyd Prichard, *An Economic History of New Zealand to 1939*, Auckland: Collins, 1970, p.217.

<sup>20</sup> Peter Nicholl and Alan Boaden, 'New Zealand', in Richard Baker and Gary Hawke, *ANZUS Economics: Economic Trends and Relations Among Australia, New Zealand and the United States*, London: Praeger, 1992, p.99.

<sup>21</sup> F.L.Wood, *New Zealand in the World*, Wellington: Department of Internal Affairs, 1940, p.61.

<sup>22</sup> Richard Kennaway, *New Zealand Foreign Policy 1951-1971*, Wellington: Hicks Smith, 1972, p.82.

<sup>23</sup> Condliffe, *New Zealand in the Making*, p.57.

<sup>24</sup> Michael King, *Penguin History of New Zealand*, Auckland: Penguin, 2003.

economic advantage through the regulation of trade with its colonies, but free trade ideas had permeated political thinking by the time New Zealand's colonisation took place. British attitudes had been influenced by thinkers such as Adam Smith, so free market objectives and policies had become more important.<sup>25</sup> The progress of technology in the industrial revolution over the nineteenth century had also expanded British commercial interests, facilitated more outward-looking commercial enterprises and made international trading more widespread, especially within the British Empire.<sup>26</sup>

British policy was accordingly focused on trading widely. By the early twentieth century, the economic imperative of creating and maintaining markets for its own industrial products was a primary concern in relations between Britain and its dominions. The ability to source food supplies from the dominions was equally important for its industrial development. In a report on the British economy in the late 1920s, Professor A.J.Sargent of the London School of Economics noted that only seven percent of the British workers were involved in agricultural enterprises, therefore:

... Great Britain is merely a gigantic urban area, dependent for its very existence on the supply of food and raw materials from without, and these are purchased largely by the products of its manufacturing industries.<sup>27</sup>

New Zealand's early agricultural trade with Britain developed under liberal economic ideas, but politics were always involved to some extent. The interplay of social and cultural attitudes involved in the colonisation process contributed to the maintenance of the relationship. In New Zealand, the closeness of the relationship with Britain was not only reflected economically but also in society, culture, politics, and in New Zealand's interactions with the rest of the world. Many New Zealanders in the early twentieth century - including political and business leaders - were immigrants from Britain, or second generation New Zealanders who retained close personal and business relationships in Britain. References to 'home' and the 'mother land'

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<sup>25</sup> J.B. Condliffe and W.T.G.Airey, *A Short History of New Zealand*, 9<sup>th</sup> ed., Christchurch: Whitcombe and Tombs, 1960, pp.39-40.

<sup>26</sup> Condliffe, *The Economic Outlook for New Zealand*, pp.24-25.

<sup>27</sup> A.J.Sargent, *British Industries and Empire Markets*, London: His Majesty's Stationery Office, 1930, p.9.

peppered through official speeches and reports of the time evidence the social acceptance of these ties. Those personal ties between New Zealand and Britain ensured that the economic ones – through trade and finance – were kept strong.<sup>28</sup> Expressions of loyalty and sentiment were therefore often intertwined in thinking on New Zealand's trade with Britain. Wood summed this up in 1940, arguing that New Zealand's 'living reality' of economic dependence on Britain bred a sentimental bond between the two countries:

Sentiment, economic advantage, and a sense of isolation which grew with foreign colonial enterprise in the Pacific: these bound New Zealand closely to Britain, and since 1870 she has generally been of all colonies the most 'loyal' to the imperial connection.<sup>29</sup>

This 'loyalty' might be seen as obligatory. Wood conceded that New Zealand had historically been expected to act as an entity of Britain in terms of trade agreements. In 1871 and in 1887 'the embarrassing request that (New Zealand) should be allowed to negotiate her own commercial agreements with foreigners' was rebuked by Britain.<sup>30</sup> R.R.Cunninghame later reflected that New Zealand's sentiment 'was strongly reinforced by the advance of trade and investment', especially after the introduction of refrigeration.<sup>31</sup> Regardless, loyalty was very evident in the actions of political leaders in the early twentieth century. New Zealand did not attempt to increase independence from the Empire between World War One and World War Two like other dominions.<sup>32</sup> Prime Minister William Massey originally refused to even accept New Zealand's independent 'dominion' status.<sup>33</sup> While Australia and Canada worked towards becoming more independent from Britain over the early twentieth century, New Zealand's political consensus ensured that imperial loyalty was maintained, as A.J.Harrop observed in 1933:

... her influence has always been exerted in the direction of maintaining the unity of the Empire. Powers which other Dominions have zealously striven for have meant little to her. Her people are content with the

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<sup>28</sup> John Gould, 'Past and Present in New Zealand's Economic Dependence', in Hyam Gold (ed.), *New Zealand in the World Economy*, Dunedin: University of Otago, 1985, p.9.

<sup>29</sup> Wood, *New Zealand in the World*, p.61.

<sup>30</sup> Wood, *New Zealand in the World*, p.62.

<sup>31</sup> R.R.Cunninghame, 'The Development of New Zealand's Foreign Policy and Political Alignments', in T.C.Larkin(ed.), *New Zealand's External Relations*, Wellington: New Zealand Institute of Public Administration, 1962, p.16.

<sup>32</sup> Wood, *New Zealand in the World*, p.100.

<sup>33</sup> Sinclair, *A History of New Zealand*, p.254.

fundamental principle of loyalty to the mother country, which has been their sure shield for nearly a century.<sup>34</sup>

New Zealand's essential focus, even when other markets were adopted, was to keep the British market as wide open as possible in order to 'earn for New Zealand an enduring place within the British economic system by frank and trustful cooperation', as Wood described it.<sup>35</sup> This unquestioning loyalty might be viewed as a 'failure of political imagination' as historian Keith Sinclair called it, but even he conceded that this was nonetheless based on New Zealand's 'utter dependence' on the British market.<sup>36</sup>

### **ROLE OF TRADE IN THE NEW ZEALAND ECONOMY**

Regardless of whether New Zealand was willing or not to be economically dependent on Britain, in the early 20<sup>th</sup> century it certainly was, and met the characteristics of what both Sutch and Belich in later years would describe as a 'colonial' economy. Although both authors use the term 'colonial' in quite different ways – Sutch emphasised more the lack of industrial development in New Zealand, while Belich focused more on the allegiance to Britain – the similarity centres on the notion of dependence in New Zealand's trading relationship.<sup>37</sup> Indeed, the economy, in fact almost the entire colonial framework, had been built around New Zealand's ability to farm and sell its products to Britain.

This was particularly so because of the continued significance of trade to the New Zealand economy. Then, as now, a very high proportion of New Zealand's pastoral production was directed to exporting. Table 1.1 illustrates the amount of production exported in an average year over the second half of the 1930s. As is clear, most production was for export, as domestic markets absorbed only a minor proportion. What is also striking is that almost all of the perishable export products especially

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<sup>34</sup> A.J.Harrop, 'New Zealand and the Empire, 1852-1921', in J.H.Rose et.al. (eds.), *The Cambridge History of the British Empire, Volume VII, Part 2: New Zealand*, Cambridge: Cambridge University Press, 1933, p.215.

<sup>35</sup> Wood, *New Zealand in the World*, p.124.

<sup>36</sup> Sinclair, *A History of New Zealand*, p.255.

<sup>37</sup> See, for example, W.B.Sutch, 'Programme For Growth', *Report of the Industrial Development Conference*, Wellington: Department of Industries and Commerce, June 1960, p.6; Belich, *Paradise Reforged*.

were directed to Britain. Britain was also important for facilitating ‘through-trade’ of New Zealand products to other markets.<sup>38</sup>

**Table 1.1: New Zealand Pastoral Production and Exports, annual average 1935-1939**

	Production	Exports	% exported	% to Britain
<b>Wool</b>	299,400,000 lb	294,300,000	98%*	62%
<b>Butter</b>	3,271,873 lb	2,723,875 lb	83%	97%
<b>Cheese</b>	1,797,075 lb	1,664,140 lb	93%	99%
<b>Mutton</b>	3,847,973 carcasses	1,971,760 carcasses	51%	99% frozen meat total
<b>Lamb</b>	9,573,634 carcasses	8,949,100 carcasses	93%	99% frozen meat total

\* As wool stocks were could be kept for long periods, in some years exports exceeded production

Source: Compiled from NZOYB, 1940, pp.450-451,456-457,463; NZOYB, 1941, pp.212-213,257-258,398-399.

These figures are all the more important because according to Muriel Lloyd Prichard’s calculations, no less than 91 percent of total export revenue came from the agricultural sector in the decade preceding World War Two.<sup>39</sup> Developments within New Zealand such as that now called the ‘grasslands revolution’ – where grass production was improved through the introduction of fertilisers like superphosphate – ensured that productivity could be competitive with other farming exporters such as Australia and Argentina.<sup>40</sup>

New Zealand’s economy has historically been much more reliant on export trade than others. Prichard noted that in the late 1920s ‘New Zealand’s total trade per head remained the highest in the world and the country’s dependence on its external trade was great.’<sup>41</sup> A review of the New Zealand economy in 1932 supported this idea, concluding that ‘the national prosperity of New Zealand depends to an exceptional degree on her high volume of external trade.’<sup>42</sup>

<sup>38</sup> Hawke, ‘New Zealand’, p.31; Prichard, *An Economic History of New Zealand*, p.355.

<sup>39</sup> Prichard, *An Economic History of New Zealand*, pp.350-351.

<sup>40</sup> Tom Brooking, ‘Economic Transformation’, in G.Rice (ed.), *Oxford History of New Zealand*, 2<sup>nd</sup> edition, Auckland: Oxford University Press, 1992, p.238.

<sup>41</sup> Prichard, *An Economic History of New Zealand*, p.349.

<sup>42</sup> James Hight et.al., ‘Report of the Economic Committee’, *AJHR*, B.3, 1932, p.34.

Even in the 1930s, however, it was acknowledged that international commodity prices had tended to have a profound effect on New Zealand's prosperity.<sup>43</sup> Indeed, New Zealand's trade – and therefore the nation's prosperity – was very vulnerable to external economic developments, especially international commodity price swings. John Condliffe's research in 1959 confirmed this when he mapped patterns in New Zealand's historical economic development in relation to patterns of international commodity price swings.<sup>44</sup> This, he asserted, affirmed New Zealand's economic dependence on the international trading environment, and drew attention to 'the fact that progress in New Zealand is largely dependent upon economic conditions in the outside world, and especially in her chief market, Great Britain.'<sup>45</sup>

These factors have ensured that trade has been involved in both cause and effect in the New Zealand economy and its economic policy. 'Success' in exporting was achieved through gaining high prices and having secure, high demand markets. This would enable the purchase of imports that would satisfy domestic demand for capital and consumer goods. Local industries relied on imports for machinery and raw materials for production. The level of consumption possible through imports was seen as indicating prosperity and high standards of living for society in general. Trade outcomes were accordingly intertwined with economic and social priorities, and the effects of trade swings caused government responses, particularly in how economic policy was treated.

In the early twentieth century New Zealand enjoyed general prosperity from the close trading relationship with Britain, especially as export prices had increased from 1895 to 1921.<sup>46</sup> By the late 1920s, however, the external trade structure began to present more obvious challenges for New Zealand's domestic economy. Firstly, the susceptibility of the narrow range of export products to international price swings destabilised the balance of payments, because the bulk of imports (mainly in manufactured or capital goods) were more stable in price. Secondly, because of the close relationship of New Zealand's trade and economic policies with Britain's, when

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<sup>43</sup> Hight et.al., 'Report of the Economic Committee', p.34.

<sup>44</sup> Condliffe, *New Zealand in the Making*, p.55.

<sup>45</sup> Condliffe, *New Zealand in the Making*, p.56.

<sup>46</sup> Condliffe, *New Zealand in the Making*, p.55.

Britain was affected by developments in the international trading environment so too was New Zealand.

At this stage then, it is virtually impossible to view New Zealand's economic and trade policy separately from Britain and the Empire. Likewise, there was little evidence of an independent New Zealand foreign policy, something Kennaway argues was true until 1940.<sup>47</sup> New Zealand had not yet established a separate external affairs department, nor had it fully embraced its political independence from Britain. The context for economic and trade policy development was with Britain and the Empire, and any policy changes must be viewed in light of that relationship. As the NZIIA noted in 1938, 'New Zealand's trade policy is ... clearly bound up with that of Great Britain, and affects foreign policy only in association with Great Britain.'<sup>48</sup>

### **THE DEVELOPMENT OF THINKING ON ECONOMIC AND TRADE MANAGEMENT**

International thinking on economic and trade management experienced significant shifts in the early twentieth century. Throughout the century before international trade was, at least that directed through Britain, based on laissez-faire principles so was 'free' or at least, largely unregulated.<sup>49</sup> This was a reflection of thinking on domestic economic management as well as external trade. Economic freedom or laissez-faire – the notion of the economy being able to act free of government restraint – was a concept embraced in British thinking on political economy throughout the nineteenth century. As New Zealand economic policy reflected trends in Britain, the same approaches were also taken on in colonial New Zealand Governments.

By the end of the nineteenth century, however, ideological commitments to laissez-faire were increasingly questioned in Britain, at the same time as notions of welfare provision and 'social legislation' were more widely explored and discussed. By the early twentieth century the British Government exhibited more acceptance of these

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<sup>47</sup> Kennaway, *New Zealand Foreign Policy 1951-1971*, p.13.

<sup>48</sup> New Zealand Institute of International Affairs (NZIIA), *Contemporary New Zealand: A Survey of Domestic and Foreign Policy*, Wellington: Whitcombe and Tombs, 1938, p.115.

<sup>49</sup> Douglas Irwin notes that in contrast to Britain, 'nineteenth-century economic thought in the United States, Germany and elsewhere was, on the whole, strongly protectionist in orientation'. Douglas A. Irwin, *Against the Tide: An Intellectual History of Free Trade*, Princeton: Princeton University Press, 1996, p.172.

responsibilities in managing its economy; something historian T.Lloyd argued was accelerated by the Boer War 'which had convinced people that an unhealthy and poverty-afflicted nation was a weak nation.'<sup>50</sup> The British Liberal Government from 1908 introduced social legislation including an Old Age Pensions act, legislation invoking eight-hour working-days for miners, and the establishment of labour exchanges for unemployed.<sup>51</sup>

Similar developments occurred in New Zealand, and in fact from earlier than in Britain. In the 1890s New Zealand's Liberal Government enacted legislation which Prichard described as 'considerably extend(ing) the functions of the state in the interest of less fortunate members of the community'.<sup>52</sup> These included creating guidelines for the use of labour, safeguarding workers' rights through the Industrial Conciliation and Arbitration Act, and creating welfare provisions such as the Old Age Pensions Act.<sup>53</sup> These sowed the seeds of the welfare state that would be formed more comprehensively later, but at this stage the developments were piecemeal attempts at economic management.

More comprehensive state intervention in the economy developed over the early decades of the twentieth century. During and after World War One intervention in the economy for the sake of meeting social needs was considered more acceptable in Britain and New Zealand, and policies were developed in this regard. British historian E.Lipson later noted that in Britain the state's interventionist activities 'broadened ... unabated' after the war concluded.<sup>54</sup> This was to the point that in 1949 he argued that an era of 'the almost limitless extension of state functions into every sphere of the national economy' continued, and was informed by the notion of pursuing a 'national minimum' in almost all spheres of the population's living conditions.<sup>55</sup> Similar trends were reflected in New Zealand as successive governments moved to have a tighter control over economic outcomes and to consult more widely about the economy and how it should be managed.

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<sup>50</sup> T.O.Lloyd, *Empire to Welfare State: English History 1906-1967*, Oxford: Oxford University Press, 1970, p.15.

<sup>51</sup> Lloyd, *Empire to Welfare State*, pp.14-16.

<sup>52</sup> Prichard, *An Economic History of New Zealand*, p.180.

<sup>53</sup> Sinclair, *A History of New Zealand*, pp.190-191, 194.

<sup>54</sup> E.Lipson, *The Growth of English Society: A Short Economic History*, London: A & C Black, 1949, p.287.

<sup>55</sup> Lipson, *The Growth of English Society*, pp.280-285.

These changes promoted growth in perceptions of the links between trade policy and the attainment of domestic social objectives. Accordingly, there was greater acceptance of developing policies to 'protect' the domestic economy, especially to preserve domestic employment. The politics surrounding these policies were not straightforward, however. While those in Britain concerned with welfare provision remained in favour of free trade, those on the right pushed for tighter management of trade. The arguments also tended to become muddled, for example when conservative politicians lobbied for the implementation of external trade tariffs and correlated the effects of trade with unemployment trends. The campaign for tariff reform led by Joseph Chamberlain in the early years of the twentieth century was built on the catch-cry that 'Tariff Reform means Work for All'.<sup>56</sup> In the 1920s, British Prime Minister Baldwin also sought to introduce tariffs to deal with rising domestic unemployment.<sup>57</sup>

Those developments also caused the notion of free trade to be contested internationally, especially as Britain exhibited less faith in it. In 1922 Theodor Gregory of the University of London argued that movements towards protectionism by Britain and Holland – described as traditionally 'great free-trade areas' – had 'weakened the intellectual case for free trade' internationally.<sup>58</sup> Arguments for free trade had not died out completely, however. Gregory noted that the League of Nations (formed out of the Treaty of Versailles at the end of the war) provided a 'new rallying point for the principles of free trade' through the general principle included in its covenant for the equality of trading opportunities for all League members.<sup>59</sup> The financial and economic arm of this organisation employed a number of economists whose roles Endres and Fleming summarised as 'ostensibly ... interested in creating an institutional framework from the 1920s that preserved liberal, free market capitalism'.<sup>60</sup>

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<sup>56</sup> Lloyd, *Empire to Welfare State*, p.4.

<sup>57</sup> Lloyd, *Empire to Welfare State*, p.126.

<sup>58</sup> C.F. Bastable, *The Commerce of Nations*, (9<sup>th</sup> edition, revised by T.E. Gregory), London: Methuen, 1923, p.204.

<sup>59</sup> Gregory in Bastable, *The Commerce of Nations*, p.205.

<sup>60</sup> Anthony M. Endres and Grant A. Fleming, *International Organizations and the Analysis of Economic Policy, 1919-1950*, Cambridge: Cambridge University Press, 2002, p.12.

The involvement of economists in the League of Nations was illustrative of moves internationally towards the participation, and greater influence, of 'experts' in international and national political economy. Over the following decade (and many to come), the debates over the benefits of free international trade raged against those that advocated 'protectionism'. Trade policy would come to be driven by a complex mix of domestic economic objectives and foreign policy objectives, ensuring that states took more of a controlling interest in their external economic interactions. As Albert Hirschman later observed, the pursuit of state power also inevitably became intertwined with trade policy objectives.<sup>61</sup>

Of the international economists gaining prominence at that time, John Maynard Keynes was perhaps the best-known of the British economists, leading the tide-change in attitudes towards political economy. In his 1926 essay *The End of Laissez-Faire*, Keynes argued that unfettered free trade and liberal economic policies could not ultimately benefit the majority. This did not, however, mean that he rejected capitalism. Rather, he advocated an approach which sought to manage it:

For my part, I think that Capitalism, wisely managed, can probably be made more efficient for attaining economic ends than any alternative system yet in sight, but that in itself it is in many ways extremely objectionable. Our problem is to work out a social organisation which shall be as efficient as possible without offending our notions of a satisfactory way of life.<sup>62</sup>

This notion of a 'satisfactory way of life' or 'standard of living' would become increasingly linked to the idea of full employment as Keynes' ideas gained ground over the following decades.

Like Chamberlain and Baldwin had previously, Keynes linked trade with employment issues as he advocated the implementation of British tariffs in 1931. Tariffs, he argued, could not only create government revenue but also could lead to the substitution of imports with 'home-produced goods', which would increase employment and relieve the pressure on the trade balance.<sup>63</sup>

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<sup>61</sup> Hirschman, *National Power and the Structure of Foreign Trade*.

<sup>62</sup> John Maynard Keynes, *The End of Laissez-Faire*, London: Leonard and Virginia Woolf, 1926, p.53.

<sup>63</sup> John Maynard Keynes, 'Proposals for a Revenue Tariff' (March 7, 1931), in John Maynard Keynes, *Essays in Persuasion*, New York: Norton Library, 1963, p.279.

Keynes highlighted what he perceived as the short-comings of free trade in practice, asserting that classical economics could not solve the economic problems of the 'actual world', but that free trade could be returned to once full employment was achieved.<sup>64</sup> On the other hand, others argued that it was intervention that caused economic problems. Bertil Ohlin of the League of Nations presented a report in 1931 that argued that increased import duties had caused uncertainties in investment and employment and raised production costs, and that countries with the least-sheltered economies had fared best in the Depression.<sup>65</sup> Through the 1930s, though, Keynes' ideas tended to have more influence over international trade policy, even if, as Endres and Fleming assert, his primary concern in developing them had been based more on what was best for Britain rather than what was best for the whole world.<sup>66</sup> The 'free-trade' advocates would lose influence for a while, especially after the World Economic Conference of 1933 'dissolved in intellectual and political disarray' – as Louis Pauly described it – when American President Roosevelt failed to agree to take leadership on restoring a free-trading gold standard.<sup>67</sup>

Keynes' ideas – especially his arguments for tariff measures to help domestic industry – were often adapted subsequently to suit the political goals of governments, rather than being applied in a purely theoretical sense. Many governments used them to provide justification for more 'hands-on' approaches to economic management. The involvement of Keynes and his opponents in international debates (New Zealand economist John Condliffe among them, as he worked with the League of Nations for a time) also signalled that a more complex mix of interests would be involved in trade and economic policy development thereafter. Keynes' appointment to the 1930 Economic Advisory Council, the 1931 Committee of Economists, and other bodies established to advise the British Government on economic matters in the early 1930s is indicative of the increased involvement of 'experts' in policy making at the time.<sup>68</sup>

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<sup>64</sup> John Maynard Keynes, *The General Theory of Employment, Interest and Money*, New York: Harcourt Brace Jovanovich, 1964, pp.378, 382.

<sup>65</sup> Endres and Fleming, *International Organizations and the Analysis of Economic Policy*, p.108.

<sup>66</sup> Endres and Fleming, *International Organizations and the Analysis of Economic Policy*, p.106.

<sup>67</sup> Louis W.Pauly, *Who Elected the Bankers? Surveillance and Control in the World Economy*, Ithaca: Cornell University Press, 1997, p.65.

<sup>68</sup> A.W.Coats, 'Britain: the Rise of the Specialists', *History of Political Economy*, Vol.13, No.3, 1981, pp.365-366.

Over this time academic and 'expert' engagement with policy ideas was increasing in New Zealand as well. Debates over political economy and trade management were growing in Australia and New Zealand, especially through forums like the Workers Educational Association (WEA). The WEA had been operating since 1915 as an education and discussion forum in which economists and political activists were participants. Economists such as James Hight, John Condliffe, Horace Belshaw, and Douglas Copland were engaged as tutors in the WEA and class participants included emerging political leaders such as Fraser, Nash, Holland and Savage.<sup>69</sup> Condliffe recalled that his first class stimulated a lively discussion on the merits of free trade, and that exchanges of views about economic and political management were commonplace in most classes.<sup>70</sup>

By the 1930s in New Zealand economists were being included in the development of economic policy, particularly through advisory committees.<sup>71</sup> These were perhaps the products of what Muriel Lloyd Prichard described as a growth of 'intellectual vigour' and a 'quickenning interest in economics' in New Zealand over the 1930s.<sup>72</sup> Their discussions were informed by the international debates about how capitalism should be managed, and what roles they played within national economies.<sup>73</sup> Debates especially increased as the worldwide Depression in the late 1920s and early 1930s impacted on national economies and its causes were sought. Some argued that the Depression was caused by the failure of laissez-faire whereas others pointed to the rise of economic nationalism and trade barriers; essentially, the focus lay in arguing the merits of state intervention in economies. Governments tended to more readily recruit economists as economic advisors as the political necessity to alleviate the Depression's detrimental effects grew.

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<sup>69</sup> John Condliffe, *The Beginnings of the W.E.A.*, Wellington: National Council of Adult Education, 1968.

<sup>70</sup> Condliffe, *The Beginnings of the WEA*, pp.16-19.

<sup>71</sup> Grant Fleming identifies the most prominent of these 1932 Economic Committee. G.A.Fleming, *The Role of Economists in New Zealand Policy-Making 1912-1951: Economic Advice Structures in Development*, Auckland: University of Auckland Economics Department, Working Paper No.59, 1989.

<sup>72</sup> Prichard, *An Economic History of New Zealand*, pp.396-397.

<sup>73</sup> For example, Douglas Copland's inclusion in New Zealand's 1932 Economic Committee and his subsequent writing evidences strong engagement between economists in Britain, Australia and New Zealand over the period. Douglas Copland, 'New Zealand's Economic Difficulties and Expert Opinion', *The Economic Journal*, Vol.42, No.167, September 1932, pp.371-372. John Condliffe who was enjoying an illustrious career overseas also kept regular contact with New Zealand.

## EFFECTS OF THE DEPRESSION

There was no doubt that the Depression had disastrous effects on almost all national economies. Commodity prices fell dramatically, terms of trade dropped for most commodity-producing countries and international flows of goods stagnated. New Zealand, despite at first appearing to not be so affected by the Depression as other countries, soon experienced a significant export revenue slump in the early 1930s in a similar manner to other agricultural exporters.<sup>74</sup> From 1928 to 1931 New Zealand's export-price index dropped by almost one half from 1520 to 874. Farm expenditure prices – including imports, but also the cost of capital and labour – dropped only marginally, however, from 1642 to 1490.<sup>75</sup> The disparity between export revenue and import cost changes had dramatic and disastrous effects for New Zealand farmers and the economy in general. Those registered as unemployed rose substantially from 2200-2500 in 1926 and 1927 to 44,500 by mid 1931.<sup>76</sup> In Gordon Coates' words, it 'dislocated our economic life'.<sup>77</sup>

Graph 1.1 illustrates the significant decline in New Zealand export revenue through the Depression years. A substantial slump occurred, with export receipt totals dropping from an average of approximately £55 million through the 1920s to a low of £35 million in 1931; earnings in that year were 37 percent less than two years earlier. As the graph shows, the drop came most significantly from the wool exports. The volumes of wool exported did not markedly change but the prices received did. From earning an average of £73 per 1000 pounds in 1928, prices dropped almost two thirds to £24 per 1000 pounds in 1932.<sup>78</sup>

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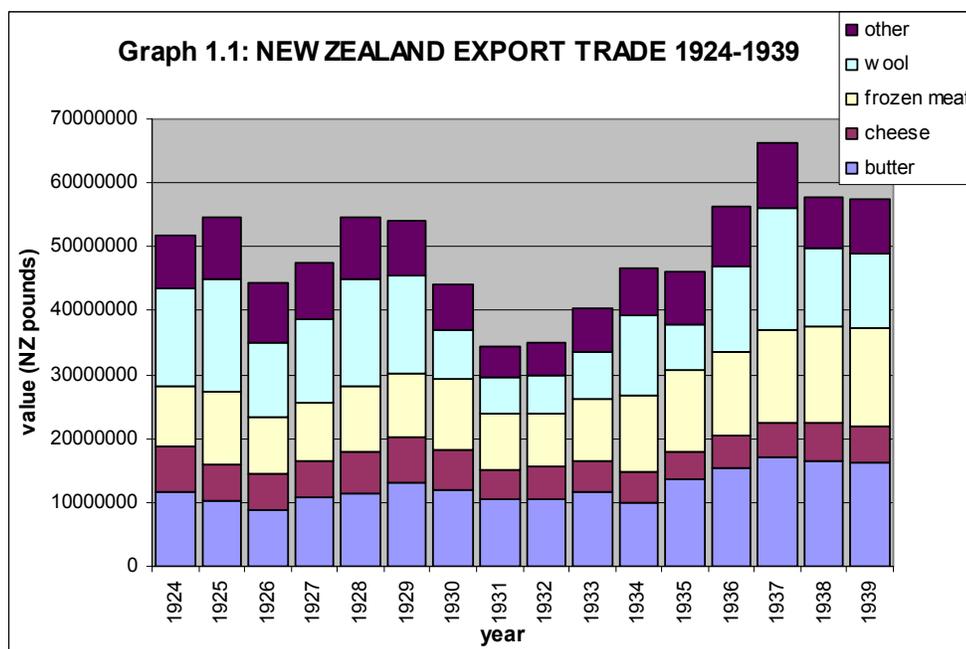
<sup>74</sup> Copland, 'New Zealand's Economic Difficulties and Expert Opinion', p.373

<sup>75</sup> Hight et.al., 'Report of the Economic Committee', p.34. Based on index year 1914 (1914 = 1000).

<sup>76</sup> Hawke, *The Making of New Zealand*, p.148.

<sup>77</sup> Gordon Coates, Address to Ottawa Conference, 'Record of Proceedings of the 1932 Ottawa Conference', *AJHR*, A.6, 1932, p.60.

<sup>78</sup> Calculated from statistics given in *NZOYB*, 1934, pp.209-210.



Source: Compiled from NZOYB, 1941, pp.857-860.

The New Zealand Government's early responses to the Depression have been characterised by Steven Jones as 'piecemeal', especially in terms of any significant intervention in the economy.<sup>79</sup> This is valid. Tariff policy remained minimal, and early attempts to address the trade problems focused on manipulating the exchange rate.

The New Zealand Government followed international trends in recruiting economic advisors by forming an Economic Committee to formulate a response to the trade problems. The committee was comprised of five leading New Zealand and Australian economists of the time; James Hight, Horace Belshaw, Douglas Copland,<sup>80</sup> A.D.Park and Albert Tocker.<sup>81</sup> The main brief of the 1932 Economic Committee was to give advice on the option of currency devaluation. This issue was highly controversial, and vigorous arguments were made for and against the proposition, which essentially pitted farmers' interests against business interests.<sup>82</sup> In explaining the problem of readjustment of the economy from the effects of the Depression, the Committee identified three main aspects that needed to be addressed. These were that price

<sup>79</sup> S.R.H.Jones, 'Government Policy and Industry Structure in New Zealand, 1900-1970', *Australian Economic History Review*, Vol.39, No.3, 1999, p.197.

<sup>80</sup> Douglas Copland was a noted economist in Australia who was identified as one who had advised the government, and had greatest influence on government policy in the 1930s. A.Petridis, 'Australia: Economists in a Federal System', *History of Political Economy*, Vol.13, No.3, 1981, pp.405-406.

<sup>81</sup> Hight et.al., 'Report of the Economic Committee'.

<sup>82</sup> McKinnon, *Treasury*, p.131.

disparities between receipts and costs to farmers needed to be removed, that the burden of the loss needed to be spread across the community, and that the national and local-body budgets be balanced.<sup>83</sup>

In filing its report, the majority of the committee argued for devaluation as a way of reducing the disparity between incomes and costs. Exporters would receive an increase in income which would more than offset the connected increase in costs within the economy.<sup>84</sup> There was also opposition, however. Secretary of Treasury Park disapproved of devaluation and added his own addendum to the Committee's report in which he made this clear. He argued his view that the immediate effect of devaluation would be to 'increase considerably the Budget difficulties', that benefit would be gained by 'some sections of the community' at the expense of others, and any of that benefit would soon be lost as the new level of exchange stabilised.<sup>85</sup>

Opposition to devaluation such as this stalled any government decision through 1932, but devaluation was ultimately adopted in January 1933. The government raised the New Zealand pound's exchange rate to £125 against £100 Sterling.<sup>86</sup> This went ahead despite Treasury's continued opposition to it, and it also led to the resignation of government minister William Downie Stewart who stood down on principle against the decision.<sup>87</sup> The devaluation has latterly been described by Hawke as 'one of the most striking acts of Government intervention in the economy in the 1930s'.<sup>88</sup> In explaining the motivations for devaluation, Gordon Coates made clear that the government's decision was based on safeguarding New Zealand's exporting base for the good of the entire economy. He said:

I wish to emphasize again that the step was deliberately taken in the best interests of the Dominion as a whole, for it is clear that anything approaching a collapse of the primary industries, at the base of our economic structure, would undoubtedly lead to disaster for all other industries, involving the whole community.<sup>89</sup>

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<sup>83</sup> Hight et.al., 'Report of the Economic Committee', p.35.

<sup>84</sup> Hight et.al., 'Report of the Economic Committee', p.36.

<sup>85</sup> Hight et.al., 'Report of the Economic Committee', Addendum, p.38.

<sup>86</sup> McKinnon, *Treasury*, p.113; Gary Hawke, *Between Governments and Banks: A History of the Reserve Bank of New Zealand*, Wellington: Government Printer, 1973, p.36.

<sup>87</sup> McKinnon, *Treasury*, p.113; Hawke, *The Making of New Zealand*, p.155; Hawke, *Between Governments and Banks*, p.37.

<sup>88</sup> Hawke, *Between Governments and Banks*, p.36.

<sup>89</sup> J.G.Coates, 'Financial Statement', *AJHR*, B.6, 1933, p.6.

It was clear that primary production was expected to be the basis by which New Zealand would trade its way back to economic security.

The establishment of the Reserve Bank in 1933 has also often been characterised as a political response to the Depression.<sup>90</sup> Hawke argues, however, that its establishment was more the continuation of processes already in place prior to it.<sup>91</sup> The idea of establishing a central bank for New Zealand grew from discontent over the inability for New Zealand's sterling balances to be differentiated from Australia's, whose were somewhat less stable.<sup>92</sup> Its importance in terms of trade policy, therefore, was mainly in providing currency stability for trade transactions.

These were significant events within the New Zealand economy at the time, but in hindsight even more so because they signalled definite changes in domestic economic management approaches. They support Sutch's argument that this was the start of a more holistic economic policy. Governments would attempt to handle the economy as a whole, rather than by the previous piecemeal measures towards such areas as taxation, wages and public works.<sup>93</sup> Because of external trade's importance to the domestic policy, facets of trade policy would be included in attempts to stabilise and control the economy. Trade outcomes were also often triggering policy as governments sought to balance the budget overall.

The Depression highlighted even more clearly than before the vulnerability of New Zealand trade to international commodity price fluctuations. The dramatic export price drops in external markets had a profound effect on the New Zealand economy, and devaluation could not be a long term solution. Accordingly, New Zealand leaders sought to ameliorate this through political and diplomatic means, especially by participating in international economic forums. New Zealand's participation in the Ottawa Conference and the 1933 World Economic Conference are examples of this. Agreement there, they hoped, might help stabilise market prices for commodities.

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<sup>90</sup> Gary Hawke identifies a number of New Zealand historians who have argued this; Gary Hawke, 'The Government and the Depression of the 1930s in New Zealand: An Essay Towards a Revision', *Australian Economic History Review*, Vol.XIII, 1973, p.77, f/note 5.

<sup>91</sup> Hawke, 'The Government and the Depression of the 1930s', pp.72-95.

<sup>92</sup> Singleton et.al., *Innovation and Independence*, p.14; McKinnon, *Treasury*, p.125.

<sup>93</sup> W.B.Sutch, *Poverty and Progress in New Zealand*, Wellington: A.H. and A.W. Reed, 1969, p.228.

These were early attempts to enhance New Zealand's bargaining power and have some influence towards the restoration of commodity price levels.<sup>94</sup>

This may appear to have been independent work, but British influence over New Zealand's trade and economic policies was readily accepted. Closer ties with Britain were actually sought by the New Zealand Government. New Zealand politicians and representatives for some time pushed to tighten the links with Britain through imperial trading arrangements.

### **THE DEVELOPMENT OF IMPERIAL PREFERENCE**

Although New Zealand representatives sought to participate in 'world' forums to pursue trade interests, it was clear that they believed their best interests lay in strengthening the Empire's trading ties. This had been a clear objective of New Zealand politicians from well before the 1932 Ottawa Conference. William Massey had explicitly sought to promote the concept of imperial preference at Imperial Conferences throughout the 1910s and 1920s. Massey, the self-named 'greatest commercial traveller in the Empire',<sup>95</sup> argued that there would be many benefits for New Zealand in maintaining loyalty towards Britain and the Empire, especially in trade terms. He expressed pleasure in 1923 that a rise had occurred in intra-Empire economic consultation and coordination:

I am glad to say here – because I take a great deal of interest in this aspect of the question – that during recent years there has been a greater tendency than ever before for the different countries of the Empire to come together in connection with commercial matters, and to make arrangements of mutual benefit as far as Customs duties are concerned.<sup>96</sup>

Massey viewed New Zealand's membership of the Empire as presenting 'great privileges', but also 'certain duties and responsibilities', of which developing intra-Empire trade was key. He considered that the Empire was capable of being quite self-sufficient and able to provide for all of the needs of the Empire's populations. He argued that there was 'nothing we require that is not producible within the Empire itself', and intra-Empire trade would protect the member economies from being

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<sup>94</sup> This has also been argued by Gary Hawke. Hawke, *The Making of New Zealand*, p.131, 152.

<sup>95</sup> James Watson, 'The Greatest Commercial Traveller in the Empire', Paper presented to Massey@Massey Conference, November 2006.

<sup>96</sup> William Massey, Speech to Parliament re. Imperial Conference, *NZPD*, Vol.200, 5 July 1923, p.723.

vulnerable to the whims of 'foreign' countries,<sup>97</sup> a concern which remained from the experiences of the First World War.<sup>98</sup>

Massey argued that imperial preference was the 'proper thing to do as far as the citizens of the different countries of the Empire are concerned: it is their duty to help each other as much as possible.'<sup>99</sup> Support for this concept was widespread within New Zealand politics. The Leader of the Opposition Mr Wilford also expressed his 'belief in preference within the Empire', and regret that any foreign country might receive preference to supply to Britain over Empire members.<sup>100</sup>

Some moves to greater economic cooperation within the Empire occurred through the 1920s. An Imperial Economic Committee comprised of representatives of each of the governments of the Empire was established at the 1923 Imperial Economic Conference and charged to 'consider and advise upon any matters of an economic or commercial character ... which are referred to it by any of the constituent Governments.'<sup>101</sup> Although the order of reference suggested it was an early move towards imperial preference, the committee's work was directed mainly towards cooperation in marketing rather than coordinating economic policy.<sup>102</sup>

There was resistance to the idea of imperial preference within Britain. Joseph Chamberlain's attempts to introduce the concept of imperial preference through tariff reform in the earliest years of the twentieth century had been politically rebuffed. Malcolm McKinnon has indicated that this was typical, as Britain had been reluctant to make any formal trading arrangements with its dominions, including New Zealand, in the early part of the century.<sup>103</sup>

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<sup>97</sup> William Massey, Speech to Parliament re. Imperial Conference, *NZPD*, Vol.200, 5 July 1923, p.723.

<sup>98</sup> This had been addressed with a 1917 resolution to encourage Empire self-sufficiency 'in respect of food supplies, raw materials, and essential industries' but ongoing actualisation of this after the war appears to have been minimal. Bastable, *The Commerce of Nations*, pp.66-67.

<sup>99</sup> William Massey, Speech to Parliament re. Imperial Conference, *NZPD*, Vol.200, 5 July 1923, p.723.

<sup>100</sup> Mr. Wilford, Speech to Parliament re. Imperial Conference, *NZPD*, Vol.200, 5 July 1923, pp.741-742.

<sup>101</sup> There was, however an element which acknowledged the independence of the dominions from each other, when at New Zealand Prime Minister William Massey's suggestion, a clause was added which limited issues referred to only the member's part of the Empire unless given consent by other parties. 'Report of the Imperial Economic Conference 1923', *AJHR*, A.6, 1924, pp.277-280.

<sup>102</sup> Quoted by Mr Fraser, Question on Imperial Economic Committee, *NZPD*, Vol.211, 11 September 1926, p.611.

<sup>103</sup> Malcolm McKinnon, 'The Impact of War: A Diplomatic History of New Zealand's Economic Relations with Britain, 1939-1954', Doctoral Thesis in History, Victoria University of Wellington, 1981.

New Zealand politicians nevertheless continued to pursue stronger imperial trading ties, and as Prime Minister Gordon Coates carried on Massey's lobbying efforts. At the 1926 Imperial Conference, he outlined both economic and political benefits that an inclusively trading Empire would provide:

The advantages of an Empire self-sufficient in all essentials are clear – in the first place, it will be unnecessary to expend any portion of the Imperial resources in the purchase of essential commodities outside the Empire. Secondly, the Empire will be in an infinitely stronger position than hitherto to face a conflict such as has just been concluded; thirdly, by exploitation of the vast possibilities of the oversea dependencies it will be possible to arrange for the redistribution of the surplus population of Great Britain; and, finally, to the extent that it is found possible to reduce the trade of the Empire with foreign countries the danger of our entanglement in vexatious and difficult foreign complications will be correspondingly reduced.<sup>104</sup>

Coates lamented that a decline in intra-Empire trade had become evident and urged that the subject be given 'our very earnest consideration at this Conference.' New Zealand had already adopted a clear policy of encouraging imports from countries within the Empire, but Coates noted that despite a customs duty preference to British products, there was a 'disturbing' reliance on 'foreign' countries for imports, especially of petrol and motor cars. He assured the Imperial Conference, however, that 'in New Zealand there is a most pronounced sentiment in favour of the purchase of Empire goods, and if a suitable product at a reasonable price is offered I think I may say that business will be done.'<sup>105</sup>

It was not until the late 1920s that within Britain a political appreciation of the benefits of intra-Empire trade became more evident. When it did, it was at least in part due to the changes beyond its control that had occurred in the international economic environment. The effects of instability in international financial markets over the 1920s and the onset of the Depression made governments reluctant to lower their tariff barriers, affecting British trade activities. Arguments towards protectionism were gaining ground, as Condliffe later observed:

The devastating effects on national production and trade of erratic capital movements justified those economists who, like Mr Keynes, stressed the

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<sup>104</sup> Gordon Coates, 'Report of the Imperial Conference', 1926, *AJHR*, A.6, 1927, p.73.

<sup>105</sup> Gordon Coates, 'Report of the Imperial Conference', 1926, *AJHR*, A.6, 1927, pp.73-75.

undesirability of placing national employment and productive activity at the mercy of such unpredictable international influences.<sup>106</sup>

American responses to the international pressures influenced the trend further. In 1930 the United States of America (USA) passed the Smoot-Hawley Tariff into law. This reinforced a trend of increasing US tariff barriers over previous decades,<sup>107</sup> and raised US import duties to 'unprecedented heights'.<sup>108</sup> Major American trading partners followed suit with their own restrictions and trade controls.<sup>109</sup> This was a significant event, one that Condliffe described as 'a landmark in the disintegration of world trade.'<sup>110</sup> Although the Americans were not responsible alone for the international trend of protectionism that followed, it can be seen as having had a substantial influence.

The British responded to these developments by more favourably considering the alignment of its trade policies with members of the Empire.<sup>111</sup> Small moves were made towards consolidating imperial trade relations. The Empire Marketing Board, established by the recommendation of the Imperial Economic Committee in 1927, is one example. It focused on research, investigation and publicity towards 'the furtherance of the marketing of Empire produce in the United Kingdom'.<sup>112</sup> Amongst other activities, it published regular reports which investigated a range of trade aspects, including transporting and storing produce, British demand and pricing for produce. At the end of that decade a report investigated the relationship between British industries and Empire markets. As it investigated Britain's interests in trading, it noted that '... the prosperity of British industry depends upon an expanding export trade', and that this idea underlay British economic policy.<sup>113</sup>

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<sup>106</sup> J.B.Condliffe, *The Reconstruction of World Trade: A Survey of International Economic Relations*, New York: W.W.Norton and Co., 1940, p.96

<sup>107</sup> Pietro S. Nivola, 'The New Protectionism: US Trade Policy in Historical Perspective', *Political Science Quarterly*, Vol.101, No.4, 1986, p.582.

<sup>108</sup> William Diebold Jnr., *New Directions in our Trade Policy*, New York: Council on Foreign Relations, 1940, p.5.

<sup>109</sup> Judith Goldstein, *Ideas, Interests and American Trade Policy*, New York: Cornell University, 1993, pp.122-127.

<sup>110</sup> Condliffe, *The Reconstruction of World Trade*, p.185.

<sup>111</sup> McKinnon, 'The Impact of War', p.9.

<sup>112</sup> *Report of the Empire Marketing Board, May 1927 – May 1928*, London: His Majesty's Stationery Office, 1928, p.5.

<sup>113</sup> F.L.McDougall, *The Growing Dependence of British Industry upon Empire Markets*, London: His Majesty's Stationery Office, 1929, p.5.

The report's findings confirmed that British trade was losing its dominance internationally. It found that Britain's share of world exports had declined from 13.9 percent in 1913 to 11.4 percent in 1927, thereby verifying that Britain was trailing in its trade recovery since the Great War. Competition from Germany and the USA were identified as especially contributing to this.<sup>114</sup> This was especially worrying given that these were countries that had previously been regarded as some of the best customers for British manufactures.<sup>115</sup> The solution to this problem, according to the report's author McDougall, lay in the development and encouragement of Empire markets.<sup>116</sup> McDougall nevertheless rebutted any suggestion that this was a call for exclusivity in British trade:

Owing to some curious legacy of bygone fiscal controversies, there remain those who assume that a policy of Empire trading necessarily involves a decline of interest in foreign trade. There can be no sound basis for such an opinion, indeed the successful development of specially favourable markets within the Empire should assist the British manufacturer in his severe struggle in foreign markets.<sup>117</sup>

Rather, this was seen as a means by which Britain could develop its industries to better compete with the rest of the world:

The development of Empire markets should enable the British manufacturer to increase his output, to reduce his overhead costs, and thus to place himself in a better position to meet fierce competition in the foreign markets.<sup>118</sup>

Such arguments seemed to be gaining traction with the British. In July 1929 Joseph Ward announced that notice had been received from the British Government that the development of Inter-Imperial Trade was under their 'active consideration', and would be considered at the next Imperial Conference.<sup>119</sup> This was something explicitly supported by British and Dominion farmers. A conference of farming representatives

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<sup>114</sup> McDougall, *Growing Dependence of British Industry upon Empire Markets*, pp.6,9.

<sup>115</sup> Sargent, *British Industries and Empire Markets*, p.12.

<sup>116</sup> McDougall was the Australian representative on the Empire Marketing Board.

<sup>117</sup> McDougall, *Growing Dependence of British Industry upon Empire Markets*, p.7.

<sup>118</sup> McDougall, *Growing Dependence of British Industry upon Empire Markets*, p.27.

<sup>119</sup> Joseph Ward, Reply to Question on Imperial Economic Conference, *NZPD*, Vol.221, 31 July 1929, p.757.

the following March unanimously resolved 'that preferential treatment of Empire goods throughout the Empire was vital to the interests of the primary producers'.<sup>120</sup>

Change was not quickly forthcoming, however. British policy remained committed in principle to laissez-faire trade. At the Imperial Conference of 1930 most dominions argued towards developing imperial preference more formally, but the British Labour Government – which New Zealand Prime Minister George Forbes noted had been elected on a policy of free trade – resisted. In terms of developing trade cooperation within the empire, then, the conference was described by Forbes as 'very largely a failure'.<sup>121</sup>

Growing expectations in New Zealand that imperial preference would be established made it politically important to increase trade with Britain. During the 1920s the proportion of New Zealand exports directed there had gradually declined from 81 percent in 1923 to 73 percent in 1929. In 1930, however, Britain took 80 percent of exports, and in 1931 and 1932 took 88 percent.<sup>122</sup> The Industries and Commerce Department report in 1931 adopted a celebratory tone when it noted this increased proportion of exports absorbed by the British market.<sup>123</sup> Attributing this to the success of specific activities could not be justified. The relative growth occurred because there were greater falls in the value of exports to markets outside of Britain and the Empire than those that occurred within it.<sup>124</sup> Regardless, the figures accentuated the evidence for the New Zealand Government that New Zealand and Britain's trade relationship deserved special attention.

As international changes continued to take place and the Depression had devastating effects, British attitudes became more overtly uneasy about the ability of free trading to ensure its economic recovery. McKinnon suggests that trading conditions for British industries were so depressed by 1931 that new strategies were at last realistically sought.<sup>125</sup> Imperial preference became an acceptable solution. Britain

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<sup>120</sup> Mr Polson, Question on Imperial Preference: Imperial Conference, *NZPD*, Vol.224, 25 July 1930, p.607.

<sup>121</sup> Mr.G.Forbes, Speech on Imperial Conference, *NZPD*, Vol.228, 21 July 1931, p.545.

<sup>122</sup> *NZOYB*, 1934, p.212.

<sup>123</sup> 'Report of the Department of Industries and Commerce', *AJHR*, H.44, 1931, p.6.

<sup>124</sup> 'Report of the Department of Industries and Commerce', *AJHR*, H.44, 1930, p.3.

<sup>125</sup> McKinnon, 'The Impact of War', p.9.

took preliminary steps by imposing import duties with temporary exemption to the dominions in February 1932 and prepared for a conference in Ottawa in which an imperial preference framework would be 'hammered out'.<sup>126</sup>

### THE 1932 OTTAWA AGREEMENT

The British approach to intra-Empire trade at the 1932 Imperial Conference was in direct contrast to that of the conference two years earlier. In a statement before the conference, British Chancellor of the Exchequer, Neville Chamberlain, articulated the change of attitude towards free trade policies:

If economic laws are left to work themselves out, the producer may be ground to pieces ... If we are to restore stability of price and confidence in the future of the market for the great primary commodities, we must look for some means of regulating supplies in such a way that they shall not be from time to time completely out of relation to the absorbing capacity of their markets ...<sup>127</sup>

New Zealand's approach to the Ottawa conference was enthusiastic. As McKinnon noted, Coates went to Ottawa 'prepared to concede "almost any preference" to Britain' and in return wanted 'quota restrictions on dairy produce, meat, pig products, fruit and similar commodities' from 'foreign countries'.<sup>128</sup>

In his opening speech to the conference, the British delegation's leader Stanley Baldwin alluded to the earlier political restrictions that had tied the hands of British negotiators, but that the implementation of the 1932 Import Duties Act now permitted a wide extension of preference to the countries of the Empire. The objective was not to shut out other countries from trade, however, but to lower barriers within the Empire so that these had the best means of expanding Empire trade.<sup>129</sup>

The outcome of the conference, the 1932 Ottawa Agreement, created a more formal structure for trade within the British Empire. It formalised Imperial Preference, and deliberately attempted to place more control over the Empire's trade. It did this by

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<sup>126</sup> McKinnon, 'The Impact of War', p.9.

<sup>127</sup> N.Chamberlain quoted in J.G.Coates, *Dairy Industry Problems: Notes, November 1934*, Wellington: Government Printer, 1934, p.2.

<sup>128</sup> McKinnon, 'The Impact of War', p.9.

<sup>129</sup> Address by Mr.S.Baldwin, 'Report of the 1932 Imperial Economic Conference', *AJHR*, A.6, 1932, pp.56-57.

giving New Zealand dairy, egg and poultry produce free access into the British market, preferential tariff rates for a range of other items, and creating a plan to secure New Zealand's market share of the British meat market. In return, New Zealand reduced its already low tariffs on British imports and undertook to limit industrial protection so that British producers could enjoy a position more or less as a domestic competitor in the New Zealand market.<sup>130</sup> New Zealand's trade policies were now more formally bound to the British economy through the Ottawa Agreement. Frank Holmes' later assessment that this intensified New Zealand's economic dependence on Britain is valid.<sup>131</sup> Prichard likewise argued that the agreement 'materially promoted' New Zealand's dependence on the British market for the following three decades.<sup>132</sup>

The Ottawa Agreement's establishment may have formalised the trade relationship, but the context in which it developed signalled that New Zealand's position in relation to trade with Britain was now more vulnerable. The fact that preference had to be formalised made it clear that New Zealand could no longer take for granted its trade with Britain, nor could it rely on the relationship to permanently satisfy all of its economic needs.<sup>133</sup>

The British market had in recent years been flooded with meat from a range of countries whose usual European markets had effectively shut them out. The Ottawa Agreement countered this with a commitment from Britain to reduce its meat imports from 'foreign' countries over the following five years.<sup>134</sup> This would help protect New Zealand's share of the market, but it too made a commitment to limit its exports of mutton and lamb to Britain over the following years.<sup>135</sup> Regulation of supply, it was hoped, would also restore price stability and confidence in the market.<sup>136</sup>

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<sup>130</sup> NZIIA, *Contemporary New Zealand*, pp.120-121.

<sup>131</sup> Frank Holmes, 'A New Zealand View', in Richard Baker and Gary Hawke, *ANZUS Economics: Economic Trends and Relations Among Australia, New Zealand and the United States*, London: Praeger, 1992, p.167.

<sup>132</sup> Prichard, *An Economic History of New Zealand*, p.354.

<sup>133</sup> Wood, *New Zealand in the World*, p.114.

<sup>134</sup> Coates, Statement to Parliament re. Ottawa Conference, *NZPD*, Vol.233, 13 October 1932, pp.546-547.

<sup>135</sup> J.G.Coates, *A Butter Quota or a Free Market?* Wellington: Government Printer, 1933, pp.5-6.

<sup>136</sup> Neville Chamberlain cited in Coates, *Dairy Industry Problems*, p.2.

The meat quotas imposed by Britain were primarily viewed in a positive light by New Zealand meat exporters and politicians because they provided mechanisms by which their market share could be maintained.<sup>137</sup> They also marked a turning point, however, in the trade relationship between Britain and New Zealand. Desmond Oxnam, in a thesis written in 1941, viewed this point as ‘the end of an era when New Zealand could confidently rely on a large and expanding overseas market for her exports’.<sup>138</sup> This was an acknowledgement of Gordon Coates’ statements at the time, that ‘in 1882 we discovered in Great Britain a bottomless market: in 1932 we discovered that the market is not a bottomless one’, and that New Zealand was put on notice; ‘English market full: saturation point reached – or about to be reached.’<sup>139</sup>

These changes were also acknowledged by Coates as cementing the sea-change in international thinking on trade and economic management:

Laissez-faire, the law of supply and demand, unregulated competitive enterprise were the rule yesterday. Today the old order is being replaced to an increasing extent by deliberate planning, by regulation and joint organization in industry, in commerce, in all spheres of activity.<sup>140</sup>

Coates further remarked that ‘it clearly behoves us in New Zealand to take note of the change and to shape our policy accordingly’, an acknowledgement of New Zealand’s continued dependence on Britain and vulnerability to the international trading environment.<sup>141</sup> He became an advocate for government intervention in the economy, as was shown by his approach to the devaluation.<sup>142</sup> This was something which made him, as Sutch later observed, closer in thinking to his political rivals in the Labour Party than many of his colleagues were comfortable with.<sup>143</sup>

Regardless of the vulnerability New Zealand politicians felt about the trade relationship with Britain, negotiators sought ways to make the Ottawa commitments work to their advantage. As with many trade agreements to follow, the Ottawa Agreement was used to safeguard interests, even if it did restrict opportunities for

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<sup>137</sup> Coates, *A Butter Quota or a Free Market?*, pp.5-6.

<sup>138</sup> Desmond Oxnam, ‘Economic Policy in New Zealand, 1936-1939’, Masters thesis in Economics, University of Canterbury, 1941, p.2.

<sup>139</sup> Coates, *A Butter Quota or a Free Market?*, p.5.

<sup>140</sup> Coates, *A Butter Quota or a Free Market?*, p.8.

<sup>141</sup> Coates, *A Butter Quota or a Free Market?* p.8.

<sup>142</sup> McKinnon, *Treasury*, pp.132-133.

<sup>143</sup> Sutch, *Poverty and Progress in New Zealand*, p.230.

expansion at the same time. Coates noted, on discussing an upcoming review of the Ottawa commitments, that the nature of the arrangements gave New Zealand some power to influence outcomes:

...it is up to New Zealand to make a decision. The power to choose is in our hands to an unusual degree. By reason of the Ottawa Agreement a quota on dairy produce cannot be applied by Great Britain until 1935 without our express consent. Thereafter, for the remaining two years of the currency of the Ottawa Agreement, it may be applied in consultation with the dominions (this permits Britain then to apply the quota in spite of the dominion's opposition). But for the moment we control Britain's legislative power.<sup>144</sup>

Coates also advocated a change in emphasis in trade policy as a result of the developments evident from the Ottawa Conference. In a statement to Parliament following the conference, he argued that while production was still important, making this more economical was recommended. Emphasis should also be placed on extending marketing efforts. This included encouraging manufacturers and producers to search and create new markets for produce. The primary producers' boards, which had been established in the 1920s with limited powers to control and market exports, were seen as useful in this regard. For other manufacturers and producers, the Trade Commissioner Service was acknowledged as playing a similarly important role.<sup>145</sup> The notion of export development was starting to develop an expanded meaning in trade policy.

## **EXPORT DEVELOPMENT**

Coates' argument for developing efficiency and marketing strategies was a sign of shifts that were taking place towards more concerted export development efforts. Trade links within countries other than Britain had been pursued in a largely ad hoc manner until the 1930s. Since the 1890s New Zealand representatives had pursued export opportunities in many countries, including South Africa, Canada, Australia, Japan, China and India. Their early efforts mainly focused on trade promotion, gaining sales for particular products or participating in trade exhibitions. From the early 1930s, however, trade promotion became a more formalised and explicitly run

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<sup>144</sup> Coates, *A Butter Quota or a Free Market?* p.24.

<sup>145</sup> J.G.Coates, Statement to Parliament re. Ottawa Conference, *NZPD*, Vol.233, 13 October 1932, pp.551-552.

activity under the Trade Commissioner Service, which was based within the Department of Industries and Commerce.<sup>146</sup>

New trade relations with specific countries were also pursued through the 1930s by government negotiators as well as trade commissioners. This was made possible politically because of a change in British policy which had allowed New Zealand to negotiate its trade agreements independently.<sup>147</sup> This was significant because, as noted above, in earlier years this independent action had been attempted but was not successful.<sup>148</sup> New relations were not intended to divert trade away from its relationship with Britain, however, but simply to supplement it. In the Ottawa Agreement allowance was made for each country to determine their own policy in relation to trade with 'foreign' countries, so long as any arrangements did not interfere with their commitments under Ottawa.<sup>149</sup> Bilateral agreements were the most common mode – indeed in the highly regulated international environment it was almost the only effective one – as they could address specific trade restrictions.<sup>150</sup> Attempts at multilateral economic coordination had failed because of the hurdles that increased economic nationalism presented at the 1933 World Economic Conference.<sup>151</sup> Bilateral arrangements were usually qualified by the argument that they would be conditional on giving similar preferences to all formal trade partners, a concept similar to the later 'most favoured nation' principle which had developed first as part of US policy during that decade. It would also become more commonly used in the formation of the GATT after the war.

The Japanese Government was the first 'foreign' government that New Zealand concluded a commercial arrangement with. It did this first in 1928 with an agreement to grant each other 'most favoured nation' treatment.<sup>152</sup> An agreement with Belgium

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<sup>146</sup> A good outline of the early developments of the Trade Commissioner Service is given in: Fergus McLean, 'In the Beginning: In Search of Fresh Markets 1894-1950', in *New Zealand Trade and Enterprise* (eds.), *Agents Abroad: The Story of the New Zealand Trade Commissioner Service*, North Shore: Penguin Books, 2009, pp.21-52.

<sup>147</sup> Wood, *New Zealand in the World*, pp.118-119.

<sup>148</sup> See page 30; Wood, *New Zealand in the World*, p.62.

<sup>149</sup> Summary of Proceedings, 'Report on the Ottawa Conference', *AJHR*, A.6, 1932, p.13.

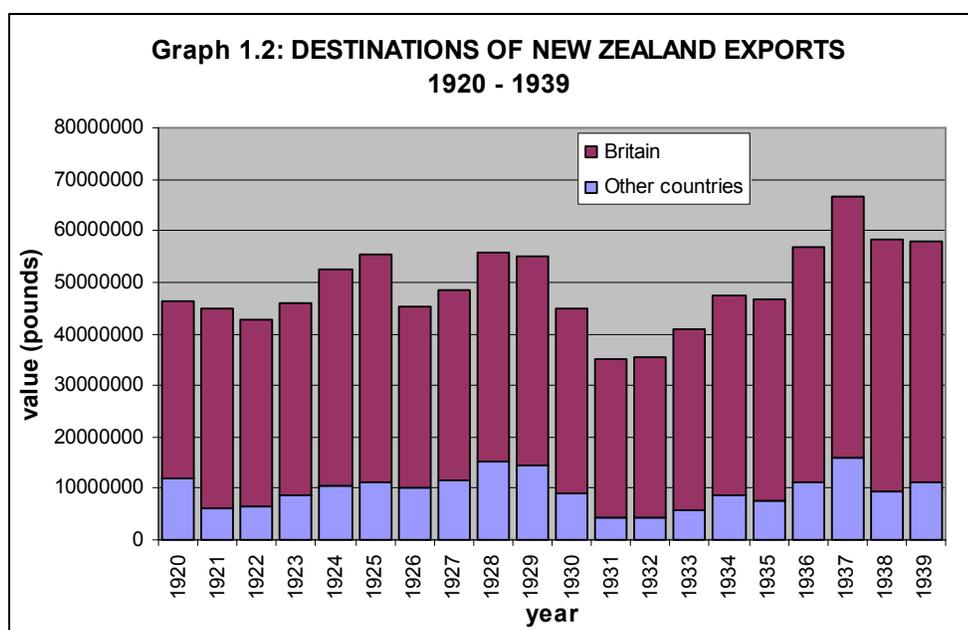
<sup>150</sup> Condliffe, *The Reconstruction of World Trade*, p.139.

<sup>151</sup> J.G.Coates, 'Financial Statement', *AJHR*, B.6, 1933, p.1.

<sup>152</sup> NZIIA, *Contemporary New Zealand*, pp.135.

was signed in 1933, with Germany in 1937, and with the Netherlands in 1938. Commitments to grant other nations most favoured nation status followed.<sup>153</sup>

Graph 1.2 shows that there was some growth in trade with other countries over the rest of the 1930s. It appears, however, to have been more about recovery from the 1920s than new growth. McKinnon's description of this policy as a 'mirage of diversification' is therefore appropriate.<sup>154</sup> Regardless, the development of these arrangements likely laid the groundwork for expanding trade relationships in later decades. It was, as Wood observed, indicative that New Zealand was testing the waters towards acting as an independent player in the international trading arena, by showing a 'renewed appreciation that New Zealand was a part of a world economy in which she might fruitfully play an independent part; provided, of course, that nothing was done to injure her vitally important trade with Britain.'<sup>155</sup>



Source: Compiled from NZOYB, 1941, p.206.

Trade with Britain clearly remained substantial, as the graph shows. Most growth in export revenue from other countries was met by the same from Britain, and after the peak of receiving 88 percent of New Zealand's exports in 1932, this settled to continuing to absorb around 80 percent for the rest of the decade.

<sup>153</sup> NZIIA, *Contemporary New Zealand*, pp.136-138.

<sup>154</sup> McKinnon, *Independence and Foreign Policy*, p.96.

<sup>155</sup> Wood, *New Zealand in the World*, pp.118-119.

Despite the fact that the Ottawa Agreement allowed preferential trade between the Dominions as well as with Britain, little expansion occurred in this regard. Preference towards trade with Britain over other Commonwealth countries obviously remained. This was politically guided; for example the 1933 New Zealand-Australian Trade Agreement included provision that if too much New Zealand import trade were diverted from Britain to Australia, Australia would take 'necessary steps' to stop it.<sup>156</sup> Any benefits from imperial preference gained in New Zealand's trade with Britain did not, indeed, appear to extend to its relations with the rest of the Commonwealth. In 1938 it was noted that:

New Zealand buys much more from Canada and Australia, India, South Africa, and Ceylon, than she sells to them, and in the particular circumstances it is doubtful whether the system of Empire preferences has benefited New Zealand – apart, of course, from the English market.<sup>157</sup>

Trade statistics support this. As Table 1.2 shows, Britain was the only Commonwealth country which New Zealand enjoyed a trade surplus with, even if it was a quite substantial one. These much lower trade values and the deficits support the NZIIA's evaluation in 1938 that New Zealand's ties with other countries of the Commonwealth were 'not useful or important in trade terms'.<sup>158</sup>

**Table 1.2: Trade with Commonwealth Countries 1938**

Country	Exports value (£)	% total	Imports value (£)	% total	Balance trade (£)
UK	48,897,990	84.17	26,532,688	47.87	22,011,515
Australia	2,189,454	3.77	7,159,428	12.92	-4,969,974
Canada	1,127,124	1.93	4,855,315	8.76	-3,728,191
India	140,103*	0.24	565,285	1.02	-425,182*
Sth. Africa	17,513*	0.03	90,682	0.16	-73,169*
Ceylon	0*	0	818,192	1.48	-818,192*
Fiji	99,240*	0.17	112,538	0.20	-13,298*
Nauru	□	□	140,647	0.25	□
W. Samoa	□	□	104,814	0.19	□

Total exports 1938: £58,376,283

Total imports 1938: £55,422,189

\* Denotes estimated total (based on percentages provided) □ Denotes figures not supplied

Source: NZOYB, 1940, pp.251-252, 276-277.

<sup>156</sup> NZIIA, *Contemporary New Zealand*, pp.129-130.

<sup>157</sup> NZIIA, *Contemporary New Zealand*, p.117.

<sup>158</sup> NZIIA, *Contemporary New Zealand*, p.116.

In some ways imperial preference might actually have been limiting New Zealand's trade opportunities rather than advancing them. Sutch wrote a piece quite scathing of the British attitude towards imperial preference in 1939, particularly with regards to meat access:

Whatever may have been the "spirit of Ottawa", the history of subsequent negotiations in regard to meat has not shown that the United Kingdom was very willing to put into practice the Ottawa objective of "progressively increasing the share of the Dominions in the United Kingdom market."<sup>159</sup>

He complained that heavy restrictions towards New Zealand beef exports continued in the British market, and there was an 'inconsistency' of policy towards mutton and lamb.

Concerns were also voiced about the effect New Zealand's commitments regarding industrial development under Ottawa would have. The text of the agreement included commitments by the New Zealand Government to undertake minimal protection against British goods.<sup>160</sup> Harry Holland, leader of the Labour Party in 1932, expressed concern that as it stood, then, imperial preference threatened secondary industries in New Zealand.<sup>161</sup> The NZIIA also noted that Empire preferences had, in fact, 'prevented the development of industries', and that the New Zealand consumer had also 'suffered' in terms of importing.<sup>162</sup>

Regardless of any doubts, in foreign and trade policy terms New Zealand continued to seek to strengthen its trading ties with Britain; an acknowledgement of the 'utter dependence' Keith Sinclair noted. It was clear, however, that political and diplomatic effort would be needed to ensure the maintenance of that relationship. Several visits by New Zealand political leaders had been required over the years since Ottawa to consult and negotiate on British proposals for restrictions and/or extra levies on meat exports.<sup>163</sup> Butter entry into that market had also been under threat, especially as

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<sup>159</sup> W.B.Sutch, 'The Ottawa Agreement and After', *The Economic Record*, Supplement, October 1939, p.34.

<sup>160</sup> 'Imperial Economic Conference, Ottawa 1932. Agreement Between His Majesty's Government in the United Kingdom and His Majesty's Government in New Zealand', *AJHR*, A.6A, 1932, p.2.

<sup>161</sup> H.E.Holland, *The Way Out of the Labyrinth*, Wellington: Clarte Book Shop, 1932, p.7.

<sup>162</sup> NZIIA, *Contemporary New Zealand*, p.117.

<sup>163</sup> Sutch, 'The Ottawa Agreement and After', pp.35-37.

British policies sought to promote domestic production.<sup>164</sup> This was a sign of what would become a major focus of New Zealand trade policy in following decades. In the meantime, active attempts to adopt economic management policies that would cater to New Zealand's domestic interests – and cushion the effects of the vagaries of the international marketplace – were being developed within New Zealand.

## THE TARIFF

Part of New Zealand's commitments at Ottawa had included a review of its customs tariff. A Tariff Commission was duly established in 1933, consisting of four members. It was chaired by the Comptroller of Customs Dr. George Craig.<sup>165</sup> Farmers and manufacturers' interests were represented respectively by members Mr. J.B. Gow and Mr.G.A.Pascoe. The fourth was an economist, Bernard Murphy.<sup>166</sup> The approach towards understanding and using tariffs was clearly more political than economic. The more 'purely' economic objective of obtaining revenue was evidently a secondary consideration to the political goals of protection.<sup>167</sup> The main objectives of the Tariff were articulated as such, and the order is somewhat telling:

- I. The development of New Zealand industry
- II. The maintenance and extension of markets for New Zealand products
- III. The encouragement of intra-Empire trade
- IV. The obtaining of revenue<sup>168</sup>

These objectives basically summed up the underlying goals of New Zealand trade policy that would have priority for some time thereafter. The Commission's brief was to consider strategies towards these objectives within New Zealand's commitments under the Ottawa Agreement's Articles 7 and 8. Article 7 required that:

His Majesty's Government in New Zealand undertake that protection by tariffs shall be afforded against United Kingdom producers only to those industries which are reasonably assured of sound opportunities for success.<sup>169</sup>

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<sup>164</sup> Sutch, 'The Ottawa Agreement and After', pp.40-41.

<sup>165</sup> J.G.Coates, 'Customs Tariff', *AJHR*, H.28A, 1934, p.2.

<sup>166</sup> 'Tariff Commission', *AJHR*, H.28, 1934, p.1.

<sup>167</sup> Gottfried von Haberler describes the distinction between tariffs being used purely for revenue and those used for protective means in; Gottfried von Haberler, *The Theory of International Trade with its Applications to Commercial Policy*, London: William Hodge and Co., 1950, p.238.

<sup>168</sup> J.G.Coates, 'Customs Tariff', *AJHR*, H.28A, 1934, p.3.

<sup>169</sup> Quoted in 'Report of the Tariff Commission', *AJHR*, H.28, 1934, p.8.

The Commission's interpretation of this was that domestic industries which were suited to the economic circumstances of New Zealand should be afforded protection under the tariff. This was seen as a continuation of policy rather than a change.<sup>170</sup> Article 8 committed the Commission to adjusting tariffs to put imported British goods in the position of a 'domestic competitor' in the New Zealand market. This the Commission considered more contentious, especially in contemplating how relative production costs could be considered in the different countries.<sup>171</sup> In reviewing the Commission's report, Coates alluded to the difficulties of coordinating these when the apparent worldwide trend was a rise in economic nationalism.<sup>172</sup>

Tariff measures in practice actually required relatively minor change under the Commission's regulations. Imperial preference had already been included in tariff setting since early that century. The tariff structure remained reasonably steady over the rest of the decade; much more significant – and contentious – import policy changes would occur later with the advent of import licensing.

### **THE FIRST LABOUR GOVERNMENT**

Over the early 1930s the focus of trade policy remained on enhancing export opportunities and external trade relationships, especially with Britain and the Commonwealth. New Zealand's tariff system impacted only slightly on trade policy and there was still relatively little intervention in the domestic economy.<sup>173</sup> More radical economic thinking had, however, developed in response to the effects of the Depression, the difficulties presented by the growth worldwide of economic nationalism, and the consequent shrinking markets for exports. Within New Zealand the Labour Party advocated different remedies for economic rehabilitation for the country, based on a range of influences, including J.A.Hobson, C.H.Douglas and Keynes.<sup>174</sup> Their election into government in 1935 signalled rapid and radical economic change for New Zealand. This was to be based on the notion of economic

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<sup>170</sup> 'Report of the Tariff Commission', *AJHR*, H.28, 1934, p.8.

<sup>171</sup> 'Report of the Tariff Commission', *AJHR*, H.28, 1934, pp.14-15.

<sup>172</sup> J.G.Coates, 'Customs Tariff', *AJHR*, H.28A, 1934, p.3.

<sup>173</sup> J.B.Condliffe, 'The International Position of New Zealand', *The Economic Record*, Supplement, October 1939, p.18.

<sup>174</sup> Keith Sinclair, *Walter Nash*, Auckland: Auckland University Press, 1976, pp.94-98; Brian S.Roper, *Prosperity for All? Economic, Social and Political Change in New Zealand Since 1935*, Southbank: Thomson Dunmore Press, 2005, pp.123-129.

insulation, creating protective structures for the domestic economy from the vagaries of the external economy.<sup>175</sup> It was also the beginning of a more self-consciously independent form of what McKinnon labels ‘the vigorous pursuit of interest’.<sup>176</sup> As David McIntyre noted, Labour made its decisions independently, even if ‘their answer was often to continue in dependency’.<sup>177</sup>

In his 1935 election pamphlet *The Case for Labour*, leader Michael Joseph Savage articulated Labour’s view of the economy:

The case for Labour is based upon the fact that the trade of the Dominion – internal and external – cannot exceed the purchasing power of the people of this country. Whether we trade with Britain or Japan we cannot have one-way trade and we must, therefore, be in a position to buy what is produced in New Zealand for use in New Zealand, as well as be able to buy and use all imports that come from abroad in exchange for our exports.<sup>178</sup>

Once in power and as Finance Minister, Walter Nash stated that the Labour Government intended to put New Zealand’s marketing and production in order in a way that would ‘best serve the people of the Dominion, the nations in the British Commonwealth’.<sup>179</sup>

Labour made alleviating unemployment a priority in their economic strategies. Despite some export recovery prior to Labour’s election, 60,000 people were still unemployed.<sup>180</sup> In Labour’s view, the government should take an active role in addressing these issues; as Holland argued in 1932, countries should not ‘starve their way back to prosperity’, but would require political help to stimulate spending to restart the economy.<sup>181</sup> In 1938 Nash explained the government’s philosophy:

The present Government came into office in December, 1935, with a definite policy ‘to organise an internal economy that would distribute the production and services of the Dominion in a way that would guarantee to every person able and willing to work an income sufficient to provide him

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<sup>175</sup> D.B.Copland, ‘The Economics of Insulation’, *The Economic Record*, Supplement, October 1939, pp.26-27.

<sup>176</sup> McKinnon, *Independence and Foreign Policy*, pp.4,83.

<sup>177</sup> W.David McIntyre, ‘Labour Experience of Foreign Policy’, in Hyam Gold, *New Directions in New Zealand Foreign Policy*, Takapuna: Benton Ross, 1985, p.25.

<sup>178</sup> M.J.Savage, *The Case for Labour*, Auckland: Worker Printery, 1935, p.2.

<sup>179</sup> Walter Nash, ‘Financial Statement’, *NZPD*, 4 August 1936, p.262.

<sup>180</sup> Oxnam, ‘Economic Policy in New Zealand’, pp.23,28.

<sup>181</sup> Holland, *The Way Out of the Labyrinth*, p.16.

and his dependents with everything necessary to make and a home and 'home life' in the best sense of the meaning of those terms.<sup>182</sup>

These echoed Keynes' advocacy of full employment policies and stimulating demand within the economy. Oxnam argued that Labour's policies had in practice been 'conditioned by whatever method would be adopted to cope with the problem of unemployment.'<sup>183</sup> This would not, however, be left to the vagaries of private enterprise. The Labour Government developed a programme of public works as a key means of pursuing full employment. They clearly saw government as having a central role in economic management.

Labour also acknowledged farmers as the foundation of the economy for 'producing the food and other products upon which our standard of living is based.'<sup>184</sup> They considered increasing farm productivity an important means by which standards of living could be improved. This, however, had become a less secure proposition over recent years as Nash acknowledged:

How can we justifiably ask our farmers to continue to supply a market where the prices range in ten years from 230/- per cwt. to 64/- per cwt.? Yet this is what they did between 1925 and 1935. While these disparities are in part due to factors over which New Zealand has little control, they are mainly due to the wiles and schemes of clever manipulators of markets and speculators in the people's supply of food.<sup>185</sup>

The Labour Government wanted to insulate farmers from those 'clever manipulators' and encourage farm production for export. Other countries had implemented guaranteed price policies and Nash argued that New Zealand was compelled to follow suit.<sup>186</sup> Labour established mechanisms by which the government took responsibility for externally marketing New Zealand's butter and cheese through the 1936 Guaranteed Prices Act and Primary Products Marketing Act. Under the Primary Products Marketing Act, all butter and cheese for export came under the property of the government once placed on board a ship for export, and the government paid the

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<sup>182</sup> Walter Nash, 'Financial Statement', *NZPD*, 20 July 1938, p.606.

<sup>183</sup> Oxnam, 'Economic Policy in New Zealand', p.29.

<sup>184</sup> Walter Nash, *Guaranteed Prices: Why and How*, Wellington: New Zealand Labour Party, 1935, p.6.

<sup>185</sup> Nash, *Guaranteed Prices: Why and How*, pp.6.

<sup>186</sup> Nash, *Guaranteed Prices: Why and How*, pp.11.

dairy factories a guaranteed price for the produce.<sup>187</sup> Guaranteed prices were set based on the average butter fat pay-out over the previous ten years.<sup>188</sup> As Nash explained, the government absorbed the market risk under this mechanism:

If the proceeds of the sale of this produce do not cover the guaranteed price paid out, then the deficit is not the responsibility of the dairy-farmer, but of the Government. If on the other hand the proceeds of the sale in the first year are greater than the amount guaranteed, this surplus will be used for the benefit of the dairy-farmer and the industry after consultation with its representatives.<sup>189</sup>

After two years of operation, these measures were presented as having improved the internal environment for producing for external trade, as Walter Nash noted in 1938:

The Government, having assumed control over the external marketing of butter and cheese, and stabilized the market, provided increased outlets for New Zealand produce, widened the spread of consignments over the various ports of the United Kingdom, and by improving the regulation of shipments from New Zealand has been able to effect substantial economies in interest, insurance, commission and other charges. These benefits and savings must inevitably return to the producer.<sup>190</sup>

Some of these claims attributing the success solely to Labour's policies, however, may have been exaggerated. Oxnam noted that international economic recovery had begun before Labour came into power.<sup>191</sup> Indeed, Gordon Coates' 1935 Financial Statement had noted some economic recovery internationally, and especially in Britain, and that prospects for continued recovery were 'heartening'.<sup>192</sup>

Labour's domestic efforts were intended to be supplemented by more stable external trade measures, especially within the Ottawa framework. In 1932 Harry Holland had argued for developing 'definite trading arrangements with all partners of the British Commonwealth of Nations and also outside countries'.<sup>193</sup> In 1938 the NZIIA noted that the Labour Government's policies had been 'enthusiastically' based on imperial preference, and that increasing intra-Empire trade had been an objective of the New

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<sup>187</sup> Walter Nash, 'Financial Statement', *NZPD*, 4 August 1936, p.263.

<sup>188</sup> Walter Nash, *NZPD*, 30 September 1936, p.497.

<sup>189</sup> Walter Nash, 'Financial Statement', *NZPD*, 4 August 1936, p.263.

<sup>190</sup> Walter Nash, 'Financial Statement', *NZPD*, 20 July 1938, p.606.

<sup>191</sup> Oxnam, 'Economic Policy in New Zealand', p.23.

<sup>192</sup> J.G. Coates, 'Financial Statement', *AJHR*, B.6, 1935, p.1.

<sup>193</sup> Holland, *The Way Out of the Labyrinth*, p.7.

Zealand Government for some time.<sup>194</sup> Labour in fact sought to take the Ottawa arrangements a step further. Nash envisaged a bilateral trade agreement with Britain that would include bulk purchasing and fixed pricing arrangements, to help facilitate this policy.<sup>195</sup> He spelt out his intended approach to Britain in a statement to Parliament in 1936:

Whatever you take from us, whatever prices are realized for our products, we will undertake, after negotiation and agreement with you, that the return that comes from the sale of our products shall be used in Britain – first, to redeem the overseas debt; and, second, to buy from Britain those goods which cannot be economically manufactured in New Zealand.<sup>196</sup>

Coates responded, however, that Britain was not prepared to create a bilateral agreement with New Zealand based on guaranteed prices, and he was proved right.<sup>197</sup> Nash's visit to Britain that year was unsuccessful in concluding any broad agreement.<sup>198</sup> Instead, for the meantime, trade negotiations with Britain were forced to focus on single issues.<sup>199</sup>

## **INDUSTRIAL PLANNING AND DEVELOPMENT**

Ensuring trading security for New Zealand's agricultural industries was an early priority for the first Labour Government, but developing New Zealand's secondary industries was also an important goal. Although the New Zealand Tariff already had this as a stated objective, industrial development was essentially treated as a peripheral matter prior to the early 1930s, and as already noted, some had argued that imperial preference had in fact obstructed the development of secondary industries.<sup>200</sup> New Zealand governments were criticised for having pursued no conscious development of New Zealand's secondary industries. In 1938 the NZIIA tersely expressed it in this way:

The Government's traditional attitude towards so-called secondary industries can best be described as one of mildly benevolent tolerance. There was no attempt (and probably little desire) to strengthen and

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<sup>194</sup> NZIIA, *Contemporary New Zealand*, pp.134, 118.

<sup>195</sup> Sinclair, *Walter Nash*, p.127.

<sup>196</sup> Walter Nash, 'Financial Statement', *NZPD*, 12 August 1936, p.446.

<sup>197</sup> Gordon Coates, *NZPD*, 12 August 1936, p.447.

<sup>198</sup> Sinclair, *Walter Nash*, pp.133-143.

<sup>199</sup> McKinnon, 'The Impact of War', pp.12-13.

<sup>200</sup> NZIIA, *Contemporary New Zealand*, p.117.

develop them as a measure of national economic policy. Secondary industries in New Zealand, up to the present time, 'are in the position of having just growed'.<sup>201</sup>

The author B.R.Turner clearly thought the government should play a role in developing industry. He noted that as external developments had restricted the opportunities for primary export expansion, policy had been compelled to become more explicit in this area, and that now 'the case for a policy of industrial expansion in New Zealand rests upon the crude facts of economic necessity'.<sup>202</sup>

Such sentiments were in keeping with government aspirations. The Labour Party had indicated a proactive approach to industrial development before coming into power. Harry Holland argued in 1932, for example, that secondary industries needed to be safeguarded and developed just as 'naturally' as primary industries did.<sup>203</sup> Once in power, Labour worked towards achieving this. They established the Industrial Efficiency Act (1936) which provided the initial mechanism for industrial development. From the Act, an Industrial Efficiency Bureau was created which had within its powers the licensing of industries, and the ability to create industrial plans for their organisation.<sup>204</sup>

The language used in explanations of the Industrial Efficiency Act evidenced a strong inclination towards planning and carefully managing industrial development. Under the Act, all industries in New Zealand were required to be licensed, which would enable the development of New Zealand's industries 'on an orderly and constructive basis'.<sup>205</sup> New industries would only be allocated licences 'where it was clearly in the economic interests of the Dominion that they should be licensed, full regards always being had as to whether licensing would contribute to the welfare not only of those engaged in the industry itself, but also of the public as a whole'.<sup>206</sup> Already licensed industries' expansion would also be monitored. New units of existing industries would be allowed 'only if their operation would contribute to the economic welfare of the

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<sup>201</sup> B.R.Turner, 'The State and Industry', *The Economic Record*, October 1939, Supplement, p.113.

Turner's quote was from NZIIA, *Contemporary New Zealand*, p.66.

<sup>202</sup> Turner, 'The State and Industry', p.114.

<sup>203</sup> Holland, *The Way Out of the Labyrinth*, p.7.

<sup>204</sup> Turner, 'The State and Industry', p.115.

<sup>205</sup> 'Report of the Department of Industries and Commerce', *AJHR*, H.44, 1940, p.17.

<sup>206</sup> 'Report of the Department of Industries and Commerce', *AJHR*, H.44, 1940, p.18.

Dominion.<sup>207</sup> Fears that 'wasteful redundancy of plant and capital expenditure of all kinds' could occur without careful planning, and that it would only lead to 'economic waste', were behind the implementation of this policy.<sup>208</sup> The other function of the Bureau was the development of industrial plans, as the Department of Industries and Commerce reported:

The more far-reaching and constructive action contemplated in the Industrial Efficiency Act relates to the preparation of industrial plans for different industries and the administration of these "plans" by Industrial Committees. It is through these committees that industries may achieve what virtually amounts to self-government, subject to the scope of the "plans" as voluntarily accepted by the respective industries, and subject also, of course, to the aims and tenor of the Industrial Efficiency Act.<sup>209</sup>

In the early years of the Bureau there was only limited expansion in the number of New Zealand's secondary industries. Jones has noted this, observing that it was at first 'something of a disappointment', especially for those wishing to see government promotion of new industries.<sup>210</sup> Graph 1.3 shows that commentators were justified in their complaints, with the numbers of factories increasing only very slowly through the 1930s. Steeper growth, however, was found in the numbers of people employed in manufacturing industries.

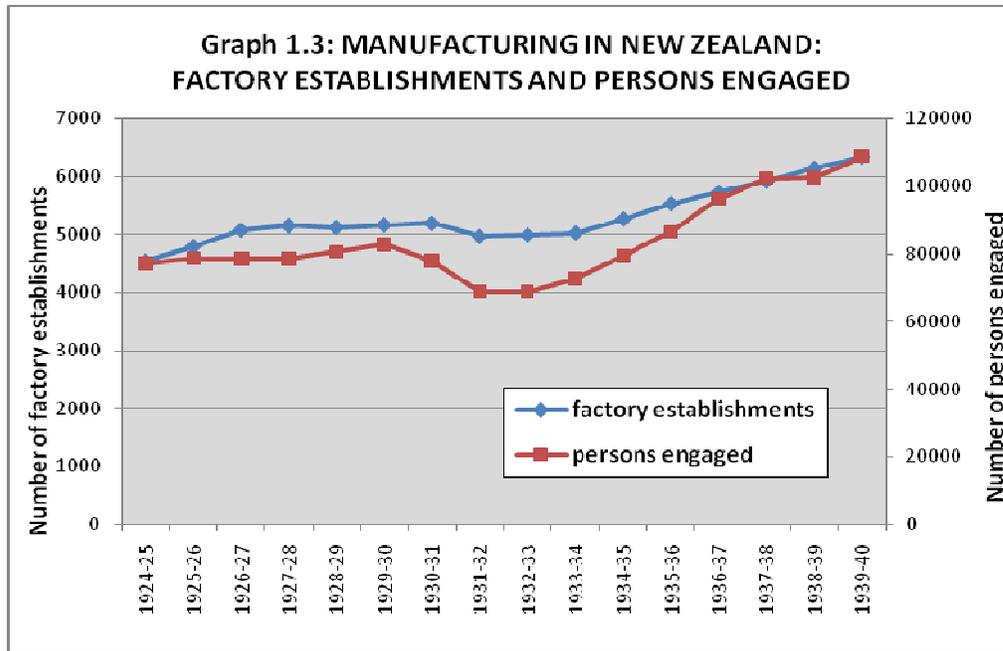
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<sup>207</sup> 'Report of the Department of Industries and Commerce', *AJHR*, H.44, 1940, p.17.

<sup>208</sup> 'Report of the Department of Industries and Commerce', *AJHR*, H.44, 1940, p.17.

<sup>209</sup> 'Report of the Department of Industries and Commerce', *AJHR*, H.44, 1940, p.17.

<sup>210</sup> Jones, 'Government Policy and Industry Structure in New Zealand', p.198.



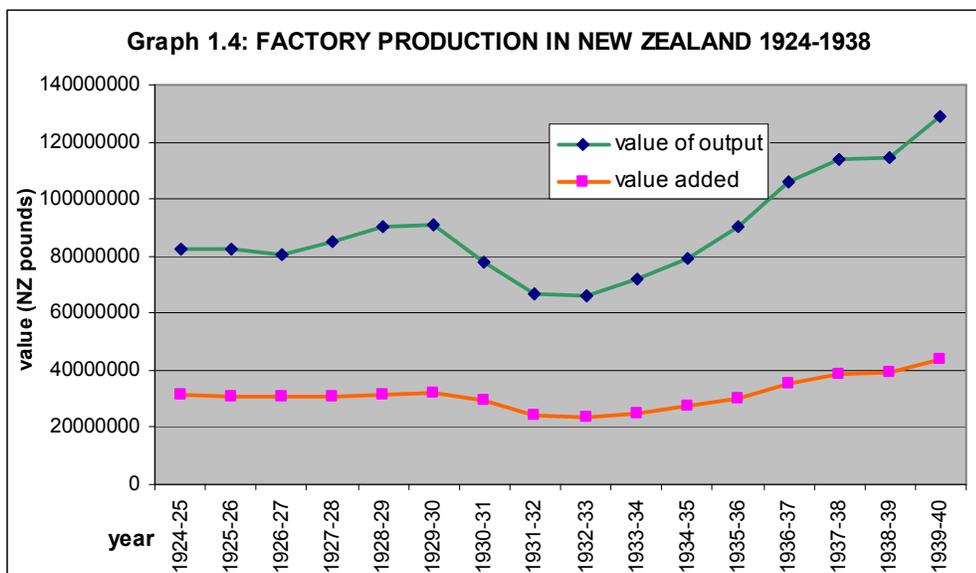
Source: Compiled from NZOYB, 1935, p.380; NZOYB 1941, p.442; NZOYB 1942, p.395.

In a likely response to the complaints, the government in 1939 emphasised more the success of the Bureau in creating more coordinated development of industries:

Manufacturing and distributing interests have demonstrated a willingness to use the Act better to coordinate their activities and relationships on a cooperative basis and thereby to attain more economic production. There are also clear indications that some manufacturers are prepared to establish certain types of industries only if the provisions of the Industrial Efficiency Act can be invoked to prevent uneconomic competition, without which they consider the investment of capital in such cases would not be justified. In this respect also, therefore, the industrial policy is securing substantial advantage to the Dominion.<sup>211</sup>

Manufacturing output statistics give greater evidence of progress in industrial development through the 1930s. Graph 1.4 shows the value of total factory output and value added over the mid-1920s to 1940. Output grew steadily over the mid to late 1930s, but as this was steeper than the growth of value added, it can be assumed that the new production tended to have a relatively low ability to add value.

<sup>211</sup> M.J.Savage, 'Financial Statement', *AJHR*, B.6, 1939, p.3.



Source: Compiled from NZOYB, 1935, p.380; NZOYB 1941, p.442.

The rises in both factory establishments and production around 1936 can not necessarily be attributed to the establishment of the Bureau of Industry. Output was rising before then. Economic historian J.V.T. Baker may well have been more correct when he argued that it was Labour's social policies and the implementation of import licensing rather than the activities of the Bureau which contributed most to the diversification of industry in the pre-war period:

The rapid upward movement of factory production in the late thirties – an increase of 36 percent in the four years from 1935-36 to 1939-40 – was no doubt assisted by other Labour policy measures which increased consumer spending and also made direct demands on the economy through the expansion of public works.<sup>212</sup>

Notions of industrial progress were tied up with the objective of gaining more self-sufficiency for New Zealand. The 1940 Industries and Commerce report celebrated the progress gained by local manufacturers in developing industries to supply the domestic market with goods that had previously been imported. These ranged from parchment lampshades, to corsets, to bolts and nuts, to glucose.<sup>213</sup>

Domestically, as we have seen, Labour sought to develop New Zealand's economic policies to help exporters maintain business in as secure an environment as possible.

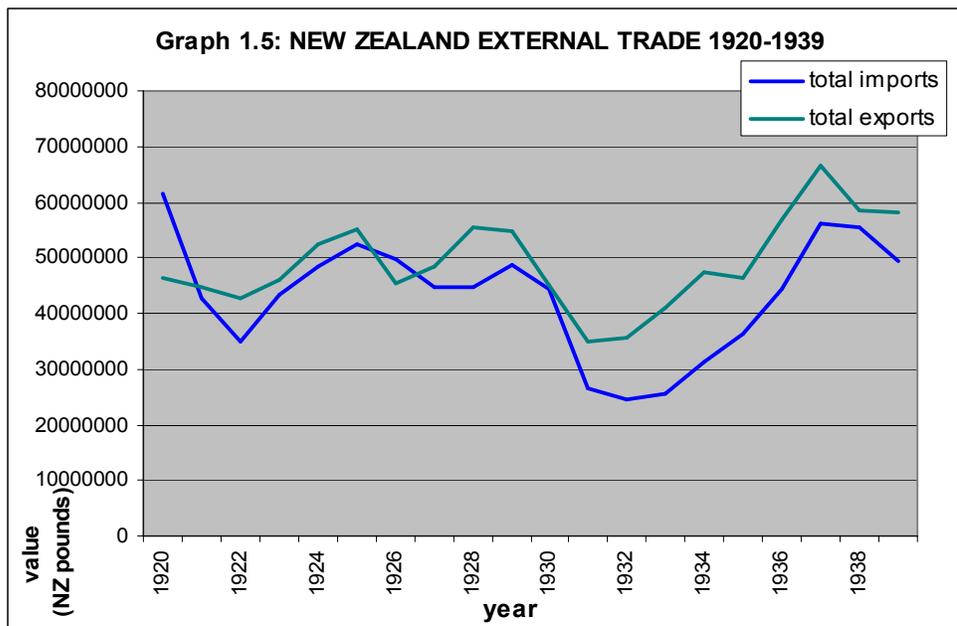
<sup>212</sup> J.V.T.Baker, *The New Zealand People at War: War Economy*, Wellington: Department of Internal Affairs, 1965, pp.19-20.

<sup>213</sup> 'Report of the Department of Industries and Commerce', *AJHR*, H.44, 1940, p.15.

Outwardly, an expansive trade policy continued in the Labour Government's first term. Success in this, however, was still subject to how effectively the international trade environment worked to New Zealand's advantage. Sutch identified this in 1936 as a typical feature of New Zealand's economic history:

Whatever the political regime in New Zealand the internal economy will be subject perhaps more than that of any other country to the influences of the outside world.<sup>214</sup>

This was a valid comment. It could fairly be considered at that stage that the Ottawa Agreement and Labour's early policies had not significantly impacted on New Zealand's trade experience. Graph 1.5 shows that trade grew quite significantly over the 1930s, but mainly in recovery rather than new export growth. As the 'outside world' became more inclined towards protectionism, limits to trade expansion were evident. Under a Labour Government already inclined towards economic intervention, New Zealand trade policy also began to take on a more overtly protectionist nature.



Source: Compiled from NZOYB, 1941, p.857.

### IMPORT AND EXCHANGE CONTROLS

The main element of protection Labour would focus on next was import licensing. Although Labour had exhibited a preference towards import control, licensing was

<sup>214</sup> Sutch, *Recent Economic Changes in New Zealand*, p.i.

not actually brought into legislation until its second term of office in 1938. When this occurred, the policy of insulation took on an extended meaning. Horace Belshaw aptly noted in 1939 that insulation no longer simply meant seeking to shelter New Zealand from the effects of external price fluctuations; it now came to be synonymous with protection.<sup>215</sup> With the introduction of import licensing and exchange control, New Zealand trade activity became tightly controlled.

Import and exchange controls were hurriedly passed into legislation in early December 1938, at first purported as a response to the exchange crisis. This had seen New Zealand banks' net overseas assets plummet from £36m in 1935 to £7.88m in November 1938.<sup>216</sup> The drop had occurred mainly because of flights of capital from New Zealand,<sup>217</sup> but was also due in part to recent rises in import prices. Any export increases had been met if not exceeded by those of imports, so achieving a trade surplus was difficult, and paying for Labour's new welfare provisions was becoming increasingly problematic. Nash largely blamed the situation on the 'menace of over-importation of goods from overseas', as he called it in a statement to Parliament in June 1938.<sup>218</sup>

Labour's underlying philosophy behind controlling trade had been apparent before its election into government, and was, as Oxnam noted, part of their original programme of economic reform.<sup>219</sup> Holland had referred in 1932 to a need to cease 'tariff-tinkering' that suggested an acceptance of stronger import control measures. As the exchange crisis came to a head in late 1938, it provided a catalyst for implementation of the policy. The crisis essentially forced the government to decide whether it would fully commit those philosophies it had advocated into reality.<sup>220</sup> In December 1938, it did.

The policy of binding both imports and exports by licence regulations from 1938 was designed in the short term to closely control the exchange flows, and was implemented by two pieces of legislation. The 1938 Import Control Regulations made

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<sup>215</sup> Horace Belshaw, 'Import and Exchange Control', *The Economic Record*, December 1939, p.178.

<sup>216</sup> R.F.Wilson, 'Import Control in New Zealand 1938-1950', *The Economic Record*, June 1950, p.51.

<sup>217</sup> Copland, 'The Economics of Insulation', p.39.

<sup>218</sup> Walter Nash, *NZPD*, 29 June 1938, p.74.

<sup>219</sup> Oxnam, 'Economic Policy in New Zealand', pp.118-119.

<sup>220</sup> Oxnam, 'Economic Policy in New Zealand', p.136.

all imports subject to licence arrangement. The Export Licences Regulations, passed concurrently, required the same for exports; an action designed not to restrict exports but to ensure that all funds gained were brought into the banking system.<sup>221</sup> Both acts were administered by the Customs Department, with the Department of Industries and Commerce often in consultation.<sup>222</sup> This was primarily to ensure that overseas funds were closely monitored, and that trade maintained a balance of export and import receipts. The industrial efficiency and import restrictions policies were not at first overtly linked.<sup>223</sup> Over time, however – particularly with the inclusion of Industries and Commerce’s role – import licensing took on a more obvious role in New Zealand’s industrial development planning. It came to be administered in a way that ensured that industries were cushioned from the impact of foreign competition in the domestic market.

Gary Hawke has argued that these decisions were more significant symbols of change in New Zealand’s economic management than anything that had been instigated since Labour’s election to government:

They represent a broad decision that the course of the New Zealand economy should be determined less by events overseas and more by the choice of local people, especially those holding official positions.<sup>224</sup>

Within the ‘local people’, however, political consensus on the import restrictions was not entirely forthcoming, neither from groups within New Zealand, nor from its trading partners.

Despite early general acceptance within the domestic economy that controls had been necessary to alleviate the exchange crisis in the short term,<sup>225</sup> over time a range of complaints arose. There were often complaints that the high degree of government control over external trade frustrated the activities of private enterprise.<sup>226</sup> Inconsistencies in the administration and allocation of import licences

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<sup>221</sup> R.S.Deane, P.W.E.Nicholl and M.J. Walsh (eds.), *External Economic Structure and Policy: An Analysis of New Zealand’s Balance of Payments*, Wellington: Reserve Bank of New Zealand, 1981, p.459.

<sup>222</sup> Belshaw, ‘Import and Exchange Control in New Zealand’, p. 179.

<sup>223</sup> McKinnon, ‘The Impact of War’, p.19.

<sup>224</sup> Hawke, *The Making of New Zealand*, p.163.

<sup>225</sup> ‘Overseas Trade Control’, *New Zealand Herald*, 7 December 1938.

<sup>226</sup> Belshaw, ‘Import and Exchange Control in New Zealand’, p.184; McKinnon, *Independence and Foreign Policy*, p.85.

also caused problems for importers.<sup>227</sup> Industries that required raw materials imported from overseas applied to the Customs Department through the Industries Committee (Import Control), which was charged with ensuring that manufacturers had 'an adequate supply of raw materials from overseas'.<sup>228</sup> British financial interests in New Zealand also had problems with the policies. This was explained by Wood, who noted that borrowing from London had in earlier years made it possible for the country to develop and had financed New Zealand's 'brisk imports of British manufactures'.<sup>229</sup> This was now less likely.

### **NEW ZEALAND'S RELATIONSHIP WITH BRITAIN AT THE END OF THE 1930S**

New Zealand's trade relationship with Britain also became more complicated with the implementation of the new regulations. The tariff policy had been an easier mechanism by which New Zealand could meet its Ottawa obligations than was possible through the operation of the new import licensing policy. Labour had, however, considered that obligations under Ottawa could be accommodated within the new policy. Michael Joseph Savage emphasised this in August 1939, noting that Britain was given preference in licence allocation:

In administering the import selection scheme preference is, of course, given to essential requirements for defence, for primary industries, and for secondary industries, while at the same time every endeavour is made to divert purchases to United Kingdom markets.<sup>230</sup>

British manufacturers nevertheless protested loudly about the restrictions placed on their goods in the New Zealand market, and made calls for a trade boycott on New Zealand.<sup>231</sup> In practice this may have been understandable, as some were affected by the import restrictions.<sup>232</sup> There were accusations that New Zealand was being disloyal, and that it was heading towards 'economic totalitarianism'. In the pre-war political current of the time these were harsh words which compared New Zealand with a rampant Germany.<sup>233</sup> They were also going against a new trend, as Britain and

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<sup>227</sup> Oxnam, 'Economic Policy in New Zealand', pp.139-140.

<sup>228</sup> 'Report of the Department of Industries and Commerce', *AJHR*, H.44, 1940, p.8.

<sup>229</sup> Wood, *New Zealand in the World*, p.125.

<sup>230</sup> M.J.Savage, 'Financial Statement', *AJHR*, B.6, 1939.

<sup>231</sup> McKinnon, *Independence and Foreign Policy*, p87.

<sup>232</sup> Sutch, 'The Ottawa Agreement and After', p.43.

<sup>233</sup> Sinclair, *Walter Nash*, pp.175-176.

the United States of America had started to develop policies towards re-liberalising international trade.

The new policies also impacted on New Zealand's more general relationship with Britain. Nash's visit to Britain to seek loans to alleviate the exchange crisis (and renew an existing loan) in 1939 were complicated by the opposition there to New Zealand's new import control policies. He considered his idea of establishing a new bilateral agreement a solution to these difficulties, but this was no more forthcoming from Britain than in previous visits.<sup>234</sup> Several fraught meetings ensued where British representatives made demands for New Zealand to eliminate what they saw as embargoes on British exports. At one stage, the Under-Secretary of State for Overseas Trade, R.S. Hudson, presented Nash with a list of demands which included agreeing to declare that import controls were only temporary; that uneconomic industries would not be set up; that the Ottawa commitments would be respected; and that United Kingdom representatives would be consulted on new manufacturing firms to be established. This, Nash protested, would be tantamount to agreeing to British control over New Zealand industrialisation.<sup>235</sup> This marked an interesting change in the dynamics of New Zealand's relationship with Britain. It showed that New Zealand was prepared to defend its right to independently make domestic policy, and had defined its national interests apart from Britain.

In the end, however, some compromise was made. Nash signed an agreement with the British Board of Trade that import licensing would not protect New Zealand industries from competition from British industries, nor help foster uneconomic industries.<sup>236</sup> This, at any rate, was in line with its already-established Ottawa commitments, even if it committed New Zealand to taking a less independent approach to industrialisation. Writing on New Zealand's economic history three decades later, Sutch viewed this as a step backward for New Zealand, identifying this

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<sup>234</sup> Sutch, 'The Ottawa Agreement and After', pp.43-44.

<sup>235</sup> Sinclair, *Walter Nash*, pp.178-181.

<sup>236</sup> McKinnon, 'The Impact of War', p.21; Sinclair, *Walter Nash*, pp.183-184.

as a point where Nash was 'committing the country to a continuance of its colonial position'.<sup>237</sup>

Despite the responses import licensing policies evoked, there was little actual change in trade patterns in the immediate aftermath of their implementation. Administration of the scheme was still being properly established and in the first six months imports were actually greater than in the same period the year before.<sup>238</sup> This episode, however, highlighted the tensions that existed between Labour's policies for industrial expansion and export development. If New Zealand wanted to stick to the long-held policy of exporting as much produce as possible – something that at that time was widely considered 'fundamental to the welfare of New Zealand'<sup>239</sup> – then it would have to negotiate with Britain the way it sought to develop secondary industries.

At the same time, however, it came to be regarded by some that the British market held little scope for further export development. Turner noted that '(a)t the worst, New Zealand is faced with a steadily contracting demand for her primary exports; at the best with a market that offers little scope for expansion.'<sup>240</sup> The Labour Government had also learnt its lessons from the financial difficulties from heavy overseas borrowing in the 1930s and the near-miss in gaining further help in 1939. It was in future reluctant to borrow more, even during the war.<sup>241</sup> These would all be issues which would regain significance after the disruptions brought by the war, but in the meantime there remained an obvious commitment to Britain, both economically and politically.

The continued commitment to Britain was especially evident when, very shortly after, war broke out. Members of the New Zealand and British Governments had discussed possible arrangements for trade in the event of war since 1937. Both governments remembered the difficulties that had occurred with delays in the implementation of World War One bulk purchases, which had caused price rises and market turmoil

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<sup>237</sup> W.B.Sutch, *The Quest for Security in New Zealand: 1840 to 1966*, Wellington: Oxford University Press, 1966, p.231.

<sup>238</sup> Sinclair, *Walter Nash*, p.177.

<sup>239</sup> Oxnam, 'Economic Policy in New Zealand', p.136.

<sup>240</sup> Turner, 'The State and Industry', p.112.

<sup>241</sup> Baker, *The New Zealand People at War*, p.21.

when they were abruptly terminated at the end of the war.<sup>242</sup> British representatives sought to make early groundwork in this regard. At the 1937 Imperial Conference British representatives indicated to the New Zealand ministers present that 'in the event of war, the United Kingdom Government might become the sole purchaser of imported foodstuffs, and in this connection meat and dairy produce were specifically mentioned.'<sup>243</sup> This was followed by a memorandum along similar lines submitted to the New Zealand High Commissioner in London in August 1939.<sup>244</sup>

New Zealand was agreeable to such arrangements. They tied with its political commitment to join the war in support of Britain without question. As soon as war was declared in early September 1939, processes to formalise new trade arrangements between New Zealand and Britain for bulk purchase of New Zealand's exportable surplus of dairy and meat products and wool were promptly put in action.<sup>245</sup> Labour's centralised marketing mechanisms and external trade and exchange control policies had transformed the economy into what Hawke terms a 'controlled economy'.<sup>246</sup> This made for a relatively easy transition into a wartime economy and the wartime trade arrangements.<sup>247</sup> Ironically, this arrangement was close to what Nash had sought throughout the previous years, and the arrangements indeed led to economic recovery as he envisaged.<sup>248</sup>

In introducing the second reading of the Marketing Amendment Bill which would bring the wartime arrangements into legislation, Nash justified the strict controls that would be in place. Market mechanisms would essentially be overridden in the process, so that prices could remain stable. Again, loyalty in supplying Britain was an important theme:

It would have been almost criminal in existing circumstances for the Government of the Old Country to have allowed the haggling or higgling of the market that inevitably takes place when the pressure of demand

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<sup>242</sup> Walter Nash, 'Food and Other Supplies to the United Kingdom during the War', *AJHR*, H.30B, 1940, pp.1-2.

<sup>243</sup> Nash, 'Food and Other supplies to the United Kingdom', p.2.

<sup>244</sup> Nash, 'Food and Other supplies to the United Kingdom', p.2.

<sup>245</sup> Baker, *The New Zealand People at War*, p.42; Walter Nash, *New Zealand: A Working Democracy*, London: J.M.Dent and Sons, 1944, pp.115-116.

<sup>246</sup> Hawke, *The Making of New Zealand*, chapter 9.

<sup>247</sup> Baker, *The New Zealand People at War*, p.50; J.B. Condliffe, *The Welfare State in New Zealand*, London: Allen and Unwin, 1959, p.84.

<sup>248</sup> Sinclair, *Walter Nash*, p.189.

is greater than the normal supply; and so it was inevitable, if we wanted to maintain reasonable market stability, that we should inaugurate some procedure that would eliminate to the maximum all those competitive factors that were so undesirable.<sup>249</sup>

Despite the industrial development that had consciously – if erratically – been pursued over the 1930s, the New Zealand that went to war in 1939 was aware it was not a fully industrialised nation.<sup>250</sup> Farming was still the bedrock of the exporting economy, and the bulk purchase arrangements made with Britain would, for the time being at least, halt or reverse any trends that may have otherwise begun. They would, in fact, have much longer effect than might have appeared likely at the time.

### **CONCLUSION**

The New Zealand economy in the 1930s was a product of its colonial history. The close ties that were apparent between Britain and New Zealand were the result of the Britain's colonisation activities and the shaping of the New Zealand landscape to fit the British settlers' farming objectives. Refrigeration cemented the trade relationship and the New Zealand economy was progressively built on the agricultural trade that this enabled. New Zealand was then economically, as well as politically (and to a large extent, culturally) dependent on Britain. The influence of this relationship would carry on throughout the 1930s and influence how trade policy was approached.

The Ottawa Agreement and the implementation of import licensing were two major developments that created a foundation upon which New Zealand trade policy would be based for the following half century. Even though these two events instigated quite significant changes to New Zealand's trade policy directions, they were the results of longer development processes. Diplomatic efforts within the Empire and Commonwealth had operated for a long time towards imperial preference before the Ottawa Agreement was finally made. The imposition of import licensing and exchange controls followed similar developments over a number of years by major economic powers, and were part of Labour's longer term strategies to develop an insulated New Zealand economy. The effects of the economic disturbances such as the

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<sup>249</sup> Walter Nash, *NZPD*, 5 October 1939, p.672.

<sup>250</sup> *War Record*, Wellington: Government Printer, 1946, p.44.

Depression and the 1938 crisis provided a catalyst for those decisions to be finalised rather than being the sole reason behind them.

These developments did not stem primarily from New Zealand initiative. The Ottawa Agreement was created ultimately because of the will of the British. Their stalling on imperial preference in the years before 1931 demonstrated their power to have the ultimate say over when and if it would be implemented. The development of New Zealand's protectionist measures of import regulation and exchange control can also be viewed as largely a reaction to protectionist developments throughout the Commonwealth and wider world.

In the development of his theories regarding international trade policies, Gottfried von Haberler noted that protectionist trade measures can be based on a variety of different motives and value judgements.<sup>251</sup> So too were there a range of ideas and forces behind the implementation of New Zealand's protective trade policy devices in the pre-World War Two period. These originated both from within and outside of New Zealand, but this was also a time of transition. New Zealand's economic foundation as essentially a British outpost was transforming into – domestically at least – a more independent, singular entity. This was not so much due to a political willingness for independence, as some Commonwealth counterparts were expressing, but more by political necessity due to the international environment New Zealand found itself operating within.

New Zealand was still acting with an approach of 'loyal dissent', but with the growing realisation that the relationship with Britain alone could not sustain the New Zealand economy, other trade avenues had to be developed. These were in reality marginal, however, and Britain remained at the centre of New Zealand's trade policy. Condliffe's description of New Zealand as a smaller trading country 'moving within the orbit of a great metropolitan country' in 1940 is appropriate.<sup>252</sup> Even in the development of the protectionist policies, attempts were always made to accommodate New Zealand's commitments to Britain. New Zealand trade policy development, or at least the extent to which it would truly be implemented, was still

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<sup>251</sup> Haberler, *The Theory of International Trade*, p.238.

<sup>252</sup> Condliffe, *The Reconstruction of World Trade*, p.374.

subject to British influence. Internally the economy was developing, but the Empire context was still visible.

The transition into wartime trade arrangements caused very minimal change to the administration and direction of New Zealand's external trade, and in fact reinforced rather than changed trade policy trends. This in itself may be why the trading traditions that were apparent at this time continued to provide the underpinnings of trade policies and their development for some decades yet.



## **Chapter 2: Loyalty and Commitment: World War Two and the Early Post-War Period**

The onset of World War Two reinforced the developments in New Zealand's trade policies from the previous decade. The relationship with Britain became even more central to foreign policy, and New Zealand wholeheartedly entered the war as a member of the allied group. Trade and domestic production priorities would be directed by these commitments and economic and political aspects of policy would be closely intertwined. The tight controls over trade and foreign exchange further ensured that New Zealand was well set up to operate as a war economy and to meet its production and trade commitments to contribute to the war effort.

During the war, however, the international context started to change in ways that would have implications for the future direction of New Zealand trade policy. In foreign policy terms, the demise of Britain as an economic and political force and the ascendance of the United States of America's international influence would have the effect of re-orientating New Zealand's defence and diplomatic priorities. These would ensure that economic relations broadened.

New Zealand's domestic economy after the war would be a more complex entity for the government to deal with. Production continued to be focused on supplying exports to Britain, but significant economic changes occurred which invited challenges to the status quo. Views on political and economic management would become wider-ranging amongst New Zealand politicians, business people and the general public, and established economic and trade policy would be challenged more frequently.

In the early post-war period New Zealand politicians and representatives would find themselves operating in an expanded international environment in which domestic priorities and multilateral objectives were not always compatible. Diplomatic efforts increasingly included articulating and defending New Zealand's trade policy. Despite few changes in the actual nature of external trade over that time, these developments, both domestic and external, sowed the seeds of a more multi-faceted trade policy for New Zealand in future decades.

## NEW ZEALAND'S WAR ECONOMY

New Zealand entered the 1940s with a full commitment to the war effort. Its focus was clearly on Britain, especially articulated in Savage's declaration:

Both with gratitude for the past, and with confidence in the future, we range ourselves without fear beside Britain. Where she goes, we go, where she stands, we stand.<sup>1</sup>

New Zealand's economic and trade policies during wartime followed the same view, further demonstrating this loyal commitment to Britain.

The economic controls put in place in New Zealand in the late 1930s enabled a relatively smooth transition into the administration of a war economy. After the announcement of the outbreak of war measures to manage the war economy were quickly adopted. Under Emergency Regulations, prices on some 'essential' goods - foodstuffs generally and sugar, wheat and flour specifically - were immediately fixed.<sup>2</sup> Imports were strictly limited, both for the purposes of preserving exchange and because supplies of goods usually imported were severely restricted by Britain's war activities. Domestic production was also directed as much as possible towards supporting the New Zealand defence effort and supplying overseas troops.<sup>3</sup>

The bulk purchase agreements with Britain provided the basis for New Zealand's war economy. They commenced at the beginning of the war, having been developed in the years prior.<sup>4</sup> All of New Zealand's exportable butter, cheese, meat and wool were directed to the British market, whose domestic supplies were substantially depleted due to the war. The trading arrangements were generally accepted and supported by politicians and public alike as an important part of New Zealand's commitment to the war effort. The initial agreement set these arrangements for the entire period of the war and 'a subsequent period to be agreed upon',<sup>5</sup> so export trade for the time being would be clearly focused and directed.

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<sup>1</sup> Savage cited in W. David McIntyre and W.J. Gardner (eds.), *Speeches and Documents on New Zealand History*, Oxford: Clarendon Press, 1971, p.366.

<sup>2</sup> NZOYB, 1955, p.880.

<sup>3</sup> NZPD, Vol.262, 3 June 1943, p.552.

<sup>4</sup> As described in the previous chapter; p.73.

<sup>5</sup> This was except in the case of wool, where the period was fixed 'for the duration of the war and one season's clip thereafter'. This therefore terminated with the sale of the 1945-46 clip. NZOYB, 1951-52, p.395

The New Zealand Government acknowledged that the bulk purchase agreements did not simply influence where New Zealand would direct its trade; they determined how domestic production was structured. Finance Minister Walter Nash noted in 1941 that the agreements had created 'a broad framework within which our future primary production must be organized and directed.'<sup>6</sup> The main policy focus towards the bulk purchase commitments was to expand agricultural production as far as possible. Doing so would help create surpluses for export to supply the needs of the British public. Farming was considered to be, in Baker's words, 'New Zealand's most vital economic contribution to the allied war effort'.<sup>7</sup>

The bulk purchase arrangements were also an extension of the system of imperial preference that had been established by the 1932 Ottawa Agreement. The ties between New Zealand and Britain that this agreement cemented were further consolidated by the establishment of a financial trading system around the sterling currency. Britain established the Sterling Area at the beginning of the war between countries of the Commonwealth (except Canada) and a number of closely connected states (like Iraq) as a means to prevent money within these countries being shifted to others.<sup>8</sup> This appears to have been considered a 'natural' move by New Zealand. Hawke has noted that there was never any explicit decision made on it by the New Zealand Government; it was simply accepted without question.<sup>9</sup>

The trade arrangements minimised the need to pursue marketing strategies for New Zealand's exports during the war. New Zealand diplomat Graham Ansell later suggested that at this time 'export trade was something that happened without diplomatic effort or much marketing effort'.<sup>10</sup> All of the diplomatic effort towards promoting the trading relationship with Britain had been done during the 1930s in securing imperial preference and developing the wartime export arrangements, and no changes were sought beyond renegotiation of these at the end of the war. The work of New Zealand's trade commissioners was diverted during wartime to focus on

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<sup>6</sup> Walter Nash, 'Financial Statement', *NZPD*, Vol.259, 16 July 1941, p.355.

<sup>7</sup> Baker, *The New Zealand People at War: War Economy*, p.181.

<sup>8</sup> Lloyd, *Empire to Welfare State*, p.245.

<sup>9</sup> Hawke, *The Making of New Zealand*, pp.204-205.

<sup>10</sup> Graham Ansell in Malcolm Templeton (ed.), *An Eye, An Ear and A Voice: 50 Years in New Zealand's External Relations 1943-1993*, Wellington: Ministry of Foreign Affairs and Trade, 1993, p.152.

supply, so wider trading links were not explicitly pursued in the meantime.<sup>11</sup> Any new relationships that developed were essentially only incidental to the general path of New Zealand's war effort. Malcolm McKinnon's portrayal of this as a period of 'marked continuity' in New Zealand's economic diplomacy is therefore appropriate.<sup>12</sup>

Given the reasonably secure economic platform that the wartime trading arrangements provided, the Labour Government took steps to ensure New Zealand's economic and financial stability during the war. Nash argued in 1941 that stability was essential to help maximise production, enable a sustained war effort, and for 'the maintenance of the welfare of the people.'<sup>13</sup> To develop stabilisation strategies beyond the early price-fixing measures, the government convened an Economic Stabilization Conference in October 1940. This conference, comprising interest groups including employers, manufacturers, primary producer groups, business owner interest groups, banking representatives, employee representatives and government bureaucrats, was lauded by Prime Minister Fraser as 'the most representative conference of economic interests of ever held in this country.'<sup>14</sup>

In formulating key recommendations towards stability, the conference participants unanimously called for the cost of war to be spread across all groups in New Zealand, and urged that a plan for stabilizing prices, wages and costs could achieve this. As a preliminary measure the prices of 38 essential items were fixed, and an Economic Stabilization Committee was established to develop a more comprehensive plan.<sup>15</sup> This committee, whose members included representatives from employer and employee groups, presented an Economic Stabilization Scheme in December 1942 which sought to stabilize at November 1942 levels all remuneration, prices, pay-outs to farmers, allowances, fees, rents, transport charges and individual incomes.<sup>16</sup> The Economic Stabilization Commission that was formed to enact these measures was

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<sup>11</sup> New Zealand Trade and Enterprise, *Agents Abroad*, pp.43-44.

<sup>12</sup> McKinnon, 'The Impact of War'.

<sup>13</sup> Walter Nash, 'Financial Statement', *NZPD*, Vol.259, 16 July 1941, p.354.

<sup>14</sup> Cited in McKinnon, *Treasury*, p.170.

<sup>15</sup> McKinnon, *Treasury*, p.170.

<sup>16</sup> Sutch, *The Quest for Security in New Zealand*, p.301.

later described by political scientist L.C.Webb as being at the centre of economic policy making in New Zealand from then until 1946.<sup>17</sup>

The bulk purchase agreements were related to the stabilisation measures by both cause and effect. The arrangements had included agreement for the prices Britain paid for New Zealand's exports to be maintained at a 'price equilibrium based on existing price levels',<sup>18</sup> thereby giving some measure of security of export income over the period they would endure. On the other hand, there was no agreed check on import prices, and inflation quickly threatened to destabilise the war economy as import prices rose in the first few years.<sup>19</sup> This highlighted the issue that had dominated New Zealand's economy for a long time, of its vulnerability to trade deficits due to the differing natures of exports and imports. A high proportion of New Zealand's national real income was based on export revenue from products whose prices tend to fluctuate, but import prices tended to be more stable and relatively higher.<sup>20</sup> The stabilisation measures therefore sought to ensure the even running of New Zealand's war economy, and essentially, to check an issue that was not so politically easy to deal with in peace time.

The stabilisation policies were also central to longer term Labour objectives. Nash wished to adopt strict government control of the New Zealand economy in the longer term as well. His somewhat harrowing pre-war experiences seeking British lending to rescue the New Zealand economy, had, as McKinnon noted, 'reinforced his distrust of overseas borrowing' and made him (and his colleagues) believe that Labour's economic policies needed to be grounded in economic strength.<sup>21</sup> There was, however, some relaxation of Labour's stance on borrowing during the war, at the behest of the Economic Stabilization Committee. Federation of Labour representative Angus McLagan argued on behalf of the committee that overseas borrowing should be allowed if deemed beyond the scope of the domestic economy because; 'Hitler would be able to appreciate the humour of the situation if we carefully preserved a

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<sup>17</sup> L.C.Webb, 'The Making of Economic Policy', in R.S.Parker (ed.), *Economic Stability in New Zealand*, Wellington: New Zealand Institute of Public Administration, 1953, p.24.

<sup>18</sup> Nash, *Fair Exchange is No Robbery*, p.10.

<sup>19</sup> Sinclair, *Walter Nash*, p.205.

<sup>20</sup> Belshaw, 'Economic Organisation', in Horace Belshaw (ed.), *New Zealand*, Berkeley: University of California Press, 1947, pp.114-117

<sup>21</sup> McKinnon, 'The Impact of War', p.23.

“sound” financial position and thereby lost the war, but it would be no joke to our people.<sup>22</sup> Regardless, there was a general acceptance that borrowing should be restrained as much as possible.

The tight economic controls during the war were generally accepted by the New Zealand public as part of the conditions of a war economy. Hawke later summarised that public feeling understood the war as ‘essentially a huge tax on New Zealand’s resources and production which was accepted as part of the price of preserving freedom’.<sup>23</sup> This view is influenced by speeches like that of Nash, who in the 1943 Financial Statement linked import restrictions to loyalty and sacrifice for the war effort:

... to import unnecessarily at the present time is to divert shipping and occupy space urgently needed for war purposes. Having in mind the hardships of the valiant forces overseas, there is no question but that our people will accept ungrudgingly and uncomplainingly the minor stringencies which must inevitably be imposed on our civilian population. Compared with our kith and kin overseas, our deprivations are negligible.<sup>24</sup>

Collective sacrifice and effort were central to the government’s direction of New Zealand’s war contribution. Any discontent with how New Zealand’s economy was being managed would be addressed after the war was won. Nash informed Parliament in June 1943 that:

Until victory is achieved and the foundations laid of an enduring peace, when we can once again turn our minds and devote our energies to the development of an economic system based on the creation and utilization of abundance, we must concentrate our energies on the problem of providing the greatest aid to the war effort.<sup>25</sup>

For the time being, any opposition to Labour’s strict economic controls were suppressed by united support towards the war effort.

## **WARTIME PRODUCTION AND EXPORT TRADE**

The commitments and policies made by the Labour Government at the outset of war placed tight restraints on the economy, but were viewed within a short time as

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<sup>22</sup> Mr A. McLagan, ‘Foreword’, *Report of the Economic Stabilization Conference 1940*, Wellington: Government Printer, 1940.

<sup>23</sup> Hawke, *The Making of New Zealand*, p.167.

<sup>24</sup> Walter Nash, ‘Financial Statement’, *NZPD*, Vol.262, 3 June 1943, p.552.

<sup>25</sup> Walter Nash, ‘Financial Statement’, *NZPD*, Vol.262, 3 June 1943, p.552.

providing a successful platform for New Zealand's war effort. New Zealand's primary sector was lauded as making a most vital contribution to British wartime needs. In line with the government's stated priorities, production expanded, increasing both in value and volume. Aggregate production values increased from £139,000,000 in 1939 to £184,500,000 in 1946. Volumes of production also increased from an index of 100 to 107 in the same period.<sup>26</sup> By the end of the war, government estimates showed that New Zealand had shipped 'more than a million and a half tons of meat, 685,000 tons of butter, and 625,000 tons of cheese, and almost five and a half million bales of wool' to Britain.<sup>27</sup> Britain directed this production, as export goods were specifically tailored to British needs. This was especially so in dairy production. At the request of the British Government, New Zealand dairy factories twice had to be changed over – involving 'drastic reorganization' – to accommodate changes in production emphasis from butter to cheese, and back again.<sup>28</sup>

While the trade arrangements were highlighted as providing a successful contribution to Britain and the war effort, they also came to be valued for strengthening the New Zealand economy. In 1941 Nash noted that the exports to Britain for the previous year had helped significantly boost export revenue (especially in comparison to the restricted imports), commenting that this had 'considerably strengthened our financial position overseas, and made it possible to reduce the Dominion's indebtedness to the United Kingdom Government by £4,000,000 sterling'.<sup>29</sup> By 1943, the figure was £10,692,000.<sup>30</sup>

In the international wartime conditions, New Zealand's capability in exporting was actually governed more by the ability to ship goods than by any limits in British demand or New Zealand's production. Shipping restraints became a serious issue affecting all international trade during the war, especially as the introduction of German U-Boats caused a 'submarine menace' to British shipping. As British ship losses increased, there were declines in the numbers of ships calling at New Zealand ports. The tonnage of shipping to New Zealand ports fell from 1938 to 1940 by 17

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<sup>26</sup> Walter Nash, 'Financial Statement', *AJHR*, B.6, 1946, p.8.

<sup>27</sup> *War Record*, p.59.

<sup>28</sup> *War Record*, pp.56-59.

<sup>29</sup> Walter Nash, 'Financial Statement', *NZPD*, Vol.259, 16 July 1941, p.354.

<sup>30</sup> Walter Nash, 'Financial Statement', *NZPD*, Vol.262, 3 June 1943, p.558.

percent. Losses of British ships peaked in 1942. New Zealand's refrigerated cargo was no less threatened, with '64 ships, representing 631,000 tons gross register' lost during the war.<sup>31</sup>

As shipping capacity shrank but production expanded, surpluses of products waiting to be exported grew. Increasing cold storage capacity became an important priority in New Zealand. At first the government placed the onus for this on the meat companies, making reissuing of export licences contingent on their providing extra cool storage space. When shipping shortages became more acute in 1941, however, the government became more actively involved, constructing emergency cool stores. Developing 'ship-saving' methods for more efficient stowage of meat – for example boning beef before export and 'telescoping' frozen lamb and mutton – also became important.<sup>32</sup> Emphasis was also placed on expanding canning plants so that meat stocks could be stored out of cold storage.<sup>33</sup>

These changes are indicative of the way development and expansion occurred in New Zealand's secondary industries during the war. Secondary industries tended to develop out of necessity as goods usually imported from overseas became unavailable.<sup>34</sup> These at first related mainly to primary industries, like those involved in canning and food preservation.<sup>35</sup> New goods were also produced, however, like concrete mixers, barbed wire, nails, hydraulic jacks and ships.<sup>36</sup> Mechanisation was also acknowledged as helping expand output, as the number of machines used in New Zealand factories increased from 30,000 in 1938/39 to 73,000 in 1947/48.<sup>37</sup>

Industrial expansion came to be viewed as one of the country's great wartime achievements. In 1943 when production statistics showed a 36 percent rise in production in the previous year, it generated much government discussion.<sup>38</sup> Nash attributed the increases to a re-orientation of the labour force. In his 1943 Financial

<sup>31</sup> Baker, *War Economy*, pp.187, 205, 303, 373, 393.

<sup>32</sup> Baker, *War Economy*, pp.45-46, 186-187.

<sup>33</sup> Walter Nash, 'Financial Statement', *NZPD*, Vol.259, 16 July 1941, pp.354-355.

<sup>34</sup> Mr O'Brien, *NZPD*, Vol.262, 9 March 1943, pp.294-295.

<sup>35</sup> 'New Zealand Manufacturing Industries: Their Growth and Future Prospects', *New Zealand National Review*, 15 December 1943, p.45.

<sup>36</sup> Mr O'Brien, *NZPD*, Vol.262, 9 March 1943, pp.294-295.

<sup>37</sup> Mr Bowden, *NZPD*, Vol.300, 24 October 1950, p.3669.

<sup>38</sup> The increase was measured by value, and compared with pre-war production levels. Walter Nash, 'Financial Statement', *AJHR*, B.6, 1943, p.1.

Statement he noted that the re-employment of married women and retired men had compensated for the loss of manpower to the war effort, and together with government-guided measures to prioritise production had facilitated the rise in production.<sup>39</sup> Marlborough Labour MP Edwin Meachen produced statistics which showed that over 1500 new factories (employing 40,000 more people) had come into operation since 1935, and described the developments as a ‘wonderful story of industrial expansion’.<sup>40</sup> The government’s role was important in this, however. Baker considered that the development of ‘war industries’ was possible through the close cooperation of government and industry.<sup>41</sup> This was also due to the tight trading controls and conditions that the war context imposed.

### THE WAR CONTEXT

Support for the conditions imposed by the war economy was based on the strong political, economic and strategic relations that had been forged over the many decades that New Zealand had developed within the ‘orbit’ of Britain and its powerful international position. During the war, however, the dynamics of international relations shifted, causing Britain’s dominant position to fade and a shift in New Zealand’s contextual outlook. The key reason for this was the rise in influence internationally of the USA. This would impact on New Zealand’s foreign and defence policies in the first instance, but also in ways that would eventually affect trade policy.

In strategic terms, the nature of New Zealand’s defence relationship with Britain changed during the war. David McIntyre has highlighted how New Zealand expeditionary forces were for the first time arranged as separate units from the British from early in the war, especially under the command of Major-General Bernard Freyberg.<sup>42</sup> An even more significant change was identified by McIntyre as the ‘emergence of the United States as the main protector and dominant ally.’<sup>43</sup> In June 1940 when Britain acknowledged it did not have the resources to contribute to

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<sup>39</sup> Walter Nash, ‘Financial Statement’, *AJHR*, B.6, 1943, p.1.

<sup>40</sup> Mr Meachen, *NZPD*, Vol.262, 4 March 1943, p.111.

<sup>41</sup> *War Record*, p.45.

<sup>42</sup> W.David McIntyre, *New Zealand Prepares for War*, Christchurch: Canterbury University Press, 1988, pp.238—239.

<sup>43</sup> McIntyre, *New Zealand Prepares for War*, p.240.

securing the seas from Singapore, New Zealand's defence relations experienced what McIntyre and Stephen Hoadley have both described as a 'turning point'.<sup>44</sup> The USA became the leader of defence strategies in the Pacific. McIntyre suggests that '(T)hereafter, paying heed to American wishes and seeking to be consulted by American planners became a major theme of New Zealand's war diplomacy.'<sup>45</sup> This also instigated an era of New Zealand's 'dual dependence' in strategic terms.<sup>46</sup> As the war spread into the Pacific, New Zealand's defence policy focus shifted mainly to that region, and its presence in the Middle East and Europe became relatively less significant.<sup>47</sup> The increased interaction with the USA and Australia during the Pacific operations grew New Zealand's perceptions of its role as an important Pacific partner as well as its traditional view as a loyal Dominion in the Commonwealth. The outlook in political and diplomatic terms therefore broadened considerably.

The rise of the USA in New Zealand's eyes was reflective of the increase of its presence internationally during the war. Although the US was not one of the allied countries involved in the early part of the war, it had held an important role even before it committed in military terms to it. American President Roosevelt and British Prime Minister Winston Churchill held talks to develop strategies for the management of peace after the war in 1941. The resulting Atlantic Charter – which was a first official statement of their visions for a post-war world – included a number of statements arguing for international cooperation. The idea of cooperation extended to the economic. The fourth and fifth articles especially highlighted these ideas:

Fourth, they will endeavour, with due respect of their existing obligations, to further the enjoyment of all States, great and small, victor or vanquished, of access, on equal terms, to the trade and to the raw materials of the world which are needed for their economic prosperity;

Fifth, they desire to bring about the fullest collaboration between all nations in the economic field with the object of securing, for all,

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<sup>44</sup> McIntyre, *New Zealand Prepares for War*, p.241; Steven Hoadley, *New Zealand United States Relations: Friends No Longer Allies*, Wellington: NZIIA, 2000, p.29.

<sup>45</sup> McIntyre, *New Zealand Prepares for War*, p.241.

<sup>46</sup> W.David McIntyre, 'A Review of the Commonwealth Factor in Foreign Policy Making', in Ann Trotter (ed.), *Fifty Years in New Zealand Foreign Policy Making*, Dunedin: University of Otago Press, 1993, p.41.

<sup>47</sup> McIntyre, *New Zealand Prepares for War*, p.253.

improved labour standards, economic advancement and social security;...<sup>48</sup>

The USA also played a supporting economic role in the Allied countries' war efforts through the Lend-Lease programme. The Lend-Lease Act was passed by US Congress in 1941, and in 1942 New Zealand, along with the United Kingdom, Australia and France, signed a Reciprocal Aid Agreement with the United States.

Lend-Lease not only contributed materially to the war effort, but also ensured that in future the US would have more influence over the countries involved. Article VII of the Lend-Lease Agreement articulated in more depth the ideas outlined in the Atlantic Charter. In this the United Kingdom and the USA made commitments to lead international efforts towards post-war economic cooperation. Expansion of trade was overtly central to this. In this article, they committed to other 'like-minded' countries;

... directed to the expansion, by appropriate international and domestic measures, of production, employment, and the exchange and consumption of goods, which are the material foundations of the liberty and welfare of all peoples; to the elimination of all forms of discriminatory treatment in international commerce, and to the reduction of tariffs and other trade barriers ...<sup>49</sup>

The statements of this kind made in the Atlantic Charter, Lend-Lease and the subsequent agreements during and after the war were clearly based on specific belief systems regarding international economic relations. The Americans especially believed that economic nationalism and rivalry had led to war, so their post-war policies and efforts to build multilateral economic institutions were 'intended to achieve an open world economy conducive to peace and prosperity'.<sup>50</sup> These reflected League of Nations economists' objectives when they argued that free international trade would ensure political security as well. These arguments had, however, been overpowered by the growth of economic nationalism in the 1930s.

This was the context that was emerging during the war, and along with the changing dynamics of New Zealand's defence relations, would ensure that New Zealand's view of the international context and its place in it would undergo some change. It would

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<sup>48</sup> The Atlantic Charter, sourced 18/10/2007 from: [www.yale.edu/lawweb/avalon/wwii/atlantic.htm](http://www.yale.edu/lawweb/avalon/wwii/atlantic.htm)

<sup>49</sup> Text of the Master Lend-Lease Agreement, sourced 18 October 2007 from: [www.yale.edu/lawweb/avalon/decade/decade04.htm](http://www.yale.edu/lawweb/avalon/decade/decade04.htm)

<sup>50</sup> John S. Hill, 'American Efforts to Aid French Reconstruction between Lend-Lease and the Marshall Plan', *Journal of Modern History*, Vol.64, No.3, September 1992, p.502.

primarily broaden to consider first, its role in the Pacific region and second, its place and role as an independent participant in world relations.

### **DEVELOPMENTS IN EXTERNAL RELATIONS AND FOREIGN POLICY**

New Zealand's broadened engagement with the international context was reflected in the development of a separate government department for handling New Zealand's external affairs. Prior to 1943 New Zealand's external relations were mediated through British diplomatic missions and handled by the Prime Minister's department. Developments during the war like Lend-Lease necessitated the establishment of new overseas posts for the New Zealand government, and one was created in Washington in 1941, followed by the opening of others in Canada and Australia in 1942 and 1943.<sup>51</sup> In New Zealand the existing arrangements were found inadequate for administering this, and consequently a separate Department of External Affairs was established under the External Affairs Act in 1943.<sup>52</sup>

The text of the External Affairs Act simply described it as 'an act to make better provision for the administration of external affairs'.<sup>53</sup> The document outlined the main features and functions of the new department, focusing mainly on servicing the activities of overseas posts. It did not necessarily signal the start of a distinctively 'New Zealand' foreign policy from then on, however. Alister McIntosh's recollections of the origins of the department have highlighted that their work was mainly based on processing information that came in from overseas, so independent policy development was something that developed more gradually as new ventures in international relations were undertaken. The Act's passing was more significant in laying down a structure from which independent and more distinctly 'New Zealand' external relations could be conducted in future, and especially after the war. For the

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<sup>51</sup> Hoadley, *New Zealand United States Relations*, p.29; Templeton, *An Eye, an Ear and a Voice*, p.1.

<sup>52</sup> Alister McIntosh, 'Origins of the Department of External Affairs and the Formulation of an Independent Foreign Policy', in Alister McIntosh (ed.), *New Zealand in World Affairs*, Wellington: Institute of International Affairs, 1977, pp.18-20.

<sup>53</sup> Text of the External Affairs Act 1943, Ministry of Foreign Affairs, *New Zealand Foreign Policy: Statements and Documents 1943-1957*, Wellington: Ministry of Foreign Affairs, 1972, p.45.

meantime, New Zealand foreign policy would still be mediated through consideration for the good of the Commonwealth and Britain.<sup>54</sup>

In its first years the Department of External Affairs' activities were also constrained by the resources available to it. Bruce Brown has noted that at the outset the department's priorities were in the defence and security sphere. These, he said, were 'the most pressing' areas of work for the department, and were perceived as so for some time.<sup>55</sup> Members of the department would have been aware of external economic considerations from the early days, however, especially as two of the original members - George Laking and Foss Shanahan - had worked in the Customs Department beforehand.<sup>56</sup> Economic considerations were handled more directly in the department's work from 1949 with the recruitment of Lloyd White, who had been transferred from Treasury.<sup>57</sup> White is credited with bringing the department's role in economic and trade affairs together with the Departments of Trade and Commerce, Customs, Agriculture, and of Treasury.<sup>58</sup>

In the meantime, however, the department with a limited staff tried to deal with the rapid developments in the international context and in helping to establish the positions New Zealand should take within them. The deepening of bilateral relationships with the USA and Australia in the earliest years of the department would also lay important groundwork for changes in foreign and trade policy over decades to come.

## **RELATIONS WITH THE UNITED STATES OF AMERICA**

New Zealand's bilateral relationship with the USA was strengthened significantly through the war; in defence relations with cooperation in the war in the Pacific, the

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<sup>54</sup> Cunninghame was a External Affairs officer; he cites an article on New Zealand's international activities in *NZOYB* 1959 in formulating this argument; Cunninghame, 'The Development of New Zealand's Foreign Policy and Political Alignments', pp.17-18.

<sup>55</sup> Bruce Brown, "'Foreign Policy is Trade': Trade is Foreign Policy: Some Principal New Zealand Trade Policy Problems Since the Second World War', in Ann Trotter (ed.), *Fifty Years of New Zealand Foreign Policy Making*, Dunedin: University of Otago Press, 1993, p.103; Graham Ansell concurred in Templeton, *An Eye, An Ear and A Voice*, p.151.

<sup>56</sup> George Laking in Templeton, *An Eye, An Ear and A Voice*, p.33.

<sup>57</sup> Ian McGibbon, *Unofficial Channels: Letters Between Alister McIntosh, Foss Shanahan, George Laking and Frank Corner 1946-1966*, Wellington: Victoria University Press, 1999, p.23.

<sup>58</sup> Richard Nottage, 'Contemporary Foreign Policy Making and the Role of the Ministry', in Ann Trotter (ed.), *Fifty Years of New Zealand Foreign Policy Making*, Dunedin: University of Otago Press, 1993, p.207. Malcolm Templeton and Merwyn Norrish concurred in *An Eye, An Ear and A Voice*, p.9,136.

stationing of a representative of the New Zealand government in Washington (at first this was Nash),<sup>59</sup> and through trade activity. The latter occurred under Lend-Lease, where the United States supplied New Zealand with munitions, industrial materials and products and agricultural machinery. Seven thousand farm tractors were supplied to New Zealand by the United States (adding substantially to the total of only 11,000 already in New Zealand).<sup>60</sup> New Zealand in return supplied foods to American forces in the South and Southwest Pacific.<sup>61</sup> The 'reverse lend-lease' activities of both New Zealand and Australia, as they were called, were noted as integral to the existence of the American troops in the Pacific. Together, they supplied over 90 percent of the troops' food requirements; often, it was noted, at the cost to domestic consumption.<sup>62</sup>

McKinnon has argued that within New Zealand there was suspicion and nervousness about the implications of the Lend-Lease commitments,<sup>63</sup> but at an official level at least they were welcomed. At that time, it had become clear that the British would struggle to continue to supply New Zealand with all of its war-time requirements so the Americans were seen as an alternative source that had previously been difficult to access. Before the agreement was implemented a shortage of dollars had hampered New Zealand's ability to acquire much from the USA.<sup>64</sup> The Lend-Lease agreement was therefore described as a 'great conception' by the government, at least in its objective to 'achieve ... the provision of goods and services for use in the war effort without the cruel shadow of debt which has blighted the trade and relations of the world after the wars of the past decades'.<sup>65</sup>

Supplies sent to the American troops were not included in official export trade figures, but as Table 2.1 illustrates, figures supplied show that they were worth significant amounts.

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<sup>59</sup> See Sinclair, *Walter Nash*, ch.XVII.

<sup>60</sup> Baker, *War Economy*, p.126.

<sup>61</sup> *NZOYB*, 1946, p.826.

<sup>62</sup> Nancy Wilder, 'Reverse Lend-Lease in the Pacific', *Far Eastern Survey*, 20 September 1944, p.180.

<sup>63</sup> McKinnon, *Independence and Foreign Policy*, p.92.

<sup>64</sup> Baker, *War Economy*, p.125.

<sup>65</sup> Walter Nash, 'Financial Statement', *NZPD*, Vol.262, 3 June 1943, p.561.

**Table 2.1: New Zealand Supplies to US Troops through Lend-lease, 1942-1945**

	<b>1942</b>	<b>1943</b>	<b>1944</b>	<b>1945</b>	<b>Total 1942-45</b>
	£NZ (000)	£NZ (000)	£NZ (000)	£NZ (000)	£NZ (000)
Meat, dairy prod.	1,002	7,088	10,433	8,059	26,582
Other foodstuffs	759	3,078	5,590	5,048	14,475
Equipment & supplies other than food	...	3,219	2,334	544	6,097
<b>Total</b>	<b>1,761</b>	<b>13,385</b>	<b>18,357</b>	<b>13,651</b>	<b>47,154</b>

Source: NZOYB, 1946, p.824.

Aside from these exports, statistics show that the wider US market became more important to New Zealand as the war progressed. The five-year average value for exports to USA doubled from 1936-40 to 1941-45, and the proportion of total exports that went to the USA increased from 5 percent in 1939 to almost 10 percent in 1945-46.<sup>66</sup>

The relationship under Lend-Lease instigated changes in New Zealand's trade policy and the nature of its economic relations in two ways. Firstly, exports were directed to Americans in a concentrated manner that had not previously been possible. Secondly, the US became a more important partner in external economic relations, something that was intensified by the interaction with the US in multilateral efforts towards post-war cooperation. This signalled the emergence of the USA as an influence over New Zealand trade policies, and an early indication of the demise of the strength of bilateral economic commitments between New Zealand and Britain.

McKinnon suggests that there were some in New Zealand who expressed real concern about how much leverage the USA would have over New Zealand's key relations in the future because of this.<sup>67</sup> Pat Lissington mused that New Zealand's relationship with the USA was also 'neither as comfortable nor as easy as the one it enjoyed with Britain', partly because, at this stage, it viewed its dependence on the

<sup>66</sup> Calculated from data supplied in NZOYB, 1946, p.833.

<sup>67</sup> These included members of the Labour and Social Credit movements. McKinnon, *Independence and Foreign Policy*, pp.90-94.

USA as temporary. She also considered that New Zealand still saw its Commonwealth links as 'looming larger' than its new ones with the USA.<sup>68</sup>

New Zealand's Commonwealth commitments provided challenges for developing a bilateral relationship between New Zealand and the USA, especially because active discrimination against dollar country imports was a collective feature of Sterling Area practices.<sup>69</sup> New Zealand used the import licensing system as a tool by which it met the commitment to preserve sterling reserves as much as possible, which usually meant placing heavy restrictions on American imports like machinery. This caused some difficulty for New Zealanders who had established new ties with America over the period of the war, especially as New Zealand women had married American soldiers.<sup>70</sup>

The New Zealand legation in the USA worked to resolve such challenges by developing the bilateral relationship, dealing with political and economic developments in the USA, and with commercial policy and tariff questions.<sup>71</sup> The relationship would become complicated in the post-war era, however, when New Zealand politicians and diplomatic representatives would be challenged to balance New Zealand's interests with the demands of the USA in multilateral negotiations.

### **RELATIONS WITH AUSTRALIA**

New Zealand's relationship with Australia was also strengthened as both countries participated more during the war in the 'Pacific' context. Condliffe had described New Zealand and Australia in 1940 as two countries 'moving within the orbit of a great metropolitan country', indicating that there was little direct connection with each other as Commonwealth partners.<sup>72</sup> A more direct relationship between New Zealand and Australia was in evidence in the development and signing of the Canberra Pact in 1944.<sup>73</sup> Lissington has explained this as instigated by Australia as a means to assert the two countries' interests in the post-war settlement in the Pacific, especially as

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<sup>68</sup> M.P.Lissington, *New Zealand and the United States 1840-1944*, Wellington: Historical Publications Branch, 1971, p.97.

<sup>69</sup> Holmes, 'A New Zealand View', p.167.

<sup>70</sup> Hawke, *The Making of New Zealand*, pp.205.

<sup>71</sup> 'Report of the Department of External Affairs', *AJHR*, A.11, 1947, pp.13, 34.

<sup>72</sup> Condliffe, *The Reconstruction of World Trade*, p.374.

<sup>73</sup> *New Zealand Foreign Policy: Statements and Documents*, p.16.

they felt they had been overlooked in the planning of post-war arrangements by the USA and Britain.<sup>74</sup>

This was also an early sign of a more independent foreign policy approach for New Zealand because the Canberra Pact was its first major political agreement with another country. In the Pact, the two countries expressed their awareness that they shared 'common strategic, political and economic interests' and established machinery for collaboration and cooperation between them.<sup>75</sup> This included commitments to hold regular consultations to enable fuller exchange of information, and a more unified coordination of policy. Defence matters were highlighted as the greatest area of focus for this, but the agreement also included commitments towards commercial and industrial development, especially towards achieving full employment for both countries.<sup>76</sup> Paragraph 35(c) of the agreement's text stated that '(T)he development of commerce between Australia and New Zealand and their industrial development should be pursued by consultation and in agreed cases by joint planning.'<sup>77</sup> This cemented a stronger relationship between the two countries, and laid the groundwork for what would become a central feature of New Zealand's external relations in decades to come. For now, though, the relationship – especially in an economic sense – continued to be based on their commitments as members of the Commonwealth. Often the consultation that took place during the post-war era focused on strategies for jointly defending their Sterling Area commitments.

The establishment of the External Affairs Department and the deepening of New Zealand's relations with the USA and Australia during the war are indications that New Zealand was starting to develop its foreign policy more separately from Britain, perhaps more through necessity than desire. In 1947 New Zealand's political independence was then formalised with its adoption of the Statute of Westminster. This event has historiographically been considered more symbolic than instigating any great political change for New Zealand. McIntyre has argued, for example, that New Zealand (like the other Dominions) had been able to act independently from Britain

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<sup>74</sup> Lissington, *New Zealand and the United States 1840-1944*, pp.80-83.

<sup>75</sup> 'Report of the Department of External Affairs', *AJHR*, A.1, 1949, p.12.

<sup>76</sup> 'Australian-New Zealand Agreement', *AJHR*, A.4, 1944, p.3.

<sup>77</sup> Nash, *New Zealand: A Working Democracy*, Appendix VI, p.299.

essentially since the signing of the covenant of the League of Nations in 1919.<sup>78</sup> McIntyre further noted that Carl Berensden, who led the Prime Minister's Department and External Affairs for many years, had also argued that New Zealand, at least since the signing of the Statute of Westminster in 1931, been able to do 'exactly as it wished'.<sup>79</sup> Nash also considered that an independent national attitude had emerged over the years preceding the outbreak of World War Two.<sup>80</sup>

This independence was, however, still conditioned by its relationship with Britain. The close traditional ties had quickly been returned to in moments of crisis, demonstrated by the way New Zealand had committed so readily to following Britain into war and contributing to the war effort. The more intense relations with the USA and Australia also developed with consideration to the relationship with Britain. A strict loyalty to Britain remained New Zealand's official position in diplomatic activities, and its sterling commitments were closely adhered to in operating trade controls. Chapman's portrayal of New Zealand's external economic policy as at that time being driven by Sterling Area interests and decisions made within that group to tighten or loosen foreign exchange is appropriate.<sup>81</sup> Developments in the international context would, however, present challenges for the continuation of those policies. This was especially so as the Allied countries discussed how best to shape the post-war world, and New Zealand considered how it could best fit with these plans.

### **PLANS FOR A POST-WAR WORLD**

The commitments made in the Atlantic Charter towards reinvigorating international cooperation under a new United Nations organisation took hold as the war's conclusion was anticipated. International cooperation was sought in both political and economic terms. In the economic field, many of the 'free trade' advocates that had worked in the League of Nations economic section in the inter-war period were involved in the development of the principles for the post-war era. Their ideas were now more readily listened to, especially considering the prevailing angst about

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<sup>78</sup> W.David McIntyre, *Dominion of New Zealand: Statesmen and Status 1907-1945*, Wellington: New Zealand Institute of International Affairs, 2007, p.195.

<sup>79</sup> Berensden quoted in McIntyre, *Dominion of New Zealand*, pp.153,195.

<sup>80</sup> Nash, *New Zealand: A Working Democracy*, pp.15-16.

<sup>81</sup> Robert Chapman, 'From Labour to National', in Geoffrey Rice (ed.), *Oxford History of New Zealand*, 2<sup>nd</sup> edition, Auckland: Oxford University Press, 1992, p.376.

economic nationalism, and dominant America's sponsorship of these ideas. The modification of their arguments over the 1930s to be more tolerant of tariff mechanisms in the short run (for example as Condliffe had) would have also made their ideas more politically palatable.<sup>82</sup> The USA led many of the discussions and vigorously promoted the idea that expanding international trade was the best opportunity for the future development of its economy and for its ability to help others, as well as ensuring future peace and prosperity. Britain's role in supporting the USA in these developments, and New Zealand's closer and more direct relationship with the USA during the war through defence and economic cooperation, would make its participation in preparations for the 'new world order' seem 'natural', if not obligatory.

Regardless of its altruistic statements about securing international peace and prosperity, American self-interest was also at work in its efforts to develop an open international economy. The USA's trade policy had for some time centred on the objective of freeing up international trade, and this was supported by American political and academic commentators. American academic William Diebold Jr., for example, had in 1941 argued that American trade policy should now be placed more centrally within its foreign policies. He noted the USA felt it had been badly hurt by exclusionary trade practices stemming from the Depression. While world exports had fallen by two-thirds between 1929 and 1934, American exports had fallen by three-quarters, and their share of world trade had declined from 15.6 percent to 11.0 percent.<sup>83</sup> In a turnaround from the Smoot-Hawley Act, the 1934 Reciprocal Trade Agreements Act (RTAA) had aimed to counter this by expanding US trade interests as widely as possible in order to lift the American economy out of the slump from the Depression. The RTAA had effectively given the US President automatic congressional consent to enter into trade agreements, and 29 bilateral agreements had been signed prior to the war.<sup>84</sup> This illustrates how national interest had come to be understood in trade as well as political terms. Trade policy, Diebold said, was now 'an instrument of foreign policy which must be made to serve the national interest as a whole rather

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<sup>82</sup> Endres and Fleming, *International Organizations and their Analysis of Economic Policy*, p.118.

<sup>83</sup> Diebold, *New Directions in Our Trade Policy*, p.28.

<sup>84</sup> Nigel Grimwade, *International Trade Policy: A Contemporary Analysis*, London: Routledge, 1996, p.9.

than the limited ends in the slogan “to promote foreign trade”.<sup>85</sup> The efforts towards international economic cooperation that the USA led, therefore, were more a continuation of the Hull programme – which implemented strategies to pursue the RTAA’s objectives<sup>86</sup> – and the pre-war policy of the USA rather than signalling any break with it.<sup>87</sup>

At an international level, several arguments for international cooperation and attempts to restore liberal trading policies were developing. As well as Diebold’s arguments built on the basis of American self-interest, Condliffe wrote *The Reconstruction of World Trade* in 1940 in which he argued for international cooperation and the development of an ‘International Authority’ which would be empowered to regulate the nationalist economic policies of states.<sup>88</sup> A similar idea was put forward by his colleague Albert Hirschman in 1945.<sup>89</sup> Diebold and Condliffe both argued that such an international strategy should be led by the USA.<sup>90</sup> Condliffe acknowledged America’s international dominance in arguing for this, stating that ‘(N)ot what Americans think, but what the United States does, will largely determine the pattern of international relations for the immediate future’.<sup>91</sup> At a national level, Roosevelt garnered congressional support for this policy line by arguing how well the American producers would prosper from a revived world economy.<sup>92</sup>

New Zealand was supportive of the development of international cooperation. Nash’s statements reflected strong support for the American and British line of thinking, for example when he stated in his 1946 Financial Statement that he viewed the rise of economic nationalism as a cause of the war,<sup>93</sup> and argued that ‘the restoration of world trade is a further necessary precondition of permanent peace’.<sup>94</sup> Horace

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<sup>85</sup> Diebold, *New Directions in Our Trade Policy*, p.111.

<sup>86</sup> Diebold, *New Directions in Our Trade Policy*, p.6.

<sup>87</sup> Wytze Gorter, ‘GATT After Six Years: An Appraisal’, *International Organization*, Vol.8, No.1, February 1954, pp.1-2.

<sup>88</sup> Condliffe, *The Reconstruction of World Trade*, pp.389-390.

<sup>89</sup> Hirschman, *National Power and the Structure of Foreign Trade*, pp.79-80.

<sup>90</sup> Diebold, *New Directions in Our Trade Policy*, p.132; Condliffe, *The Reconstruction of World Trade*, pp.392-394.

<sup>91</sup> Condliffe, *The Reconstruction of World Trade*, p.392.

<sup>92</sup> Hill, ‘American Efforts to Aid French Reconstruction’, p.502.

<sup>93</sup> For example, Nash’s statement to the UN Trade and Employment Conference, June 1947; ‘Trade and Employment: Geneva Conference’, *AJHR*, A.2E, 1947, pp.4-5.

<sup>94</sup> Walter Nash, ‘Financial Statement’, *AJHR*, B.6., 1946, p.5.

Belshaw, a New Zealand economist who wrote a number of pieces on New Zealand's prospects for operating in the post-war era, noted in 1944 that government leaders had emphasized the importance they attached to a world organisation 'and their willingness to accept for New Zealand the fullest measure of responsibility consistent with New Zealand's capacity.'<sup>95</sup> He also noted that New Zealand and Australia had written the Canberra Pact so that it could fit into a world organisation.<sup>96</sup> Nash even proposed that the British Commonwealth could be used as a model for developing such a structure.<sup>97</sup>

New Zealand participated actively in the establishment of the United Nations (UN) in 1945. McIntosh later reflected that New Zealand's participation in the drafting of the UN charter was 'perhaps the golden period in New Zealand's external relations', when representatives made their presence felt when they took a stand against the veto rule, and argued for the inclusion of the principle of collective security in the Charter.<sup>98</sup> This was not only the exercise of a more assertive international stand by New Zealand, but also earned it the description of 'small power rampant'.<sup>99</sup> This is indicative of the policy of active engagement that has characterised New Zealand's foreign policy since.

New Zealand's participation in the development of economic multilateralism was, however, a little more cautious. A New Zealand delegation had participated readily in the Bretton Woods Conference in 1944, but was more careful about joining the consequent organisations. Bretton Woods had been extensively planned to develop a code of conduct for international financial cooperation at the end of the war.<sup>100</sup> From that conference emerged the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (World Bank). As well, the

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<sup>95</sup> Horace Belshaw, 'Post War Economic Reconstruction in New Zealand', *Pacific Affairs*, Vol.17, No.4, Dec.1944, p.443. Belshaw kept contact with Condliffe and studied his PhD under Keynes; Condliffe, *The Beginnings of the WEA*, p.26.

<sup>96</sup> Belshaw, 'Post War Economic Reconstruction in New Zealand', p.443.

<sup>97</sup> Nash, *New Zealand: A Working Democracy*, pp.262-263.

<sup>98</sup> Alister McIntosh in Malcolm Templeton (ed.), *An Eye, An Ear and A Voice: 50 Years in New Zealand's External Relations 1943-1993*, Wellington: Ministry of Foreign Affairs and Trade, 1993, p.23.

<sup>99</sup> See, for example, T.C.Webb, 'Development of Foreign Policy', *External Affairs Review*, Vol.IV, No.5, May 1954, pp.19-22.

<sup>100</sup> Anthony Endres, *Great Architects of International Finance: The Bretton Woods Era*, London: Routledge, 2005, p.22.

idea of establishing an international trade organisation was floated.<sup>101</sup> The latter had been discussed since early in the war and would later come to fruition as the General Agreement on Tariffs and Trade (GATT).

Nash, who led the New Zealand delegation at Bretton Woods, was supportive of New Zealand joining the IMF but found his government was more cautious about it, and public support within New Zealand was lacking.<sup>102</sup> The reasons were noted by Belshaw in a paper he wrote contemplating New Zealand's economic prospects after the war. He noted that joining the IMF would mean that New Zealand would have to relinquish its own control over external transactions, which would effectively spell the end of exchange and import controls that Labour's stability and industry protection measures were built on.<sup>103</sup> Such a system would also go against New Zealand's sterling commitments, and would curb it and other countries' abilities to maintain full employment policies.<sup>104</sup> Belshaw also noted that given the Labour Government's aversion to borrowing overseas, the proposed lending for development from the new World Bank would be unlikely to be taken up by New Zealand.<sup>105</sup> Given those concerns, it was decided that New Zealand would not at that point join the organisation.

The New Zealand Government was clearly more comfortable with the development of economic organisations that would work towards ensuring international economic security after the war. The New Zealand delegation played a leading role in the development of the Economic and Social Council (ECOSOC) of the UN in 1945. Hoadley has noted that the importance placed on its work with other delegations there would ensure that the council would be given equal importance to the other four principal arms of the UN.<sup>106</sup>

New Zealand was not alone in its reticence to fully join international economic cooperation efforts. Although both Condliffe and Hirschman had strongly advocated

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<sup>101</sup> Orin Kirshner, 'Introduction' in Orin Kirshner (ed.), *The Bretton Woods-GATT System: Retrospect and Prospect After Fifty Years*, Armonk: M.E.Sharpe, 1996, p.x.

<sup>102</sup> Sinclair, *Walter Nash*, pp.242-246.

<sup>103</sup> Horace Belshaw, 'New Zealand in a Post-war World: Reconstruction Problems of a Vulnerable Economy', *The Canadian Journal of Economics and Political Science*, Vol.11, No.3, August 1945, p.399.

<sup>104</sup> Singleton and Robertson, *Economic Relations Between Britain and Australasia*, pp.39-40.

<sup>105</sup> Belshaw, 'New Zealand in a Post-war World', p.398.

<sup>106</sup> Hoadley, *New Zealand United States Relations*, p.118.

the idea of international economic cooperation, they equally acknowledged the difficulties of achieving this in reality in the post-war years. The domestic policies of countries would challenge the establishment of such a system. Hirschman argued that international trade had become ‘a political act whether it takes place under a system of free trade or protection.’<sup>107</sup> Condliffe considered the tensions between domestic policies and how they translated in the international context, noting that in international politics, ‘in addition to the conflict of group interests within national boundaries, there is a continuous, if vague and confused, conflict of governmental attitudes and actions in defence of what are said to be “national interests”.’<sup>108</sup> Both of these could be validly applied to New Zealand’s case.

The conflict of domestic priorities with international aspirations was fuelled by the rise of full employment as an internationally accepted objective of economic policy. Full employment was an idea that was enjoying a heyday with the ‘Keynesian revolution’ – in Gary Hawke’s words – that had taken place internationally since the 1930s.<sup>109</sup> Keynes had argued since then that it was important for governments to ensure optimum demand in the economy, especially through policies which enabled full employment of the population.<sup>110</sup> The idea had gained ground internationally because, Baker argued, the ‘fact of full employment’ in war encouraged governments to believe in the practicability of full employment in peace as well.<sup>111</sup>

Keynes’ influence was especially evident in the British white paper *Employment Policy* published in 1944. In this, the British Government announced its acceptance ‘as one of their primary aims and responsibilities the maintenance of a high and stable level of employment after the war’.<sup>112</sup> These ideas were similarly applied in Australia. In his 1945 collection of essays entitled *The Road to High Employment*, Douglas Copland used the British model from *Employment Policy* to justify his calls for controls of total national expenditure, because, he explained, ‘expenditure creates demand for

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<sup>107</sup> Hirschman, *National Power and the Structure of Foreign Trade*, p.78.

<sup>108</sup> Condliffe, *The Reconstruction of World Trade*, p.27.

<sup>109</sup> Hawke, *The Making of New Zealand*, p.148.

<sup>110</sup> Roper, *Prosperity for All?* pp.127-128.

<sup>111</sup> Baker, *War Economy*, p.3.

<sup>112</sup> Quoted from white paper in Coats, ‘Britain: the Rise of the Specialists’, p.369.

resources, and if expenditure is not maintained, demand for resources will fall off and some will be unemployed.’<sup>113</sup>

Although Keynes’ ideas had been used to support arguments for protectionist economic policies, his theories did not necessarily conflict with efforts to expand international trade, and he in fact participated in the Bretton Woods conference.<sup>114</sup> He argued that once a domestic policy of full employment was satisfied, it would be able to function under an unregulated world trade system.<sup>115</sup> In this regard Keynes’ ideas fitted with those of influential participants in British trade policy making such as James Meade and Lionel Robbins, who were committed to the idea of free trade.<sup>116</sup> Such arguments appeared to allow scope for countries to pursue both protectionism and cooperation, but as New Zealand’s experience would show, this would not necessarily be easy in the post-war world.

#### **PLANNING FOR A POST-WAR NEW ZEALAND**

The idea of planning for the development of the post-war economy was discussed in New Zealand throughout the war and especially during the 1943 election campaign. Both Labour and National were prepared to make full employment a central economic objective after the war, but they did not necessarily agree on the way it should be achieved.<sup>117</sup> Labour advocated ‘planned production’ that would continue to ‘vigorously support and encourage secondary industries’ and pursue stability of producers’ costs and prices, including those for farmers.<sup>118</sup> The *New Zealand National Review* also argued in 1943 that ‘plan we must, and plan now, if some of the many mistakes which were made after the last war are to be avoided’.<sup>119</sup>

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<sup>113</sup> Douglas Copland, *The Road to High Employment: Administrative Controls in a Free Economy*, Sydney: Angus and Robertson, 1945, p.65.

<sup>114</sup> The Anglo-American position was mainly more on a plan pushed by US economist Harry White, however, rather than Keynes’ paper. Singleton and Robertson, *Economic Relations Between Britain and Australasia*, p.40.

<sup>115</sup> Keynes, *The General Theory of Employment, Interest and Money*, p.382.

<sup>116</sup> Francine McKenzie, *Redefining the Bonds of Commonwealth 1939-1948: The Politics of Preference*, New York: Palgrave, 2002, pp.39-44.

<sup>117</sup> Baker, *War Economy*, p.3.

<sup>118</sup> New Zealand Labour Party, *Labour’s Progressive Policy for Security, Rehabilitation and Expansion: General Election 1943*, Wellington: New Zealand Labour Party, 1943.

<sup>119</sup> ‘Agenda for a Post-war World’, *New Zealand National Review*, 15 December 1943, p.67.

National, on the other hand, argued for a more relaxed approach to economic management. In his electoral pamphlet *Passwords to Progress*, party leader Sidney Holland emphasised the idea of personal freedom for New Zealanders; something that he argued was being curbed by Labour's 'state socialism'. He advocated a system of free enterprise (rather than state enterprise, as he called Labour's system) which would not be 'clogged up by dictatorial regulations and restrictions', that would ultimately 'stagnate and deteriorate'.<sup>120</sup> He complained that Labour's system had caused this, and prevented 'the benefits and advantages of human progress' available through free enterprise and competition.<sup>121</sup> National's arguments especially targeted Labour's import control system. National MP W. Sullivan, for example, argued that the restrictions on imports would make it very difficult for anyone who would want to start up a business after the war.<sup>122</sup>

Labour, voted back into government in 1943, nevertheless remained convinced that full employment would best be achieved by maintaining the stabilisation and control measures. Full employment was conceived as a means to an ultimate goal; the continuous improvement of living standards.<sup>123</sup> Industrial development was considered the best means for achieving this, especially as Labour noted that farming could only provide so much employment for New Zealanders. Nash argued 'the only way we can achieve a better standard of living for everyone is to manufacture more goods in New Zealand'.<sup>124</sup> The Labour Government accordingly continued to shape economic policy towards those goals, especially in establishing the Organisation for National Development in 1944 which during its year-long existence sought to manage the transition from a war to peacetime economy, with the main focus of ensuring full employment.<sup>125</sup>

The Department of Industries and Commerce's annual report in 1946 showed that full employment objectives were firmly embedded as the basis of their work and support of industrial development. The report articulated that the 'maintenance of full

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<sup>120</sup> S.G.Holland, *Passwords to Progress*, Wellington: New Zealand National Party, 1943, p.4.

<sup>121</sup> Holland, *Passwords to Progress*, pp.3,5.

<sup>122</sup> W.Sullivan, *NZPD*, Vol.262, 15 June 1943, p.774.

<sup>123</sup> Walter Nash, 'Financial Statement', *AJHR*, B.6, 1945, p.12.

<sup>124</sup> Walter Nash, 'Financial Statement', *AJHR*, B.6, 1945, p.13.

<sup>125</sup> Baker, *War Economy*, pp.528-530.

employment of both persons and material resources is an objective accepted as the basis for government policy', and that 'it is now recognised as essential to the well-being of the country that a right balance be maintained as between the rural and urban populations, that is, too, between primary and secondary industries.'<sup>126</sup> The growth of new industries that had occurred during the war encouraged industrial expansion policies. Nash noted that '(P)artly due to the war we have successfully established many new industries employing many thousands of workers and the production of consumer goods on an economic basis.'<sup>127</sup> By implication they also believed that their import and exchange controls had enabled this development, and could continue to do so.

The Department of Industries and Commerce was reshaped so that it could build on the 'wonderful expansion' of the secondary industries. The department was restructured in 1946 into two separate divisions – namely the Industries division and Commerce division - which would 'serve the need for development and diversification of New Zealand industry, to develop overseas trade, and to assist in meeting the urgent necessity for greater production to help bridge the gap between available funds and available commodities'.<sup>128</sup> The brief to the Commerce division was to keep 'abreast of changing conditions of trade and to give every encouragement to New Zealand trade and commerce.'<sup>129</sup> Industrial development was at this stage aimed far more towards providing goods for domestic use so that the need for imported goods would be minimised.

Academics joined in discussions about industrial development and how this might be best pursued in the post-war period. In a 1944 pamphlet designed to consider 'the basis that exists in New Zealand for expansion of the secondary or manufacturing industries', New Zealand scientist Roy Gardner expressed his opinion that New Zealand industry had the opportunity to flourish in the post-war environment:

... providing that discretion is exercised as to what industries are developed. Not every industry could succeed in New Zealand and it is neither to be expected nor to be desired that we shall ever reach a stage

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<sup>126</sup> 'Report of the Department of Industries and Commerce', *AJHR*, H.44, 1946, p.4.

<sup>127</sup> Walter Nash, 'Financial Statement', *AJHR*, B6, 1946, p.32.

<sup>128</sup> 'Report of the Department of Industries and Commerce', *AJHR*, H.44, 1946, pp.2-3.

<sup>129</sup> 'Report of the Department of Industries and Commerce', *AJHR*, H.44, 1946, p.3.

of industrialization such is found in some of the older industrial countries. ... We can expect, however, and must aim for a better-balanced economy than we have in the past.<sup>130</sup>

Secondary industries struggled to expand, however. In 1947 Belshaw identified the main reasons why he thought New Zealand secondary industries had not developed very far:

Industrial development has been hindered by the comparative paucity of raw materials for heavy industries and the smallness of the domestic market provided by a population of 1,700,000. The market is divided by high costs of internal transport, which result partly from the smallness of the population but mainly from topographical obstacles. Hence there is no adequate basis either for heavy industries or for manufacturing industries in which the economies of large-scale production are important.<sup>131</sup>

Belshaw identified here some issues that would be key factors determining the rate at which industrial development could occur over the following decades. The need of industries to import raw materials and capital goods to enable manufacturing development would especially fuel the growing debates over the value of New Zealand's import licensing system and whether it should continue in years to come.

Industrial development had by the end of the war become intrinsically linked with import substitution policies. Nash highlighted this in 1946 when he argued that not only would restricting imports help protect industries, industrial development would also provide goods domestically that would mean that imports would not be so necessary. Policy would therefore be:

Although the maximum quantity of goods will be imported within the available funds, clearly the most advantageous use of the funds is to import goods which cannot be made in New Zealand and to make the fullest use of our own industrial resources.<sup>132</sup>

As the import licensing system became an increasingly important mechanism by which industries developed to enable import substitution, the Department of Industries and Commerce became more involved in its administration. The licensing system itself remained virtually unchanged from 1938 until 1948.<sup>133</sup> It worked on the

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<sup>130</sup> Roy Gardner, *Industrial Development in New Zealand*, Wellington: Progressive Publishing Society, 1944, pp.43-44.

<sup>131</sup> Horace Belshaw, 'Economic Organization', p.111.

<sup>132</sup> Walter Nash, 'Financial Statement', *AJHR*, B.6, 1946, p.32.

<sup>133</sup> Wilson, 'Import Control in New Zealand 1938-1950', p.50.

basis that all goods to be imported had to be conferred a licence from application. Each year a 'schedule' was produced where items were classified according to whether they were allowed to be imported on a 'basic allocation' basis; allowed to be imported only after close examination of each individual application ('C' items); or whether they were virtually excluded from importation ('D' items).<sup>134</sup> Of this system, classification of the 'D' items was the most politically contentious. These were almost totally excluded from importation, usually because they were considered to be produced in sufficient volume locally.<sup>135</sup> The schedule and the finalisation of its classifications were determined by the Customs Department with the Department of Industries and Commerce working in an advisory capacity.<sup>136</sup> Industries and Commerce was called upon to advise Customs on applications relating to the importation of capital equipment and raw materials, especially if they were likely to compete with local industries.<sup>137</sup> Through these mechanisms, protectionism was entrenched as local industries were 'insulated' from overseas competition.

Public attitudes towards the import system were mixed, and the National Party was quick to promote public discontent with the import controls, especially through arguments like those of the 1943 election campaign. Some New Zealand traders also argued that the system as it stood created a severe handicap on the flow of commerce. Delays of three months or more in the processing of licence applications became common-place, and meant that the placing and accepting of orders for overseas imports were hampered by uncertainty and delays.<sup>138</sup> In a resolution passed at their annual conference in 1944, the Associated Chamber of Commerce made clear their support for relaxing import controls:

... this Conference is emphatically of the opinion that import control and selection as at present practiced is unnecessary, restrictive to trade, and as such undesirable. It therefore urges immediate revision, and abandonment at the earliest possible moment.<sup>139</sup>

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<sup>134</sup> C.M.Bowden, 'Import Licensing in New Zealand: A Review', *AJHR*, J.4, 1950, p.2.

<sup>135</sup> Wilson, 'Import Control in New Zealand', p.67.

<sup>136</sup> Bowden, 'Import Licensing in New Zealand: A Review', p.2.

<sup>137</sup> Wilson, 'Import Control in New Zealand', p.52.

<sup>138</sup> Wilson, 'Import Control in New Zealand', pp.54-55.

<sup>139</sup> Quoted in Baker, *War Economy*, p.548.

With the growth in prosperity of New Zealanders and a corresponding demand for imported goods after the war it became more difficult to satisfy the electorate that the system should carry on being so stringent.

Nash, however, argued that the continuation of the controls was the only way to go. To his mind, the government needed to continue to have a central role in the economy. By keeping 'the power of economic direction in the Government's hands', he argued, stability in areas of employment, living standards and economic security would be able to be maintained in the post-war environment.<sup>140</sup> Import and exchange controls, in his view, would (rather than restrict it) 'lead to the maximum of trade'.<sup>141</sup>

Labour's continuation of stabilization policies in the early post-war era were therefore based on very firm ideas of how the domestic economy should be run, but external considerations were also taken into account in formulating its policies. Nash's decision to revalue the exchange rate to parity with sterling in 1948 was a move for stabilisation and to stem inflationary factors, but he also explained it to the public as help for Britain.<sup>142</sup> The relationship with Britain and New Zealand's commitments to the Sterling Area continued to be the basis of trade policy.

### **THE RELATIONSHIP WITH BRITAIN**

The import licensing system provided a structure by which commitments to Britain and the Sterling Area were met relatively easily by the New Zealand government. Nash argued import selection was necessary 'to ensure the most economic use of the Dominion's overseas funds'.<sup>143</sup> These overseas funds were, of course, tied up with those of Britain and the rest of the Sterling Area. The basic role of the Sterling Area was to 'allow member countries as a whole to make the best use of the hard currency (in particular dollars) available to them, but Singleton and Robertson have noted that all members were not equal. Britain had free access to the pool of dollars, whereas other members' ability to draw on it 'varied according to their degree of

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<sup>140</sup> Walter Nash, 'Financial Statement', *AJHR*, B.6, 1946, p.7.

<sup>141</sup> Walter Nash, *NZPD*, Vol.266, 7 September 1944, p.183, cited in Baker, *War Economy*, p.549.

<sup>142</sup> Sinclair, *Walter Nash*, p.272; Hawke, *Between Governments and Banks*, pp.122-123; McKinnon, *Treasury*, p.187.

<sup>143</sup> Walter Nash, 'Financial Statement', *AJHR*, B.6, 1946, p.32.

independence.’<sup>144</sup> New Zealand’s commitment to the Sterling Area included agreement not to operate on the accumulated balances of sterling, but keep importing costs, as much as possible, within what was received from export income.<sup>145</sup> Its access to the dollar pool was fairly free, but nevertheless ruled by what reserves were available and always with consideration to the agreements of the collective membership (usually directed by Britain’s needs) on allocation.

The continuation of close trade and exchange arrangements with Britain obliged the New Zealand Government to also consider British interests in economic decision making. Industrial development and production strategies, for example, would continue to be moderated by considerations to British industries, as Nash explained in 1945:

Where new types of manufactures in New Zealand, and particularly those that need to be in large units, are found to be economic in pursuance of a policy of obtaining full employment in productive industry, we will in accordance with our obligations already undertaken, invite the views of United Kingdom industries, and should they so desire, give United Kingdom industries concerned an opportunity to put forward proposals for establishing factories in the Dominion.<sup>146</sup>

British goods were also given preference in import licensing provisions. Until 1948 – apparently as a legacy of Nash’s agreements with the British on obtaining the 1938 loans – a certain amount of ‘token’ licences were provided each year for goods on the ‘D’ schedule that were from British manufacturers.<sup>147</sup> These concessions were justified to New Zealand considering the importance of the British market for New Zealand’s exports, as Nash reasoned in 1945 when he said ‘it is plainly in our interest’ to do so.<sup>148</sup>

In 1944 New Zealand and British representatives met to discuss their trading and financial arrangements in anticipation of the end of the war. The discussions also served as an opportunity for New Zealanders to address some issues that had come to be pressing within the trade arrangements. The first was the deterioration of terms

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<sup>144</sup> Paul Robertson and John Singleton, ‘The Commonwealth as an Economic Network’, *Australian Economic History Review*, Vol.41, No.3, November 2001, p.255.

<sup>145</sup> Walter Nash, *Fair Exchange is No Robbery*, Wellington: New Zealand Labour Party, 1948, p.14.

<sup>146</sup> Walter Nash, ‘Financial Statement’, *AJHR*, B.6, 1945, p.13.

<sup>147</sup> Wilson, ‘Import Control in New Zealand’, p.53.

<sup>148</sup> Walter Nash, ‘Financial Statement’, *AJHR*, B.6, 1945, p.13.

of trade that had taken place despite the government's stabilisation measures. Imports from Britain had increased to an extent that over 1941 to 1943 balancing foreign payments had become increasingly difficult, with a given quantity of exports sold in 1943 only being able to purchase two-thirds of what it could have in 1938.<sup>149</sup> To alleviate this, Britain granted New Zealand £28 million sterling to compensate for price disparities that had developed over the course of the war.<sup>150</sup> Concessions were made in return. New Zealand granted Britain £12.5 million 'as a gift to help her over the bad times.'<sup>151</sup>

The more important issue for New Zealand was the exporting arrangements. New Zealand argued that Britain had continually applied pressure for New Zealand to expand its export production, but without any guarantees of a market after the war. Britain at that stage agreed to extend the bulk purchasing arrangements for meat and dairy produce to 1948.<sup>152</sup> In 1948 they were further continued to 1955.<sup>153</sup>

The continuation of bulk purchasing after the war kept the Labour Government strongly focused on maintaining the status quo in its trade policies, through the continuation of the strong trading relationship with Britain and by optimising primary production to sustain and extend this as much as possible. For Labour, this was a means to achieve the important objective of economic security for New Zealand. In 1949 Nash identified the arrangements as 'one of the major factors safeguarding the future of our trade.'<sup>154</sup>

Over time, however, there were some who challenged how much benefit the bulk purchase arrangements provided to New Zealand. They argued that they instead stifled opportunities for development. The arrangements, they said, prevented New Zealand from taking advantage of international price booms in pastoral products in the early post-war years. Condliffe was particularly critical of the limits the arrangements had placed on New Zealand's opportunities in this regard. He noted the high prices of butter that could be obtained in the USA in 1949, and that even

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<sup>149</sup> Baker, *War Economy*, p.379.

<sup>150</sup> Nash, *Fair Exchange is No Robbery*, pp.11.

<sup>151</sup> Nash, *Fair Exchange is No Robbery*, p.14.

<sup>152</sup> Baker, *War Economy*, pp.524-525.

<sup>153</sup> *NZOYB*, 1951-1952, pp.228,395.

<sup>154</sup> Walter Nash, 'Financial Statement', *AJHR*, B.6, 1949, p.11.

after taking into account US tariffs, could earn New Zealand farmers an extra \$5million profit per year by directing exports there rather than to Britain. This, he said, could not only help New Zealand farmers develop their farms to expand production for its traditional markets, but also gain New Zealand valuable dollars which could help meet the intense demand for farm machinery from dollar countries.<sup>155</sup>

Regardless of these criticisms, New Zealand adhered to the bulk purchase arrangements and its commitment to the Commonwealth. McKinnon has observed that this was an era when New Zealand continued to base its trade policies – even despite the changes that had taken place in the international political context – as part of the Commonwealth economy first and foremost.<sup>156</sup> The policies to extend primary production as much as possible were nevertheless also framed as a means by which New Zealand could contribute to international reconstruction efforts in a broader sense. Nash reasoned in 1946 that ‘New Zealand ranks high among food-producing countries and we have great opportunity and a moral obligation to increase our production to the maximum.’<sup>157</sup> Loyalty was very apparent, but so too was acknowledgment of New Zealand coming of age as an independent country:

We are a new country ... We have, through our strivings and development, and through our steadily maturing sense of national responsibility, achieved our adulthood as a nation. As an adult nation we stood shoulder to shoulder with our friends in the conflict now ended. It is as an adult nation that we stand face to face with friends and foes alike to ensure that the sacrifices of war bear good fruit in time of peace.<sup>158</sup>

Despite New Zealand’s more confident and independent stance, representatives would face very real challenges in the new international forums over the early post-war years. Historian Michael Ashby has noted that:

Any account of Fraser’s foreign policy has to consider an essential paradox: the champion of ‘small power rampant’, as Professor Wood (1958) has characterised it, was also profoundly loyal to Britain and the Commonwealth.<sup>159</sup>

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<sup>155</sup> J.B.Condliffe, ‘Bulk Purchase Agreements’, *Far Eastern Survey*, Vol.18, No.3, 9 Feb. 1949, p.32.

<sup>156</sup> McKinnon, *Independence and Foreign Policy*, chapter 5.

<sup>157</sup> Walter Nash, ‘Financial Statement’, *AJHR*, B.6, 1946, p.32

<sup>158</sup> Walter Nash, ‘Financial Statement’, *AJHR*, B.6., 1946, p.40.

<sup>159</sup> Michael Ashby, ‘Fraser’s Foreign Policy’, in Margaret Clark (ed.), *Peter Fraser: Master Politician*, Palmerston North: Dunmore Press, 1998, p.169.

This is an appropriate analysis of New Zealand's early post-war external relations work. While New Zealand readily cooperated in international economic forums to plan for reconstruction and development, it retained its commitment to the British Commonwealth and Sterling Area, and moderated its behaviour according to those obligations. Domestic commitments to full employment policies within New Zealand – and the understanding of how these could be achieved – would ensure that the balance of national interests would provide many diplomatic challenges.

### **THE END OF THE WAR – INTERNATIONAL ARRANGEMENTS**

The negotiations towards international arrangements at the end of the war signalled from early on that they would challenge New Zealand's status quo. Francine McKenzie has argued that this was characteristic of all members of the Commonwealth because of their nervousness about the implications of the commitment made in Article VII of the Lend-Lease agreements on imperial preference.<sup>160</sup> It was especially apparent in the negotiations the USA conducted with Britain towards a reconstruction loan. The New Zealand Government supported the idea of a loan because it would help rebuild the British economy, on which it was so reliant. New Zealand had, said Nash, 'a direct interest' in Britain's economic recovery.<sup>161</sup> The \$3,750 million loan would enable Britain to import foodstuffs, machinery and raw material. Given New Zealand's role in the provision of the first and last of these, the loan would be beneficial to New Zealand. It was likewise also supportive of the Marshall Plan which created the structure for US aid towards European reconstruction after the war and extended the Americans' efforts in the same direction.

The negotiation process towards the Anglo-American loan, however, brought to light tensions between what the Americans and British interpreted as the place of imperial preference within the resurrection of world trade; and therefore how they would progress their post-war economic relationship. The Americans pressed for the cessation of imperial preference, arguing that it was contrary to the Atlantic Charter objectives, and that its elimination would anyway only require a small economic

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<sup>160</sup> McKenzie, *Redefining the Bonds of Commonwealth*.

<sup>161</sup> Walter Nash, 'Financial Statement', *AJHR*, B.6., 1946, p.6.

sacrifice. They also argued that Congress would only support American aid efforts if they could tell them that preferences had been eliminated.<sup>162</sup> Congress was generally understood to be strongly focused on US domestic interests and resistant to external aid, and Diebold has reflected that it was often used as a negotiating tool for the Americans in this way.<sup>163</sup>

McKenzie has highlighted that within the British Government there was some sympathy for the idea of abolishing imperial preference, and that representatives remained open to negotiating it. There was, however, a lot at stake. McKenzie argues that by being prepared to negotiate over preferences, the British 'recognized that they were also negotiating their own place in world affairs.'<sup>164</sup> The Commonwealth ties were under question, and the early line by the British was to argue for the retention of imperial preference, stating that they could not 'accept the idea of being forced by reason of our temporary financial weakness to throw over imperial preference as the price of financial assistance'.<sup>165</sup>

There was much alarm within New Zealand and Australia over the pressure the Americans were exerting on imperial preference, and the uncertainty of whether Britain would fold to it.<sup>166</sup> Communications and representations ensued to ensure that the Dominions' interests were taken into account within the negotiations.<sup>167</sup> For New Zealand, the threat to imperial preference was also seen as a threat to the domestic economy. Imperial preference was the foundation upon which the policies of exchange and import control, industrial development, full employment and the preservation of export interests existed. In shaping New Zealand's argument for the retention of the system, Peter Fraser spelt out in November 1945 how these were all linked:

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<sup>162</sup> Telegram Secretary State Dominion Affairs to Minister External Affairs, Wellington, 12 October 1945, NA file AECO 18675, PM23 1/5, International Post-War Settlements: Atlantic Charter, 1944-1946.

<sup>163</sup> Diebold, 'The United States in the World Economy: A Fifty Year Perspective', p.85.

<sup>164</sup> McKenzie, *Redefining the Bonds of Commonwealth*, p.48.

<sup>165</sup> Telegram Secretary State Dominion Affairs to Minister External Affairs, Wellington, 12 October 1945, NA file AECO 18675, PM23 1/5, International Post-War Settlements: Atlantic Charter, 1944-1946.

<sup>166</sup> This was something which, McKenzie argues, some British negotiators were prepared to accept. McKenzie, *Redefining the Bonds of Commonwealth*, ch.5.

<sup>167</sup> See for example, Telegram Acting High Commissioner, London to Minister External Affairs, Wellington, 17 October 1945, NA File AECO 18675, PM23 1/5, International Post-War Settlements: Atlantic Charter, 1944-1946; which reported that Commonwealth ministers were concerned that Britain should not negotiate imperial preference without the Dominions' direct participation.

- (1) The New Zealand Government's policy is to maintain complete control of its external exchange
- (2) This control of exchange cannot be effective without control of its imports
- (3) Control of imports and effective use of exchange funds is linked up with the expansion of manufacturing facilities within the Dominion which we consider essential if we are to meet our commitments for full employment
- (4) We strongly affirm our desire to maintain our preferences for United Kingdom imports into New Zealand and to continue to receive preferences in the United Kingdom for New Zealand's primary products.<sup>168</sup>

Any concession in imperial preference was therefore seen as withdrawing the basis of New Zealand's domestic policies and priorities. Defending these internal priorities would become a feature of New Zealand's diplomatic activities in the international arena over the following years.

In the event imperial preference was retained, but the British had agreed to a principle of not expanding the preferential arrangements within the Commonwealth in return for the US's agreement in principle to reduce tariffs.<sup>169</sup> The terms of the 1946 Anglo-American loan committed the British to make a broader commitment to support international cooperation by reaffirming their Atlantic Charter commitments.<sup>170</sup> This ensured that pressure on the Commonwealth to open its trade policies would remain. Nevertheless, the developments in diplomatic exchange between Commonwealth members over imperial preference and Sterling Area arrangements provided an important basis by which New Zealand's foreign policy would grow in the post-war years. Membership ensured that there was regular consultation and collaboration between the dominions over policy development. Consultation with Australia in particular helped New Zealand to formulate its arguments for retaining imperial preference and industrial protection through import licensing. Sterling Area considerations would also closely direct New Zealand's trade behaviour over the early post-war years.

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<sup>168</sup> Telegram Minister External Affairs, Wellington to Secretary of State Dominion Affairs, 18 November 1945, NA file AECO 18675, PM23 1/5, International Post-War Settlements: Atlantic Charter, 1944-1946.

<sup>169</sup> McKenzie, *Redefining the Bonds of Commonwealth*, p.150.

<sup>170</sup> Gorter, 'GATT After Six Years: An Appraisal', p.3, footnote 3.

Support for maintaining and protecting imperial preference continued in New Zealand, especially within the National Government, elected in 1949. Sidney Smith, Member for Hobson, argued that imperial preference was 'very important' to New Zealand, especially in protecting agricultural exporting interests in Britain from competition from other countries with 'much lower standards of living'. The removal of these arrangements, he argued, could have dire implications for New Zealand; 'we would have to sell at a price below the cost of production and so destroy the whole of our economy, including our standard of living'. These were also linked with other security issues, as he argued that maintaining close Commonwealth ties would also enable any collective defence measures to be easily enacted in the event of a common war threat.<sup>171</sup>

New Zealand's policies towards international developments had to be balanced, then, between loyalty and support for international efforts, assertions of independence and aspirations for domestic economic security, and its Commonwealth commitments. These did not sit easily alongside each other. This was further evident in New Zealand's participation in international efforts towards economic cooperation, especially in the development of the GATT. The Anglo-American loan and the Marshall Plan agreements had ensured that the US would have substantial international leverage in the post-war environment and their sponsorship of the GATT, and ambition to develop it into a free-trading International Trade Organisation (ITO) ensured substantial diplomatic work was done towards creating that in the post-war years. Robertson and Singleton have noted, however, that the GATT agreement 'established a competing framework to the Ottawa system' and signing up to it would mean essentially superseding those agreements to the Imperial Preference system.<sup>172</sup> The fight to retain New Zealand's interests within these developments would continue.

### **THE DEVELOPMENT OF GATT**

GATT was developed out of a United Nations Conference on Trade and Employment in Geneva in 1947. Substantial preparations had been made towards this, with a

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<sup>171</sup> Mr Smith, 'Financial Statement', *NZPD*, Vol. 290, 31 August 1950, pp.2012-2013.

<sup>172</sup> Robertson and Singleton, 'The Commonwealth as an Economic Network', p.260.

preparatory committee meeting twice beforehand to develop a draft charter for the conference. The 18 country members of the preparatory committee accounted for approximately 70 percent of world trade.<sup>173</sup> These meetings, it was hoped, would establish the ITO and an 'interim multilateral international trade agreement' which would set down the parameters of the organisation.<sup>174</sup> New Zealand was keen to be involved in these efforts from the start, and was represented on each committee by government officials. Within New Zealand members of the Department of External Affairs and other bureaucracies formed an interdepartmental committee to deal with preparation for the ITO negotiations.<sup>175</sup>

It was testament to the perceived importance of the talks that interest groups approached the government to complain that the officials chosen for the first session had 'no practical experience of exporting, importing and banking' and therefore 'strongly urged' that the New Zealand delegation to the preparatory meetings include representatives with that experience. This was necessary, they said, because 'decisions to be made at this conference will be vital to the future economic destiny of this dominion'.<sup>176</sup> The government clearly took heed of this interest, because a party of 19 delegates, headed by Nash, were named to attend the second committee in April 1947, including 'non-official advisers' from the Federation of Labour, Associated Chamber of Commerce, New Zealand Manufacturers' Federation and the Federated Farmers of New Zealand.<sup>177</sup>

As much as New Zealand expressed a keen interest in the development of international economic cooperation and in the Conference on Trade and Employment, from the start there were concerns that its domestic priorities could be threatened by the agreements that were being developed. Nash noted that there were two different approaches apparent in negotiations towards a charter, reflecting two opposing philosophies; one supporting a 'free market', and another supporting 'regulated expansion'. The Americans were of the 'free market' persuasion, steering

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<sup>173</sup> 'Report on Second Session of the UN Conference of Trade and Employment', *AJHR*, A.2EEE, 1947, p.4. There were 23 founding country members of GATT when the agreement was drawn up.

<sup>174</sup> Walter Nash, 'Trade and Employment: Geneva Conference', *AJHR*, A.2E, 1947, pp.3-4.

<sup>175</sup> 'Report of the Department of External Affairs', *AJHR*, A.11, 1947, pp.13, 34.

<sup>176</sup> Telegram Bureau of Importers to Peter Fraser, 26 September 1946, NA file IC 14 25 I(6) Commercial Policy: Trade Interests, Information, April 1945-March 1949.

<sup>177</sup> 'United Nations Conference on Trade and Employment', *AJHR*, A.2EE, 1947, p.4.

the draft charter towards an agreement that emphasised the workings of the market and the demise of any government role in international trade. New Zealand's approach was more towards the latter. This, Nash argued, would accommodate governments' roles in planning industry, finance and trade within their economies 'to ensure full employment, maximum production, maximum trade, and the highest feasible living standards'.<sup>178</sup> As these were – as we have seen – important economic objectives for New Zealand, participation in the negotiations were thereafter characterised by defending the wishes of the 'regulated expansionists' against the 'free marketeers'.

Those most supportive of the initial GATT rules saw its general objectives of freer trade as virtuous, and quantitative trade restrictions were seen as vice.<sup>179</sup> This made negotiations for New Zealand's representatives challenging, because they had to balance domestic priorities towards full employment with the requirements of their negotiating peers; and to protect their Sterling Area commitments. Satisfying all three objectives would require diplomatic skill. In the notes to Treasury on the international commercial policy proposals, the Department of External Affairs acknowledged that New Zealand's import controls as full employment strategies might be seen to contravene the proposed agreement's clause which forbade countries from seeking domestic employment measures if they were likely to hinder employment development in other countries. New Zealand's representatives were therefore advised to tread lightly in their negotiations so the full employment policies would not be viewed in this light.<sup>180</sup>

Fraser instructed the Washington legation to explain its view that the proposed ITO's rules appeared 'too rigid, especially those referring to "general elimination of quantitative restrictions"'. It should explain to the US State Department officials that recognition should be given to 'varying circumstances of economies in different stages of development', with the view to giving 'sufficient latitude to small nations to develop the best standard of living from their own resources with the object of

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<sup>178</sup> Walter Nash, 'Trade and Employment: Geneva Conference', *AJHR*, A.2E, 1947, pp.5-7.

<sup>179</sup> Gorter, 'GATT After Six Years: An Appraisal', p.10.

<sup>180</sup> 'Supplementary notes to Treasury Report on Commercial Policy Proposals', 17 December 1945, NA file AECO 18675, PM23 1/4, International Post-War Settlements: Atlantic Charter, 1943-1945.

providing full employment for expanding populations.’ In spelling out the way that the legation could explain New Zealand’s special circumstances to State Department officials, Fraser summarised that it was ‘imperative that we maintain the right of developing industries’ and that ‘it is reasonable to expect that protection for such industries should be permitted by the means most appropriate to our economy.’ He was quick to note, however, that this did not mean New Zealand was averse to international trade expansion; New Zealand, he said, ‘wishes to stress ... that its policy is one of expanding trade and employment, and that it wishes to make the maximum contribution both in exports and imports to the objective of expanding world trade.’<sup>181</sup> Such statements were also based on the notion that New Zealand could best contribute internationally by first developing prosperity at home. As Nash stated in 1945:

...we will never lose sight of the fact that prosperity begins at home, and that consequently our first and greatest contribution to a better world is to bring about full employment and a higher standard of living in our own country.<sup>182</sup>

As much influence as the Americans had gained in constructing the post-war environment, they did not dominate the negotiations towards the proposed ITO. As Diebold reflected on his retirement in 1983, ‘difficult and often unsatisfactory negotiation was the modality by which the post-war system was produced, not US dictation.’<sup>183</sup> America had the power to influence the nature and direction of the international talks, but not the final outcomes. The negotiations towards the establishment of the ITO were characterised by the tensions between countries wishing to cooperate and at the same time hold fast to what was perceived as their national interests. Singleton has argued that New Zealand was one country which added to this ‘difficult and often unsatisfactory negotiation’. He goes further to assert that, in fact, ‘New Zealand was one of the most awkward members of the international economic community in the 1940s’, especially because ‘it was ready to fight both Britain and the USA when domestic interests were perceived to be under

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<sup>181</sup> Minister External Affairs to Charge d’Affaires, New Zealand Legation, Washington, 2 February 1946, NA file AECO 18675, PM23 1/5, International Post-War Settlements: Atlantic Charter, 1944-1946.

<sup>182</sup> Walter Nash, ‘Financial Statement, *AJHR*, B.6, 1945, p.13.

<sup>183</sup> William Diebold Jnr, ‘The United States in the World Economy: A Fifty Year Perspective’, *Foreign Affairs*, Fall 1983, p.85.

threat.<sup>184</sup> Certainly, New Zealand representatives walked a difficult path seeking to balance collective international goals with domestic priorities over the early GATT years.

The ITO never came into being, ironically mainly because of a US Congress veto, but its formative document, the General Agreement on Trade and Tariffs (GATT), remained. As the GATT agreement was developed, quantitative restrictions were to be eliminated under Article XI. Paragraph 1 of the Article read:

No prohibitions or restrictions other than duties, taxes or other charges, whether made effective through quotas, import or export licenses or other measures, shall be instituted or maintained by any contracting party on the importation of any product of the territory of any other contracting party or on the exportation or sale for export of any product destined for the territory of any other contracting party.<sup>185</sup>

The following Article, however, provided a means by which countries could contravene these obligations. This stated that ‘under certain conditions a country may employ quantitative restrictions to “safeguard” its balance of payments position.’<sup>186</sup> It was contradictions like these that led Wytze Gorter of the University of California to later highlight the limitations of meeting GATT’s ‘virtuous’ main goals; because ‘every firm statement favoring [sic.] freer, multilateral trade is hedged about by exceptions.’<sup>187</sup> It was these exceptions, however, that made it possible for New Zealand to maintain its participation in GATT. The Article XII caveats allowed it to maintain its domestic priorities while being able to continue to pursue its interests in the international forum that GATT provided. But the emphasis in economic policy ‘speak’ did change according to the GATT agreement’s conditions; the National Government through the 1950s placed much more emphasis on balancing external payments in its import control decisions than any other reason.

In the early 1950s some reflections by writers on the GATT highlighted the attitudes that had developed towards it internationally. Gorter noted that GATT had commonly come to be seen as an agreement that ‘represents a compromise of conflicting

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<sup>184</sup> John Singleton, ‘New Zealand Defies the World: The Reconstruction of the International Economy, 1945-50’, p.6. (Paper supplied by author).

<sup>185</sup> GATT Article XI, Paragraph 1, quoted in Gorter, ‘GATT After Six Years: An Appraisal’, p.10.

<sup>186</sup> Gorter, ‘GATT After Six Years: An Appraisal’, p.11.

<sup>187</sup> Gorter, ‘GATT After Six Years: An Appraisal’, p.11.

national interests', so that it was 'not entirely satisfactory to any signatory.'<sup>188</sup> On the other hand, the compromises were considered to have enabled important progress in the international trade arena. GATT also provided, as Gorter characterised it, 'the opportunity for chipping away at trade barriers in an unsensational way.'<sup>189</sup> In its early years, GATT had been seen to facilitate some significant 'chipping'. In the 1947-48 Geneva Round, duties on 45,000 items were negotiated, and in the 1951-52 Torquay Round approximately 8,700 tariff concessions were negotiated and duties on 55,000 items stabilized.<sup>190</sup> In a statement made in the British Parliament in 1952, Lord Cherwell noted that despite its shortcomings, GATT 'does protect us, to some extent, from the raising of excessive barriers against our exports and from the creation of other preferential systems from which we might be excluded.'<sup>191</sup>

New Zealand politicians likewise noted that membership in GATT had its benefits, despite little obvious progress being evident. Minister of Customs Charles Bowden noted in 1953 that GATT 'may have its disadvantages – perhaps even too great rigidity – nevertheless it has given some real benefits', including establishing 'a mechanism for the exchange of tariff concessions and a code of conduct for the practice of international trade'.<sup>192</sup> New Zealand's negotiating position in GATT was, however, considered to be at a disadvantage because of its heavy reliance in trade policy on import licensing over tariffs. In 1954 the New Zealand GATT delegate complained that the tariff was now quite 'out-of-date', having not been reviewed since the early 1930s, something Hawke also later confirmed, stating that before this 'the last occasion on which tariffs were at the centre of the political stage was the Customs Act of 1934.'<sup>193</sup> There was therefore little room for New Zealand to move on negotiations in that area. Gorter noted that tariff reductions were seen to have little significant impact while quantitative restrictions remained in place.<sup>194</sup> This may have

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<sup>188</sup> Gorter, 'GATT After Six Years: An Appraisal', p.1.

<sup>189</sup> Gorter, 'GATT After Six Years: An Appraisal', p.8.

<sup>190</sup> Gorter, 'GATT After Six Years: An Appraisal', p.11.

<sup>191</sup> Lord Cherwell, quoted in *International Trade News Bulletin*, Vol.VII, No.4, pp.158-159, cited in Gorter, 'GATT After Six Years: An Appraisal', p.3.

<sup>192</sup> *External Affairs Review*, Vol.III, No.10, October 1953, p.5.

<sup>193</sup> Hawke, *The Making of New Zealand*, p.259.

<sup>194</sup> Gorter, 'GATT After Six Years: An Appraisal', p.13.

been the American view, but for New Zealand, it meant that it could continue to participate in GATT without giving too many concessions on its own priorities.

The Commonwealth Bloc's commitment to imperial preference was identified by Gorter as being a major obstacle to GATT negotiations.<sup>195</sup> For New Zealand's participation in GATT this was true. The National Government had been particularly concerned that the adoption of the ITO charter would be the death knell for imperial preference, so were relieved that was not ratified.<sup>196</sup> Sterling commitments continued to influence New Zealand trade policy far more on a day to day basis than what was being proposed in GATT. Over the years immediately following the war, strict controls continued on the sterling currency as part of efforts to stabilise the reconstruction of the Commonwealth economies. Demand for goods from outside the area – especially from the USA – was however high and balancing both pressures became an important economic objective. Some efforts were made to relax sterling controls at first, especially in an effort to appease the US.. A British economic crisis in 1949, however, was cause for the re-imposition of strict controls. The perceived need to do this for the time being had deflected US pressure on imperial preference, but it would soon be reasserted once recovery was evident. New Zealand's participation in the GATT would continue to involve balancing its imperial interests with its multilateral ones.

### **POST-WAR BILATERAL AND REGIONAL RELATIONS**

New Zealand's Commonwealth loyalties affected the extent to which it developed any direct bilateral relationships. Despite the heavy international concentration on multilateralism – and the political advantages it was seen to present – Nash argued in 1947 that bilateralism should continue to be the bedrock for international economic exchange.<sup>197</sup> As we have seen, New Zealand had begun to expand its direct diplomatic relations with other countries, and continued to develop others over the early post-war years. These had to be mediated through the Commonwealth commitments, however, and consultation with Britain was a standard part of any new diplomatic process.

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<sup>195</sup> Gorter, 'GATT After Six Years: An Appraisal', p.12.

<sup>196</sup> Mr Smith, 'Financial Statement', *NZPD*, Vol.290, 31 August 1950, p.2015.

<sup>197</sup> Walter Nash, 'Trade and Employment: Geneva Conference', *AJHR*, A.2E, 1947, p.7-8.

New Zealand's diplomatic representation overseas at the end of the war was narrow, especially in relation to economic relationships. By 1947 New Zealand had trade offices in London, Sydney, Melbourne, Montreal and Bombay, and a Consulate-General in New York. The Department of External Affairs described this small number as 'adequate', especially given the limited resources of the department, but also because 'New Zealand's economy (was not) considered to be of the type which requires ... a widespread network of representatives'.<sup>198</sup> There were signs, however, that New Zealand's trade relationships were bound to soon expand. Several countries had established permanent consul offices in New Zealand. The department's report noted that in 1946-47 alone six new consuls had been established in New Zealand; all of these – Belgium, China, Switzerland, USA, Denmark and Sweden – were from countries outside of the Commonwealth.<sup>199</sup> New Zealand posts in other countries still, however, tended to be limited to Commonwealth countries and 'in countries which are situated in, or have important territories in, the Pacific area – United Kingdom, United States of America, USSR, Australia and Canada'.<sup>200</sup>

A shift in focus to the Asia-Pacific region became apparent in New Zealand's foreign policy in the early 1950s. The development of the Australia New Zealand United States Treaty (ANZUS) signed in 1951 further consolidated the new defence relations New Zealand had developed during the war. The pact had a focus on the security of the Pacific. The development of the South Pacific Commission from 1947 also extended New Zealand's diplomatic activity in terms of advancing economic and social development in the Asia-Pacific region.<sup>201</sup> New Zealand viewed itself as having a responsibility to help countries to improve and develop their economies, especially through its participation in multilateral forums like ECOSOC.

The notion of development was something that was gaining much ground in the early post-war period as part of international economic foreign policy, and much work in the UN and in Commonwealth forums had come to concentrate on helping the advancement of peoples in poorer countries as part of the idea that development

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<sup>198</sup> 'Report of the Department of External Affairs', *AJHR*, A.11, 1947, p.28.

<sup>199</sup> 'Report of the Department of External Affairs', *AJHR*, A.11, 1947, p.28.

<sup>200</sup> 'Report of the Department of External Affairs', *AJHR*, A.11, 1947, p.28.

<sup>201</sup> 'New Zealand Foreign Policy', *External Affairs Review*, Vol.IV, No.5, May 1954, p.21.

could be something collectively pursued.<sup>202</sup> McAloon has described this as having renewed a 'long colonial tradition ... reflecting the rhetoric of nation-building, the management of investment, and an intention to create the conditions for private accumulation.'<sup>203</sup>

A major initiative New Zealand participated in to this end was the Colombo Plan. Established in 1951, New Zealand's participation in the Colombo Plan signalled the start of a more conscious economic involvement with its geographical region; even if it was first initiated by the British and largely conducted within a Commonwealth framework to begin with.<sup>204</sup> Officially New Zealand framed its participation in terms of enabling economic development in Asia.<sup>205</sup> Brigit Eames has argued, however, that the objectives were more wide-ranging than humanitarianism. They were also based on concerns to create security, stability and prevent a Communist threat in the region within the Cold War context that had developed since the end of World War Two.<sup>206</sup> The Colombo Plan, it was considered, could create stability and steps towards prosperity for the countries such as India within the region. This was an important step in the orientation of New Zealand's economic diplomatic interests closer to home. Although at this stage there was no real indication, the relationships forged from this agreement would in later decades be integral to New Zealand's trade policy development.

More explicit work towards new trade relationships was evident in the development of 'new' diplomatic relations with Japan at the end of the war. Bilateral trading relations were again developed within Commonwealth arrangements, as part of collective efforts to help reconstruct the impoverished Japanese economy.<sup>207</sup> These were at first relatively insignificant, however. The 1948 External Affairs report noted

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<sup>202</sup> Eastin Nelson, 'Introduction', in Eastin Nelson (ed.), *Economic Growth: Rationale, Problems, Cases*, New York: Books for Libraries Press, 1971, p.xi.

<sup>203</sup> Jim McAloon, 'State and Economic Development in Australia and New Zealand, 1945-1984', Paper presented to the 20<sup>th</sup> International Congress of Historical Sciences, Sydney, 2005, p.12.

<sup>204</sup> Helen Clark, 'Education New Zealand Trust' Speech at 50<sup>th</sup> Anniversary of the Colombo Plan, *New Zealand Foreign Affairs and Trade Record*, August 2001, p.6.

<sup>205</sup> 'New Zealand Foreign Policy', *External Affairs Review*, Vol.IV, No.5, May 1954, p.21.

<sup>206</sup> Brigit Eames, 'To Checkmate Communism? The Origins of New Zealand's Involvement in the Colombo Plan', Bachelor of Arts Honours Research Essay in History, Massey University, 1999.

<sup>207</sup> John Singleton, 'New Zealand's Economic Relations with Japan in the 1950s', *Australian Economic History Review*, Vol.37, No.1, March 1997, p.2.

that although a New Zealand Government representative had been stationed in Tokyo, 'normal trade relations' had not yet been established, but new ones were beginning to be facilitated by a trade representative.<sup>208</sup> Trade activity was treated with a certain amount of indifference in those early post-war years; and they were easily set aside in the early 1950s when import controls were tightened.

In 1951 political moves to develop the bilateral relationship took a step forward when the Japanese suggested opening a Japanese legation in Wellington and initiating direct trade discussions.<sup>209</sup> At this stage, however, New Zealand officials were not prepared to go ahead without prior acquiescence from the British.<sup>210</sup> In 1952, however, New Zealand followed the US' positive response to Japan's application to join the GATT.<sup>211</sup> New Zealand stated the position that it 'did not wish to oppose in any way Japan's accession to the Agreement,'<sup>212</sup> and indeed, its own interest in bilateral trade relations with that country was increasing. In a 1953 statement the Import Control Minister Jack Watts had noted that exports to Japan had increased, particularly in wool purchases, and added that 'the Government considered it desirable ... to give the trading community an opportunity of increasing their purchases from Japan.'<sup>213</sup> Japan was also considered a potentially important trading partner as the end of the bulk purchase agreements was anticipated.<sup>214</sup>

Even though the development of the relationship might be seen as 'new' in terms of stepping outside the traditional Commonwealth network, Andrew Duke has argued that it was actually following the actions of New Zealand's traditional partners. Canada and Australia, for example, were also at that time taking more interest in economic relations with Japan.<sup>215</sup> McKinnon has also noted that the relationship had to be mediated with domestic interests. He noted that nervousness about the effects

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<sup>208</sup> Department of External Affairs, 'Annual Report', *AJHR*, A.1, 1948, p.23.

<sup>209</sup> Andrew Duke, 'A Country in Which I Have Long Had a Close Interest: New Zealand's Relations with Japan in the 1950s', MA Thesis, Massey University, Palmerston North, 2004, p.9.

<sup>210</sup> Duke, 'A Country in Which I Have Long Had Close Interest', pp.10-11.

<sup>211</sup> This was something that Singleton argued was imperative for Japan to gain 'acceptance as a legitimate member of the international economic community. Singleton, 'New Zealand's Economic Relations with Japan', p.5.

<sup>212</sup> GATT Summary Record from the Ad Hoc Committee on Agenda and Intersessional Business, 2 August 1954, NA file AAQW, W3838, Box 1, 107/133/9, GATT 9<sup>th</sup> session: General 1954-1954.

<sup>213</sup> Statement by Import Licensing Minister, *External Affairs Review*, Vol.III, No.11, Nov 1953, p.2.

<sup>214</sup> Singleton, 'New Zealand's Economic Relations with Japan', p.3.

<sup>215</sup> Duke, 'A Country in Which I Have Long Had a Close Interest', Chapter IV.

of Japanese competition to New Zealand industries was apparent.<sup>216</sup> For the time being, however, the import licensing system could be used to cushion this. Official policy was not to grant licences on Japan for goods of a kind already made in New Zealand.<sup>217</sup> Regardless, this was the start of a relationship that would become very important to New Zealand in years to come.

Wider opportunities for New Zealand's trade were also explored in the early 1950s. There was some relaxation of restrictions on imports from the USSR in 1954 on the grounds that its currency was soft.<sup>218</sup> China was another example. Labour MP Warren Freer visited there in the 1950s with the view to considering the development of stronger economic ties.<sup>219</sup> There was also evidence of interest beyond the government in other economies' progress and finding opportunities for New Zealand. In 1953 the left-wing publication *Here and Now*, for example, examined the recent progress of the Chinese economy.<sup>220</sup> Another article considered the threat to the New Zealand economy of the changes in the British and wider international economic context more directly, and argued for closer relationships with the Asian region.<sup>221</sup>

In developing new bilateral relations, defending import policy – especially New Zealand's right to control imports – became a key feature of economic diplomacy. It was also a source of frustration for some New Zealand representatives. Graham Ansell recalled his early work in the new Department of External Affairs involving excruciating detail in red tape when developing new trade relationships like that with Japan:

I recall a seminal confrontation ... between representatives of Industries and Commerce, External Affairs and Treasury, as to whether it might be tolerable for New Zealand to trade with Japan. The thought was totally abhorrent to the Industries and Commerce spokesman, who sternly put it to the rest of us that the outcome of such trade could be the availability in New Zealand of cheap shirts! To his everlasting

<sup>216</sup> McKinnon, *Independence and Foreign Policy*, p.101.

<sup>217</sup> Statement by Import Licensing Minister, *External Affairs Review*, Vol.III, No.11, Nov 1953, p.2.

<sup>218</sup> Statement by Minister in Charge of Import Licensing, *External Affairs Review*, Vol.III, No.11, Nov 1953, p.3.

<sup>219</sup> Warren Freer, *A Lifetime in Politics: The Memoirs of Warren Freer*, Wellington: Victoria University Press, 2004, pp.67-74.

<sup>220</sup> 'Private Businessmen in the New China', *Here and Now*, Nov-Dec 1953, pp.14-16.

<sup>221</sup> Winston Monk, 'Foreign Policy: The Choice Before New Zealand', *Here and Now*, October 1953, pp.10-14.

credit, the Treasury spokesman responded, after a pause, that he wouldn't say "no" to some cheap shirts. But he didn't get any. There were, however, small victories. I still recall the pride with which I informed our trading partners in the early fifties that, following exhaustive review, New Zealand had made the supreme sacrifice of liberalising from import control birdseed, Passover bread and dried flongs for matrices.<sup>222</sup>

### **THE NATIONAL GOVERNMENT'S REVIEW OF IMPORT POLICY**

While New Zealand's right to maintain import controls in the development of its economy was defended in multilateral and bilateral relationships, the irony was that at home debates over the usefulness of the controls were raging. This became an issue that drew lines between the two main political parties in the post-war years. National built its election campaigns through the 1940s on growing grumblings within New Zealand about import controls and the limits of availability on consumer goods. In 1949 this gained ground when National campaigned on a slogan of 'this is a cost of living election – it's a family affair', and specifically targeted the New Zealand 'housewife' as being restricted in her 'buying for the house' by Labour's controls.<sup>223</sup> They promised 'more-for-your-money' policies which would promote 'expansion' and 'choice', based on free enterprise, higher rewards, and more plentiful goods.<sup>224</sup> On the other hand, Labour continued to argue its case for the retention of controls on the basis that prosperity so far was 'no lucky chance – but the fruitful result of long planning and sound practice.'<sup>225</sup>

Chris Brickell highlights that the key disagreements at this time were based on public perceptions of 'security' versus 'freedom'.<sup>226</sup> While Labour continued to base its economic objectives on maintaining a secure economic base – which to them could only be achieved through the strict economic management Nash held to – National

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<sup>222</sup> Graham Ansell in Templeton, *An Eye, An Ear and A Voice*, p.152.

<sup>223</sup> New Zealand National Party, *A Family Affair*, Wellington: New Zealand National Party, 1949, pp.3, 8-9, 16.

<sup>224</sup> National Party, *A Family Affair*, p.15.

<sup>225</sup> New Zealand Labour Party, *An Era of Plenty*, Wellington: New Zealand Labour Party, 1949.

<sup>226</sup> Chris Brickell, 'Labour, National and the Postwar Consumer', *History Now*, Vol.7, No.4, November 2001, p.17.

promoted private enterprise as an ‘antidote to “socialistic” controls and rationing’.<sup>227</sup> The ability to import goods from overseas, especially Britain, was linked in the perceptions of policy makers and consumers alike as enabling living standards to improve.<sup>228</sup> National argued that Labour’s heavy regulation of trade had directly contributed to ongoing post-war shortages of goods, and that if it were allowed to continue, would come to control and direct everyone’s everyday lives. As Brickell concludes, National had managed to transform the concept of citizen rights to one of consumer rights; something also following international – particularly American – trends.<sup>229</sup>

One of the commitments made by the National Party in the 1949 election was to establish a Board of Trade to ‘advise on matters connected to import control, trade and tariffs’.<sup>230</sup> This was put into action after their election into government. An Import Advisory Committee was established in May 1950 as a forerunner to the Board of Trade.<sup>231</sup> Their brief was to ‘advise on ways and means of putting the Government’s policy into operation’, which included ‘recommend(ing) measures which, while providing reasonable protection for efficient local industries, will ensure that our overseas funds are used to the best advantage in purchasing the goods we need, and that traders are enabled to develop their businesses with the maximum amount of freedom’.<sup>232</sup> It was clear that the expectation was that this would lead to liberalisation, when the first expected step included ‘the intention to remove import restrictions entirely from a wide range of goods’.<sup>233</sup>

A paper reviewing the import licensing system was presented in November 1950 by the Minister of Customs C.M.Bowden. It outlined the findings of the Import Advisory

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<sup>227</sup> Brickell, ‘Labour, National and the Postwar Consumer’, p.19.

<sup>228</sup> ‘...the rate of New Zealand’s economic growth and our standard of living are influenced by the terms on which the goods we export can be exchanged for those we obtain from overseas’, ‘New Zealand Economic Survey’, *AJHR*, B.5, 1960, p.27.

<sup>229</sup> Brickell, ‘Labour, National and the Postwar Consumer’, pp.19-20.

<sup>230</sup> Governor General’s Speech, *NZPD*, Vol.289, 28 June 1950, p.10.

<sup>231</sup> The members of the committee were Sir David Smith, a former Supreme Court judge (chair); Mr. R.A.Laidlaw, former managing director of Farmers Trading Company; Mr G.W.Clinkard, former secretary and permanent head of the Department of Industries and Commerce; and Mr D.I.McDonald, former secretary of the New Zealand Manufacturers’ Federation; ‘Review of the Activities of the Board of Trade’, *AJHR*, H.46, 1954, p.5.

<sup>232</sup> Governor General’s Speech, *NZPD*, Vol.289, 28 June 1950, p.10.

<sup>233</sup> Governor General’s Speech, *NZPD*, Vol.289, 28 June 1950, p.10.

Committee from their consultations over the previous months, and framed the system as bureaucratically cumbersome. The bureaucratic effort involved was indeed immense, especially considering the number of import applications that had to be handled individually. These applied to those in the 'C' category of the schedule.<sup>234</sup> As an illustration of the workload involved in processing applications, in 1949 alone approximately 123,000 applications and appeals were made, of which only just over a third were based on the more straightforward 'basic allocation' basis. Of the remaining applications, three-quarters of the cases had to be considered at departmental Head Offices in Wellington, and nearly one-half were declined. The Department of Industries and Commerce had to deal with about 12,000 application referrals.<sup>235</sup>

The review highlighted the main complaints against the import licensing system. These emphasised its perceived inefficiencies and effects in obstructing the smooth flow of trade. Delays in the processing of applications were especially complained about. Others also argued that political influences had had too much sway in the granting of some licences, and that there were several items that should be freed from control. The influences referred to in these complaints were perhaps what Belshaw had noted in 1947 as 'vested interests' that had been created by the regulatory economic measures in place, which may, he said, 'be expected to operate as pressure groups against any changes which may threaten their position'.<sup>236</sup> This was perhaps more prophetic for future years than fully understood at the time.

As a result of the review, preliminary steps were taken to remove certain items from any import controls, and 331 were granted this status from 1951.<sup>237</sup> The review was not totally scathing of the system, however. It acknowledged that the selectivity of the system enabled the achievement of some of New Zealand's economic goals. Suggestions towards improving the system included changing the licensing controls to financial or exchange control mechanisms, but the committee considered that each would limit the main objectives of the system. They considered that financial controls

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<sup>234</sup> These were items that could be imported, but only by applying for a licence.

<sup>235</sup> Bowden, 'Import Licensing in New Zealand: A Review', p.2.

<sup>236</sup> Horace Belshaw, 'Post War Economic Reconstruction in New Zealand', *Pacific Affairs*, Vol.17, No.4, December 1944, p.423.

<sup>237</sup> Bowden, 'Import Licensing in New Zealand: A Review', p.4.

would not be able to have any 'real check as to selective essentiality or any consideration of availability from local manufacture or other local supply'.<sup>238</sup> Exchange control, likewise, 'would not ensure a balanced importation of goods required for the economy of the country, nor would it adequately protect economic local industries'.<sup>239</sup> Industrial protection was therefore now accepted as a central objective of the system.

Besides the official review, the import licensing system was debated in academic and business circles within New Zealand. Some who would be recruited to work with the system had not been shy in voicing their personal opposition to it. R.F.Wilson, who eventually became the secretary to the Board of Trade, made his ideas clear in an article in *The Economic Record* the same year.<sup>240</sup> Wilson questioned the very ideas behind the import licensing system. In his view, the system was too ambitious in its attempts to centralise control of trading behaviour. To be effective this required careful prediction of the needs of consumers and industries 'which in a country so dependent on imports are almost infinite in a sense, as well as variable from year to year'.<sup>241</sup> Wilson also argued that this caused undue demand pressure in the New Zealand economy.<sup>242</sup> He further questioned the ability of government departments to fully monitor production and marketing behaviour centrally:

It is quite impossible for State Departments to be aware of the latest day-to-day market intelligence over the whole importing field even though their officers may be relatively well-informed in particular fields. Nor can they have over the wide range of goods covered, anything approaching up-to-date manufacturing and stock statistics, which are necessarily a prerequisite to accurate market forecasting on a national scale.<sup>243</sup>

Wilson had misgivings about the ability of Industries and Commerce to be fully aware of the production capacities of local manufacturers at all times.<sup>244</sup> He acknowledged that there had been very few years since the inception of import licensing where

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<sup>238</sup> Bowden, 'Import Licensing in New Zealand: A Review', p.3.

<sup>239</sup> Bowden, 'Import Licensing in New Zealand: A Review', p.4.

<sup>240</sup> Wilson was especially mentioned in the Board of Trade report as having been invaluable for his 'experience in dealing with representations to the Government, his knowledge of the subject matter, and his ability and courtesy' as secretary; 'Review of the Activities of the Board of Trade', *AJHR*, H.46, 1954, p.24.

<sup>241</sup> Wilson, 'Import Control in New Zealand', p.55.

<sup>242</sup> Wilson, 'Import Control in New Zealand', p.59.

<sup>243</sup> Wilson, 'Import Control in New Zealand', p.55.

<sup>244</sup> Wilson, 'Import Control in New Zealand', p.56.

‘normal’ trading might have been possible (given the war period and the Sterling crisis following soon after the war), but argued that the system was distorting trading behaviour in a detrimental way by its continuation.

### THE BOARD OF TRADE AND IMPORT CONTROLS

Arguments like Wilson’s gave more credibility to National’s liberalisation ambitions. In September that year, the National Government could announce that it had abolished import controls on one-third of New Zealand imports, estimated at £45,000,000 in sterling.<sup>245</sup> Economic controls such as rationing, price controls and controls on urban land sales were also removed.<sup>246</sup> In announcing this, Eric Halstead, the National MP for Tamaki enthused that this was:

... a wonderful step forward towards the eventual abolition of this pernicious system under which business men have been forced from time to time to undertake the long trek to Wellington by boat, train, air and motor car – all converging on Wellington, filling Wellington’s hotels, and ... thronging the corridors of this building. We do not see that today. Many of those were honest business men trying to do something to help themselves, and they were not able to do it because of this tight control, this planning.<sup>247</sup>

This relaxation of the import licensing schedules is what Rayner and Lattimore have described in recent years as a ‘first stage’ in New Zealand’s post-war liberalisation process.<sup>248</sup> This is fair in that it did free up New Zealand’s trading at that time, but the developments did not make any fundamental change to import policy. National held the same administrative structures for licensing that Labour had created, and by holding them in place, used them as tools for achieving their economic policy objectives, which over the 1950s became increasingly focused on balancing trade payments.

Good prices accompanying the high demand for wool helped to justify National’s efforts to liberalise consumption and import trading for New Zealand. In 1950, with earnings from wool exports being revised ‘upwardly’, the Board of Trade made recommendations which increased the import licensing budget from £147 million to

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<sup>245</sup> Mr Halstead, *NZPD*, Vol.291, 5 September 1950, p.2106.

<sup>246</sup> ‘Governor General’s Speech’, *NZPD*, Vol.289, 28 June 1950, pp.10-11.

<sup>247</sup> Mr Halstead, *NZPD*, Vol.291, 5 September 1950, p.2106.

<sup>248</sup> Anthony C. Rayner and Ralph Lattimore, ‘New Zealand’, in Demetris Papageorgiou, Michael Michaely, and Armeane M. Choksi (eds.), *Liberalizing Foreign Trade*, Vol.6., New York : Blackwell, 1991.

£182 million. Further healthy export earnings in 1951 enabled this to be extended again to allow more motor vehicle imports.<sup>249</sup> The Board continued to progress liberalisation, so that they could boast that they had reduced the Import Licensing Schedule from comprising 950 items in 1950 to 330 in 1952. A relaxing of restrictions on imports from countries outside the Sterling Area – ‘dollar imports’ – was also commenced.<sup>250</sup>

The relaxation on dollar imports was short-lived, however. Prime Minister and Finance Minister Sidney Holland agreed at the 1952 Commonwealth Finance Ministers’ Conference to re-impose stricter import controls. A sterling crisis was apparent, and all members were called on to help reduce dollar expenditure. At this meeting, the government had committed to altering New Zealand’s import policy to achieve a surplus of trading against the non-sterling area, and to limit their deficits with the dollar area. Import Licensing Minister Jack Watts articulated in 1953 that New Zealand would continue to preserve dollar reserves as much as possible in decisions towards import licences:

... it has been decided to maintain the general tests of essentiality when considering applications for (import) licenses on dollar sources so that New Zealand may continue to draw on the sterling area’s dollar pool to the minimum extent consistent with the maintenance of essential supplies for New Zealand’s economy.<sup>251</sup>

Under this policy the Board of Trade was obliged to revoke all available licences to North America and decline fresh licences for a number of goods, or issue smaller ones for goods already authorised.<sup>252</sup>

The shift in policy toward import liberalisation did not have any significant effect in the short term on import sources. Graph 2.1 shows that in the early post-war years Britain and the rest of the Sterling Area were reinstated as the predominant sources for imports into New Zealand, and this remained the case through the first half of the 1950s. This is at odds with McAloon’s identification of an ‘early sign of reorientation’ away from the focus on the British market at that time. He argued that a reduction in the value of British imports in 1952-53 showed that ‘it was clear that the balance of

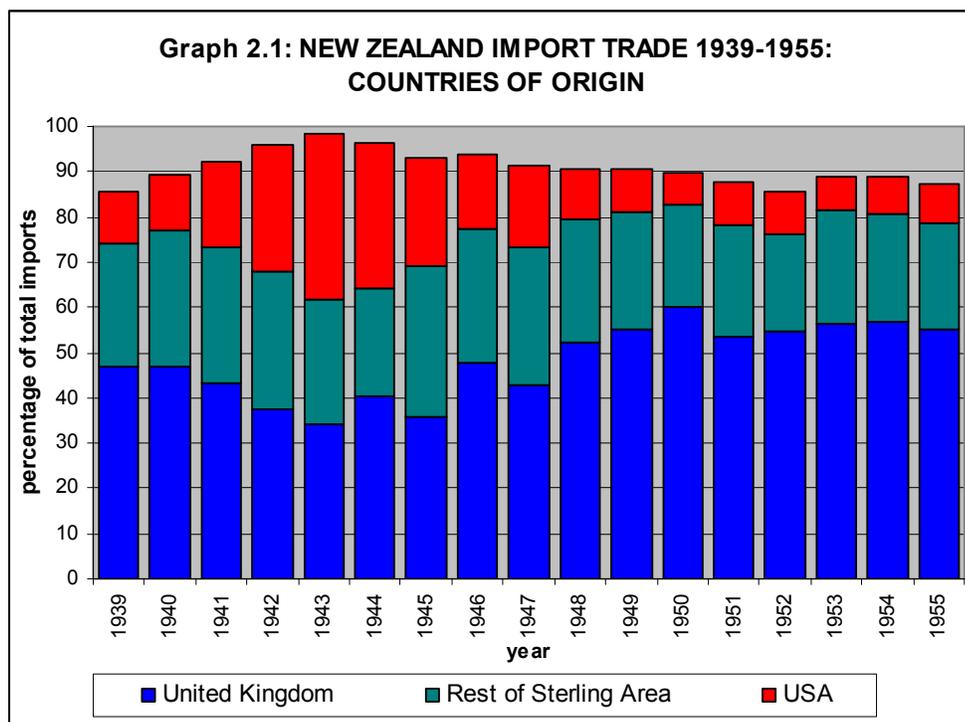
<sup>249</sup> ‘Review of the Activities of the Board of Trade’, *AJHR*, H.46, 1954, p.10.

<sup>250</sup> ‘Review of the Activities of the Board of Trade’, *AJHR*, H.46, 1954, p.12.

<sup>251</sup> J.T.Watts, Min. Import Licensing, *New Zealand External Affairs Review*, Vol.3, No.10, Oct 1953, p.6.

<sup>252</sup> ‘Review of the Activities of the Board of Trade’, *AJHR*, H.46, 1954, p.13.

payments and domestic industrialisation took priority over maintaining the dominions as markets for British manufactures.<sup>253</sup> Imports from Britain dropped in value by 27 percent in 1953 from the previous year, but the proportion of imports from Britain actually went up slightly from 54.9 percent to 56.4 percent.



Source: Compiled from; *NZOYB*, 1950, p.977; *NZOYB*, 1960, p.344.

The graph also illustrates the commitment to the Commonwealth in import trade. Imports from other sterling countries grew from 21.2 percent to 24.9 percent from 1952 to 1953, while 'other country' imports dropped from 23.9 percent to 18.6 percent.<sup>254</sup> The USA, after having enjoyed a greater chunk of New Zealand import trade during the war, quickly reverted to being worth less than 10 percent total imports by 1949 and remaining that way for the rest of the period.

Restrictions on imports continued through 1953, but a more liberal policy was allowed as that year went on.<sup>255</sup> In 1953 the government announced that it had reviewed import policy to work towards 'eventually moving from import licensing to import duties', but that protecting local industries would continue to be the focus of

<sup>253</sup> McAloon, 'State and Economic Development in Australia and New Zealand', p.13.

<sup>254</sup> *NZOYB*, 1955, p.309.

<sup>255</sup> 'Review of the Activities of the Board of Trade', *AJHR*, H.46, 1954, pp.13-15.

those policies.<sup>256</sup> This was a development that New Zealand representatives knew would be welcomed at GATT. They announced to the forum in 1954 that the policy of the New Zealand Government now was that quantitative restrictions would be abolished in favour of tariff mechanisms, and that there had been some progress towards this in the past few years.<sup>257</sup>

Despite such announcements, no change to New Zealand's tariff-based policies was to be forthcoming for many years to come. The import licensing system as it was had proved to be workable in terms of progressively satisfying liberalisation objectives in a controlled manner, but also providing a structure to reimpose controls when the situation demanded; even if, as the Board complained, this did cause 'a great deal of administrative work' for the Customs and Industries and Commerce departments and 'considerable dissatisfaction in the importing community'.<sup>258</sup> The National Government was able to satisfy its key trade and economic objectives by tinkering with the import schedule from year to year, but was strongly criticised by Labour for doing so. Labour MP Warren Freer criticised National's approach as 'hit and miss', and argued for a return to the stabilised, planned economy approach of his party.<sup>259</sup>

### **TOWARDS MORE OVERT EXPORT DEVELOPMENT**

Regardless of the changes that had taken place relating to New Zealand's import policy, exporting activity continued with very minor change. Britain continued to be the main export partner, and New Zealand farm production continued to be the main export source. The change of government barely affected this, and in fact reinforced it. The National Government formed a Primary Production Advisory Committee under the chairmanship of the Minister of Agriculture Keith Holyoake with the view to playing 'an important role in the furtherance of (the) Government's policy of increased primary production.'<sup>260</sup>

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<sup>256</sup> 'Review of the Activities of the Board of Trade', *AJHR*, H.46, 1954, p.15.

<sup>257</sup> Statement by the New Zealand delegate to the Inter-sessional Committee of the GATT on the Review of the Agreement 1954, NA file EA W2619 104/4/8/27, Economic Affairs: Commercial Policy: GATT Reports: New Zealand Delegation, 1954 – 1956.

<sup>258</sup> 'Review of the Activities of the Board of Trade', *AJHR*, H.46, 1954, p.15.

<sup>259</sup> Warren Freer, 'Stabilised, Planned Economy', *Here and Now*, No.11-12, August 1951, p.11.

<sup>260</sup> Governor General's Speech, *NZPD*, Vol.289, 28 June 1950, p.10.

As bulk purchasing continued over the early 1950s, the relative security it brought to dairy and meat production meant that optimising production remained the main feature of export trade policy. The discontinuation of wool as part of these arrangements had led to some change, however. By the time the bulk purchase arrangements for wool ceased in 1946, stocks had accumulated that it was estimated could take 13 years to clear. A Wool Disposal Commission was established, and sought to cushion the potential effects of such a large surplus by a system of progressively releasing stocks to market alongside current production.<sup>261</sup> Events unfolded, however, to help this issue be satisfied in a much quicker way. The onset of the Korean War from 1950 triggered a huge increase in demand for wool, and New Zealand's wool stocks were disposed of 'with surprisingly little difficulty' by 1952.<sup>262</sup>

The boom brought by the Korean War had very positive effects for the New Zealand economy. Export receipts significantly increased from the late 1940s to the first years of the 1950s, mainly pushed by the export price index for wool doubling from 59 in 1949 to 122 in 1950, and increasing further to 148 in 1951.<sup>263</sup> Confidence in the New Zealand economy and its trade prospects was evident over the following years. The 1953 Economic Survey expressed confidence in New Zealand's ability to develop production to meet increasing overseas demand and its trust in the market. A growing world population indicated increasing prospects for New Zealand agricultural products. Sidney Holland reported that '(G)enerally, long-term market prospects for our primary products overseas seem sufficiently strong to support an intensive effort to increase production in New Zealand.'<sup>264</sup> The main export challenge was to produce as much product as possible for export; and the assumption was, with the bulk purchase arrangements still in place, that the main destination was Britain. There was some mention of a possible threat within the market from substitution goods such as synthetic fibres and margarine, but despite this, the survey concluded that 'while the progress in production of substitutes has important implications for New Zealand, it remains true that remunerative sales have continued to be made of the increasing

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<sup>261</sup> Baker, *War Economy*, p.525.

<sup>262</sup> Baker, *War Economy*, p.554.

<sup>263</sup> NZOYB, 1955, p.275.

<sup>264</sup> S.G.Holland, 'New Zealand Economic Survey', *AJHR*, B.5, 1953, p.21.

quantities of wool and dairy products that New Zealand has been able to export.<sup>265</sup> Implicit in this was the expectation that it would continue.

Given the confidence in international agricultural market prospects, the end of bulk purchasing was anticipated with little concern. Some groups looked forward to being cut from the ties of the arrangements, and in fact the New Zealand Meat Producers' Board (NZMPB) pressed for an early end to them. Discussions between New Zealand and Britain, involving NZMPB's John Ormond with New Zealand government representatives, came to the agreement to cease the arrangements in 1954, one year earlier than arranged.<sup>266</sup> The NZMPB's wish for this may well have been linked to their experiences before the war. The Ottawa Agreement and subsequent arrangements prior to the war had made exporting meat to Britain more difficult than other commodities. Beef especially had suffered setbacks as restrictions were essentially imposed (despite the 'voluntary' nature of the agreements) on New Zealand's exports there, often with little notice.<sup>267</sup> It was also based on Ormond's keenness to 'go out and take the market on'.<sup>268</sup> The government took more convincing to take on the same position, but it eventually did.<sup>269</sup> The agreement to cease the arrangements at the end of the 1953-54 season was announced in March 1954.<sup>270</sup> Officially Holland expressed confidence in the prospects for New Zealand's trade with the end of bulk purchasing. He expressed an expectation that opportunities to expand exports beyond the British market would bring higher export returns for New Zealand.<sup>271</sup>

Less certainty about New Zealand's prospects after bulk purchasing was evident, however, from government officials. The 1954 Department of Industries and Commerce report contemplated that the future could not 'be regarded with any degree of certainty' due to a number of unpredictable factors that came into play. These included the unknown extent to which competition would develop in the

<sup>265</sup> S.G.Holland, 'New Zealand Economic Survey', *AJHR*, B.5, 1953, p.21.

<sup>266</sup> Peter Tait, *In the Chair: The Public Life of Sir John Ormond*, Hastings: P.S.Tait, 1989, pp.65-67.

<sup>267</sup> *Contemporary New Zealand: A Survey of Domestic and Foreign Policy*, Wellington: New Zealand Institute of International Affairs, 1938, p.123.

<sup>268</sup> Tait, *In the Chair*, p.65.

<sup>269</sup> Tait describes the discussions between Ormond and the government over this; Tait, *In the Chair*, pp.65-68.

<sup>270</sup> Tait, *In the Chair*, p.67.

<sup>271</sup> S.G.Holland, 'New Zealand Economic Survey', *AJHR*, B.5, 1954, p.53.

British market, especially from Danish butter and American dairy surpluses. The potential for prices to become much more unstable was also of concern.<sup>272</sup> The Department of Agriculture report noted that 'we are on the threshold of an era of producer control internally and free markets in regard to the disposal overseas of agricultural surpluses', giving the impression that this would be somewhat ominous.<sup>273</sup> Industries and Commerce further noted that 'with the move away from bulk purchase agreements with the United Kingdom, greater efforts will have to be made to sell in the best markets, wherever they may be.'<sup>274</sup> These were valid concerns that would come to challenge New Zealand's traditional export trading activity over the following years and decades.<sup>275</sup>

Despite the diversification from the British market that was anticipated, in foreign policy terms Britain was still presented as the main focus for New Zealand's external economic affairs. Minister of External Affairs Thomas Webb framed this in 1954 as the 'ties of kinship' between New Zealanders and British:

Nine out of every ten New Zealanders are of British descent, and New Zealand is most strongly linked with the United Kingdom by ties of kinship, affection and history. These ties have been reinforced over the years by the economic interdependence of the two countries; the United Kingdom has provided at once the largest market for New Zealand's primary products and the chief source of capital funds for development.<sup>276</sup>

In diplomatic terms, too, New Zealand remained oriented mainly towards the British Commonwealth for most of the decade.

The interaction of the 'traditional' factors in New Zealand's trade policy with the new ones contributed to what Bruce Jesson has called a 'complication of (New Zealand's) farming-colonial economy' in the early post-war era; but not, as he notes, a break with it.<sup>277</sup> The changes that had taken place in the international economy consolidated official perceptions that New Zealand had to mould its approach to international trading according to its position as a small nation and economy in the

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<sup>272</sup> 'Report of the Department of Industries and Commerce', *AJHR*, H.44, 1954, pp.34-35.

<sup>273</sup> 'Report of the Department of Agriculture', *AJHR*, H.29, 1954, p.8.

<sup>274</sup> 'Report of the Department of Industries and Commerce', *AJHR*, H.44, 1954, p.8.

<sup>275</sup> See for example Chapman, 'From Labour to National', p.378.

<sup>276</sup> 'New Zealand Foreign Policy', *External Affairs Review*, Vol.IV, No.5, 1954, p.19.

<sup>277</sup> Bruce Jesson, *Behind the Mirror Glass: The Growth of Wealth and Power in New Zealand in the Eighties*, Auckland: Penguin, 1987, p.39.

world, and in consideration of the domestic priorities that had been established. This was reflected in a more independent foreign policy approach which would be required to continue to develop much more as changes in the international environment threw up challenges over the follow decades.

## **CONCLUSION**

The war provided a context that consolidated the developments of the 1930s for New Zealand. The bulk purchase trading arrangements with Britain reinforced the Ottawa relationship, and along with the political expressions of loyalty in New Zealand's contribution to Britain and the war effort, strengthened the links between sentimentality and trade between New Zealand and Britain. They also provided a stable basis for economic management during the war. The war economy, with its strict economic controls, emphasis on stabilisation, and producing for the war effort, also enjoyed a lot of support within New Zealand. This put aside, for the time being, any challenging of the strict trade controls that the Labour Government had put in place. The relative prosperity that was gained by this also helped consolidate that support.

International political developments during the war, especially the rise of the USA as a political, defence and economic force and leader of post-war reconstruction, caused New Zealand's foreign policy focus to shift. The consolidation of political relationships with the USA and Australia, and New Zealand's active participation in the new multilateral institutions after the war, expanded the focus of the new External Affairs department. An independent, distinctly 'New Zealand' foreign policy was emerging which needed to balance economic considerations with political ones. Regardless of this, Templeton's description that New Zealanders in early 1950s continued to see the world through 'British spectacles' is valid.<sup>278</sup> There was still an obvious commitment to Britain and the Commonwealth. Considerations in regard to the Sterling Area remained central to external economic policy. These were seen as compatible with domestic economic policy objectives, but sometimes at odds with the goals espoused in the new multilateral forums.

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<sup>278</sup> Templeton, 'Introduction' in McKinnon (ed.), *New Zealand in World Affairs II*, p.2.

The economic controls were increasingly questioned within New Zealand after the war, especially as National argued for less control and more freedom within the domestic economy. Their election in 1949 signalled the start of a freeing up of import controls, but not a dismantling of their fundamental structure. Import licensing would remain – and be reverted to – as an important part of New Zealand economic management and the mechanism for balancing payments over the 1950s.

The different attitudes to the end of bulk purchasing illustrate the uncertainty surrounding its implications. After 15 years of operation, the freedom to trade more widely was viewed as an opportunity to some, and a challenge to others. Regardless, there was an expectation that new trade relations would now form to complement the relationship with Britain.

It was nevertheless clear that Britain remained the central focus of trade policy, and was expected to be so for some time. Any changes in thinking that had taken place had not yet translated to any significant change in trade activity. While this was providing relative security and prosperity, no fundamental challenge would be made to the policies and structures in place. The next chapter shows, however, that the context that provided that security and prosperity would significantly alter over the next decade. This would cause a major reconsideration of all elements of trade policy.



## **Chapter Three: Challenges to Traditions: The 1950s and 1960s**

The end of the bulk purchase arrangements brought about a general expectation that New Zealand now have wider interaction in the international marketplace. The magnitude of challenges that context would bring, and how quickly, were however less expected. Those challenges were mainly based on factors outside of New Zealand's control and simply reinforced how vulnerable New Zealand's economic platform was. The traditional trade practices provided far less secure future development prospects than they ever had before, and the heavy reliance on a narrow range of agricultural exports and the British market came to be understood as unsustainable.

New Zealand developed a number of responses to the challenges brought up by the international trading environment. These had the effects of expanding policy work both in the domestic and external arenas. In external work, representatives sought to retain the traditional trade relationship with Britain, but in doing so, were forced to more overtly broaden diplomatic initiative beyond that country. Expanded diplomatic engagement was pursued both to gain support for the retention of the traditional trading practices, and to source new trade opportunities.

Domestically policies were developed towards making the New Zealand economy less vulnerable to the international context. Industrial development was focused on as a key means to achieve this. The guiding objectives behind industrial development changed over the 1960s, however, as understanding of the role secondary industries could play in the economy shifted. With these changes in thinking, diverging views within New Zealand about how the economy should be managed and its trade policy developed became apparent. Traditional export and economic management practices were especially under scrutiny. Diversification became a more prominent objective as an urgency to act to ensure New Zealand's future economic security arose in several different quarters. The interaction of these ideas with a rapidly changing foreign policy would ensure that trade policy became a complex area of work by the end of the 1960s.

## THE NEW ZEALAND ECONOMY IN THE MID-1950S

The New Zealand economy in the mid-1950s was a legacy of the previous two decades. It was still based on a traditional trading platform and agricultural production remained focused on exporting mainly to the British market. Stability remained a central economic objective for the National Government, and although they had sought to achieve this in ways that freed up import trade, they still used import controls to balance external payments from year to year. In doing so, import licensing remained embedded in New Zealand's economic framework as a mechanism for reducing what Paul Wooding has called the 'balance of payments constraint' on the economy.<sup>1</sup> The import schedules were adjusted annually to allow as much importing as possible while balancing trade receipts and payments.

External trade was still managed, then, but with liberalization objectives in mind, and in a way that New Zealand could continue to meet its Sterling Area commitments. In 1952 Prime Minister and Finance Minister Sidney Holland had reiterated this commitment and spelt out the links between the priorities for external and domestic policies:

... the most urgent problem which faces New Zealand (and certain other members of the sterling area) is to achieve an overall balance in external payments. The sterling area as a whole is faced with the even more urgent task of reversing the drain on gold and dollar reserves. A successful solution to these problems depends not only on external trade policies, but on the carrying out of sound internal economic policies.<sup>2</sup>

That commitment remained through the mid-1950s. Regular Commonwealth Finance Ministers' meetings were important for determining New Zealand's trade policy externally and internally. In these meetings the economic position of all Commonwealth members was discussed, and decisions were made about how the Sterling Area collectively would steer its dollar policy. They would also make collective decisions about the position individual countries would take in GATT.<sup>3</sup> Collectively the

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<sup>1</sup> Paul Wooding, 'New Zealand in the International Economy', in Brian Roper and Chris Rudd (eds.), *State and Economy in New Zealand*, Auckland: Oxford University Press, 1993, p.103.

<sup>2</sup> S.G.Holland, 'New Zealand Economic Survey', *AJHR*, B.5, 1952, p.3.

<sup>3</sup> In a 1954 GATT session, for example, the New Zealand representative stated that the New Zealand position on completion of the GATT agreement had not been finalised, '... particularly because certain Commonwealth talks have yet to be held in London commencing early October'. Statement by the NZ delegate to the Inter-sessional Committee of the GATT on the Review of the Agreement 1954, NA file

members agreed that the world-wide elimination of trade discrimination was important, but their willingness to dismantle their own barriers was tempered with ensuring the interests of the bloc members were maintained.<sup>4</sup>

New Zealand's economic strategies remained linked to the priority of ensuring full employment. In the post-war environment this was not a great challenge because exports were receiving high prices, trade surpluses were relatively easy to achieve, and new industries were developing. This warranted characterisations like that of Sutch who argued that the New Zealand economy had 'luxuriated' in foreign exchange over those years.<sup>5</sup> Such an environment created challenges for maintaining economic stability, however. At a New Zealand Institute of Public Administration (NZIPA) conference in 1953 focused on economic stability, concerns were expressed that full employment was incompatible with price and wage stability.<sup>6</sup> The high level of purchasing power and demand that full employment brought created inflationary pressure on the economy that Condliffe noted was 'severe' during those years.<sup>7</sup> An example of this is in Holland's statement in 1955 that '(A) continued high rate of imports has contributed to improving living standards, but the flow of imports is currently somewhat above the level which can not be sustained over a long term from the present export earnings of New Zealand.'<sup>8</sup> This would become an even greater challenge as the terms of trade faltered in the late 1950s with drops in international commodity prices.

National sought to be best prepared for any challenges to balance of payments policy by creating a comprehensive rather than 'ad hoc' economic decision-making platform. The creation of a Cabinet Economic Committee and an Officials' Economic Committee sought to create consultative structures for monitoring the economic environment and keeping abreast of external changes and any problems arising.<sup>9</sup> They also created the tradition of publishing an annual economic survey, which was

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ACIE 8798 EA1/863, 104/4/8/27, Economic Affairs: Commercial Policy: GATT Reports New Zealand Delegation 1954 – 1956.

<sup>4</sup> See for example J.T.Watts, 'Economic Survey', *AJHR*, B.5, 1956, p.7.

<sup>5</sup> Sutch, *The Quest for Security in New Zealand*, p.410.

<sup>6</sup> L.C.Webb, 'The Making of Economic Policy', in R.S.Parker (ed.), *Economic Stability in New Zealand*, Wellington: New Zealand Institute of Public Administration, 1953, p.15.

<sup>7</sup> Condliffe, *The Welfare State in New Zealand*, p.146.

<sup>8</sup> S.G.Holland, 'New Zealand Economic Survey', *AJHR*, B.5, 1955, p.4.

<sup>9</sup> Webb, 'The Making of Economic Policy', p.27.

compiled by a group of officials from various New Zealand Government departments, including Treasury.<sup>10</sup>

### **INDUSTRIAL DEVELOPMENT**

Industrial development remained an important objective under the National Government, but their emphasis was different to that of Labour. National sought to develop industry (including primary industry for export) through capital investment, and arguments for this were prominent in economic surveys over the 1950s. In the early 1950s Sidney Holland encouraged domestic savings to provide funds for this investment.<sup>11</sup> Later the idea of borrowing overseas to do this was also presented as acceptable. In the 1957 Economic Survey Finance Minister Jack Watts argued that this would enable 'greater investment while minimising the reduction in current consumption', and that this would also cause less direct impact on the current economy.<sup>12</sup>

Industrial protection had become an accepted justification for import licensing. Hawke notes that import licences for raw materials and equipment were given preference over finished products that would compete directly with industry. He further argued that this meant that import licensing actually had its greatest impact in the composition of imports rather than the total.<sup>13</sup> Imports of personal consumption goods tended to be the least represented in schedules as domestic industries were encouraged to meet consumer demand.

The development of the forestry industry in New Zealand in the 1950s was presented as an early example of success in industrial development. In 1953 Holland noted that forestry production was at a 'high level' and that paper and board manufacture was rapidly expanding. This was enabled by New Zealand Forest Products' new plant at Kinleith, the construction underway of a plant for the Tasman Pulp and Paper Co.,

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<sup>10</sup> It also led to the establishment of the Officials Economic Committee and the Cabinet Economic Committee which met regularly to discuss and advise on economic policy over the following years. Webb, 'The Making of Economic Policy', pp.26-27; McKinnon, *Treasury*, p.211.

<sup>11</sup> Sidney Holland, 'New Zealand Economic Survey', *AJHR*, B5, 1953, p.41.

<sup>12</sup> J.T.Watts, 'New Zealand Economic Survey', *AJHR*, B.5, 1957, p.47-49.

<sup>13</sup> Gary Hawke, 'New Zealand', in Gary Hawke and Richard Baker (eds.), *ANZUS Economics*, London: Praeger, 1992, p.32.

Ltd., and the expansion of the Whakatane Board Mills plant.<sup>14</sup> Some exporting had already taken place, but at this stage it was relatively minor, especially because timber imports (especially Australian hardwoods, for example for use in railway sleepers) were three times the value of what was received in export receipts.<sup>15</sup>

Industrial development policies were mainly framed in terms of developing secondary (manufacturing) industries. The objectives were pursued through the work of the Department of Industries and Commerce. The department had been in operation since 1894, but the 1956 Industries and Commerce Act formalised its establishment. The Act's passing provided an opportunity to articulate the department's working objectives, which were framed as central to fostering the economic welfare of New Zealand:

- (a) To promote and encourage the improvement and development of industry and commerce;
- (b) To promote and encourage the export trade of New Zealand; and
- (c) To carry out such functions and duties as the Minister may from time to time direct.<sup>16</sup>

In introducing the Bill, the Minister of Industries and Commerce Eric Halstead especially emphasized the first.<sup>17</sup> He presented National's attitude to industry as 'positive and progressive' and focused on expanding New Zealand industry. This he argued had been possible because the government had been given a 'loose rein' with which to progress. National's relaxation on imported raw materials and machinery was especially attributed to allowing this.<sup>18</sup>

Given the liberalization of importing schedules over the early 1950s, Industries and Commerce increasingly turned the focus of its work towards developing trade rather than regulating it. Halstead explicitly stated that the policy of the government was 'to remove as many controls as possible.'<sup>19</sup> In 1957, he expressed pride that his

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<sup>14</sup> Sidney Holland, 'New Zealand Economic Survey', *AJHR*, B5, 1953, p.17.

<sup>15</sup> *NZOYB*, 1955, pp.524-525.

<sup>16</sup> Text of Industries and Commerce Act, *New Zealand Statutes*, Wellington: Government Printer, 1956, No.50, p.370.

<sup>17</sup> Mr Halstead, 'Industries and Commerce Bill', *NZPD*, Vol.310, 23 October 1956, p.2667.

<sup>18</sup> Mr Halstead, *NZPD*, Vol.310, p.2677.

<sup>19</sup> Mr Halstead, *NZPD*, 23 October 1956, Vol.310, p.2667.

department's work was now mainly concerned with trade promotion and trade relations:

There was a day under the Labour Government when 75 percent of the Department's work was concerned with the regulation and control of industry and trade. Fortunately, that comprises today only some 35 percent of its work. The emphasis today is on trade promotion and trade relations ... the Government is very much alive to the need to diversify our exports and promote trade, and is actively doing so ...<sup>20</sup>

## **TRADE DEVELOPMENT**

Industries and Commerce's trade promotion work was driven by the work of trade commissioners posted in countries where trade opportunities were developing or where they were wished to be developed, often alongside diplomatic posts. The importance of the service was reflected in the 1957 Industries and Commerce report:

The trade commissioner service forms the basis of the Department's trade promotion establishment, and these officers must also be experts in economic and business conditions generally. Whilst the service is lightly staffed, it has shown its ability to carry out its diverse duties in an efficient manner.<sup>21</sup>

The service's trade promotion work was all the more important with the end of the bulk purchase arrangements. It was anticipated that the freedom from those commitments would provide opportunities to further develop New Zealand's export trade. The return to 'free marketing' also forced a wider outlook in terms of export production as well as marketing. Producers were now encouraged to consider how they stood up internationally against those from other countries, as the issue of competition became a more important consideration for New Zealand's exports. This was evident in the 1954 Economic Survey, for example, when it concluded that 'the outlook for New Zealand's three major export industries is favourable provided costs are kept down and quality is kept high.'<sup>22</sup>

A confidence that this would enable New Zealand's trade to build on the rewards of the relationship with Britain – and continue to enhance New Zealanders' prosperity – was clearly evident in official statements. Growing populations and living standards

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<sup>20</sup> Mr Halstead, *NZPD*, Vol.311, 14 June 1957, p.110.

<sup>21</sup> 'Report of the Department of Industries and Commerce', *AJHR*, H.44, 1957, p.52.

<sup>22</sup> S.G.Holland, 'New Zealand Economic Survey', *AJHR*, B.5, 1953, p.53.

throughout the world were expected to create high demand for food products, and New Zealand exporters were ready to cater to them. In the first years following the cessation of bulk purchasing, this seemed correct. Markets for exports diversified slightly, with a 'notable increase' in exports to European countries identified in the 1956 Economic Survey. The principal new customers were France and Germany, along with Italy, Belgium and the Netherlands, and a 'significant increase' of wood pulp exports to Australia was also noted.<sup>23</sup>

New Zealand exporters also took up opportunities in the USA. A sudden rise in demand for beef imports from the USA was taken up by New Zealand exporters from 1956.<sup>24</sup> New Zealand beef enjoyed early success in that market, and the prospects for future expansion seemed high. In the late 1950s the Second Labour Government's Finance Minister Arnold Nordmeyer noted a 'very favourable market for beef' in the USA, and returns from this trade actually cushioned the impact of the falls in wool prices for New Zealand's export earnings over that time as well.<sup>25</sup>

The trading relationship with Japan was indicative of a new approach by New Zealand to look outside the traditional 'Ottawa' realm for trade development and more towards Asia. The bilateral economic relationship between Japan and New Zealand grew through diplomatic exchange, and after a visit by the Japanese Prime Minister Kishi to New Zealand in December 1957, a joint communiqué was issued which expressed that 'agreement was made of the desirability for further development of trade between the two countries, taking into account the requirements of each to maintain and expand its domestic industries.'<sup>26</sup> This culminated in a trade agreement signed in 1958. Trade between the two countries expanded, with the proportion of New Zealand's exports directed to Japan rising from 1.3 percent in 1953 to 4 percent in 1963.<sup>27</sup>

Graph 3.1 illustrates the developments in New Zealand exporting. The proportion of exports directed to the British market gradually decreased over the late 1950s while

<sup>23</sup> J.T.Watts, 'Economic Survey', *AJHR*, B.5, 1956, p.14.

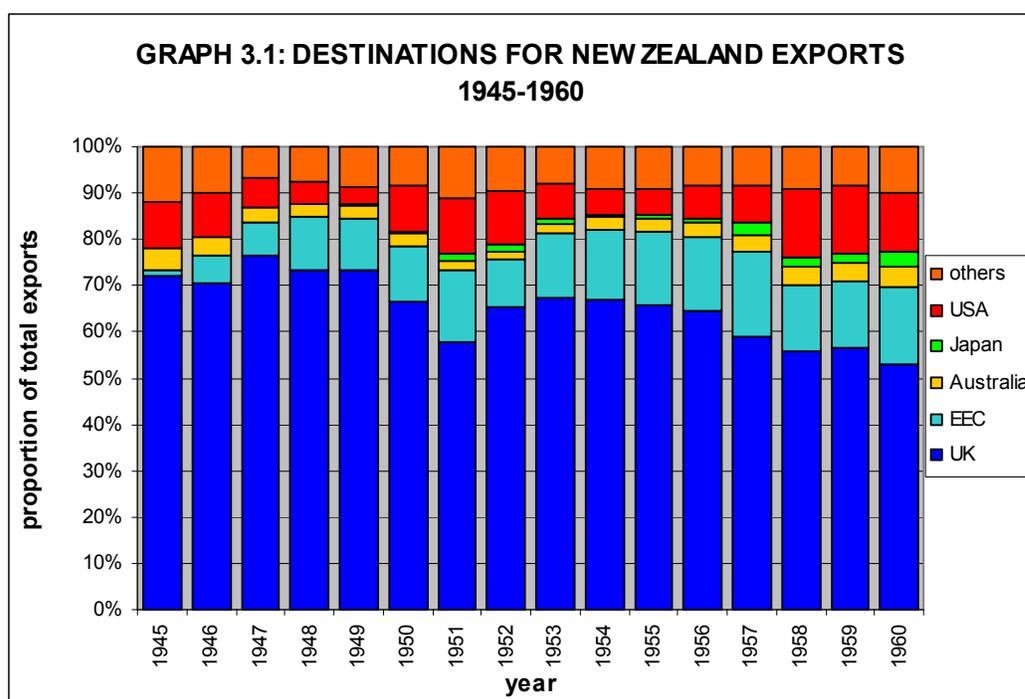
<sup>24</sup> *NZOYB*, 1962, p.581.

<sup>25</sup> A.H.Nordmeyer, 'Economic Survey', *AJHR*, B.5, 1959, p.42.

<sup>26</sup> Joint Communiqué from visit of Japanese Prime Minister, *External Affairs Review*, Vol.VII, No.12, December 1957, p.24.

<sup>27</sup> Calculated from *NZOYB*, 1955, p.270; *NZOYB*, 1965, p.630.

proportions directed at European countries,<sup>28</sup> Australia, Japan and the USA grew. Most of these new relationships carried on in a similar nature to the traditional trade with Britain, with exports being mainly agricultural. About 90 percent of exports to the USA, for example, were agriculturally based. For Japan, they comprised about 80 percent of exports. Only trade to Australia was somewhat different, with 50 to 60 percent of exports there being comprised of timber products and fish.<sup>29</sup> New Zealand's exports to most markets tended to remain overwhelmingly agricultural in nature, and the reciprocal imports continued to be of a more processed, industrial nature. Pastoral produce still comprised over 90 percent of New Zealand's exports well into the 1960s (and still over 80 percent by the end of that decade), and manufactured goods and machinery continued to comprise 68-70 percent of imports throughout the 1960s.<sup>30</sup>



Source: Compiled from NZOYB, 1955, p.287; NZOYB, 1960, p.319; NZOYB, 1967, p.645.

Developing new markets with such a narrow trade base was not easy, however. Export opportunities were noted as limited by the narrow range of New Zealand

<sup>28</sup> The European countries are counted as the six that formed the European Economic Community in 1957; France, Germany, Italy, Belgium, the Netherlands and Luxembourg.

<sup>29</sup> Based on export statistics for 1957-1958, calculated from NZOYB, 1960, pp321-331.

<sup>30</sup> NZOYB, 1970, pp.633, 659.

production. Countries like China and India, for example, were noted as difficult to enter because New Zealand had a lack of capital goods for export. This, along with China's import licensing restrictions, was seen as a key barrier to expanding trade there in 1956.<sup>31</sup> New Zealand's lack of manufactured exports was noted as a similar problem in India, a place of huge market potential but little existing opportunity as New Zealand's trading ability stood.<sup>32</sup>

Even where opportunities for New Zealand's traditional products were apparent like in Japan, caution from within New Zealand could hold back developments. John Singleton has noted that concerns in that relationship were based on the possible effects of Japanese imports on New Zealand industry.<sup>33</sup> New Zealand followed other countries in invoking GATT Article XXXV against Japan on its accession to the agreement in 1955. This provided for 'the non-application of the Agreement between particular contracting parties', essentially allowing New Zealand to continue import selection against Japan. This was considered necessary because, as the Officials' Committee later noted, they believed that 'without the protection of Article XXXV, New Zealand would (have been) open to the danger of excess imports of low cost products from Japan which would compete directly with local manufacturers and against which (New Zealand) would be powerless to take discriminatory action'.<sup>34</sup> At that stage, imports from Japan comprised only 0.24 percent of New Zealand's total imports, but New Zealand continued to invoke Article XXXV for some time.<sup>35</sup>

As New Zealand expanded its trading relationships through the late 1950s, its political relationships also expanded. This often had consequences in trade activity. The Korean War was an early example. Because the war had triggered a boom in commodity prices, New Zealand enjoyed high returns for its wool exports in the short

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<sup>31</sup> Speech notes (Author's names not noted) 'New Zealand's Attitudes and Policies Towards China and India' 1/12/56; in NA file, ABHS, 950, W4627/950, 56/1/1, box 1404, part 4; New Zealand Affairs: Foreign Affairs: General 1/6/55 - 31/12/61.

<sup>32</sup> Speech notes (Authors names not noted) 'New Zealand's Attitudes and Policies Towards China and India' 1/12/56; in NA file ABHS, 950, W4627/950, 56/1/1, box 1404, part 4, New Zealand Affairs: Foreign Affairs: General 1/6/55 - 31/12/61'.

<sup>33</sup> Singleton, 'New Zealand's Economic Relations with Japan', p.5.

<sup>34</sup> E.L.Greensmith (Chairman, Officials Committee on Economic and Financial Policy), 'The Japan/New Zealand Trade Agreement and the Application of Article XXXV of the GATT to Japan', 11 August 1961, NA file AAFD, 811, W3738, 1085, CAB 126/6/1, Foreign Trade: Japan: General 1961-1977.

<sup>35</sup> NZOYB, 1955, p.309.

term. The Suez Crisis in 1956, which New Zealand was less involved in politically, also caused some upward movement in commodity prices, but also caused shipping delays and rising freight costs. Even though New Zealand trade was not so likely to be directly affected by this, concerns were nevertheless evident about the implications of the 'possible effects upon the economic strength of Europe, the UK, and the Sterling Area as a whole', all markets which New Zealand was heavily reliant on.<sup>36</sup> In the event this did not play out, but it is an illustration of the widening of New Zealand's perceptions of challenges to its trading prospects in a freer trading international environment.

While there was significant optimism about New Zealand's trade development in the early years after bulk purchasing, the perceptions of security and opportunity would erode over the following years. This would be due to dramatic changes in the international trading system in which New Zealand had begun to operate more widely. Just as Sutch saw the early prosperity as being based on 'external events over which the government had no control',<sup>37</sup> so too were the changes for the worse outside of New Zealand's control, but a number of avenues would be followed to re-secure those national interests.

### **CHANGES TO THE TRADING RELATIONSHIP WITH BRITAIN**

The initial concerns about changes in the international trading context were focused on perceived threats to New Zealand's place in the British market. Confidence in the security of that market dwindled within a couple of years of the cessation of bulk purchasing. The preferential status and security in the British market that New Zealand had essentially come to take for granted had declined. Because any new trade relationships had been expected to complement rather than replace trade with Britain, this caused great concern.

Steadily rising competition in the British market was commonly blamed on two factors. Firstly, growth in British agricultural productivity since the end of the war – largely as a result of subsidies payments – was noted having squeezed out demand

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<sup>36</sup> J.T.Watts, 'New Zealand Economic Survey', *AJHR*, B.5., 1957, p.6.

<sup>37</sup> Sutch, *The Quest for Security in New Zealand*, p.410.

for New Zealand milk and other food products in 1957.<sup>38</sup> The other was the entry of new agricultural exporters. Britain had, as one of the few 'open' markets for agricultural imports in the world, become a 'dumping ground' for subsidized surplus agricultural products from a number of countries in the 1950s. 'Dumped' products were also rushing into markets that might have been alternatives for New Zealand. In the 1956 Economic Survey it was noted that international markets for many primary products had become very uncertain, 'partly because of the prevalence of agricultural protectionism, partly because of the greater use of substitute commodities by the industrial countries, and partly because of the unsettling effect of US disposals of surplus products, which was more pronounced in 1955 than in 1954.'<sup>39</sup>

The initial response in New Zealand was focused on re-securing New Zealand's trading links with Britain. By 1957 a groundswell of pressure from agricultural producers and exporters had surfaced, asking the New Zealand Government to take political steps to defend New Zealand's trade position there.<sup>40</sup> The government agreed, and a delegation was formed to visit Britain to seek to revamp Ottawa commitments that were seen as essentially going stale.

In a statement about the trade mission, Prime Minister Keith Holyoake noted that the 'balance of advantage' originally enjoyed between New Zealand and Britain had been disturbed, and it was necessary to revisit it in New Zealand's interest:

We feel that this movement has not been in New Zealand's favour and that an adjustment is overdue ... The United Kingdom must remain the main market for the bulk of our produce for many years to come, and in any case there is ample historical evidence that when the occasion demands the bonds of the Commonwealth are of such a nature as to transcend purely commercial considerations.<sup>41</sup>

Organisation for the trade mission was extensive, with discussions carried out over a year between the government and producer boards to develop New Zealand's case as

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<sup>38</sup> J.T.Watts, 'New Zealand Economic Survey', *AJHR*, B.5., 1957, p.7.

<sup>39</sup> S.G.Holland, 'New Zealand Economic Survey', *AJHR*, B.5, 1956, p.5. An example is the US government's offer of 10 million pounds of dried skim milk for export sale internationally on a 'bid and acceptance basis' in 1955. The New Zealand government presented an aide-memoire to the US government to express 'grave concern' about the possible effects on the world market. *External Affairs Review*, Vol.V, No.5, May 1955, pp.18-19.

<sup>40</sup> *External Affairs Review*, Vol.VII, No.1, January 1957, p.4.

<sup>41</sup> K.Holyoake, *External Affairs Review*, Vol.VII, No.3, March 1957, p.7.

it would be presented to the British Government.<sup>42</sup> The mission included leading government representatives and producer board and manufacturing leaders who embarked on talks with the British Board of Trade president Sir David Eccles and the Minister of Agriculture Heathcoat Amory. The New Zealanders presented arguments for the revitalization of the Ottawa arrangements, noting that that the 'spirit of Ottawa' remained of 'utmost importance' to New Zealand. They argued that the preferences that had been developed in 1932 had become quite ineffective in giving New Zealand products any security in the British market, and asked that adjustments be made to reinstate that position. These concessions were asked for based on the argument that Britain would remain central to New Zealand's export interests for some time. The discussions resulted in an agreement to give New Zealand ten years unrestricted market access for dairy produce and some pig meats; to hold regular consultations on agricultural production; and a commitment by Britain to consider a case for meat concessions if a serious threat to New Zealand's meat trade in the British market arose. Holyoake conceded to Parliament on his return that New Zealand had not received any commitment that Britain would restrict the dumping in its market, but it did at least agree to continue to work with New Zealand in trying to curb such international practices. With that he expressed satisfaction that they 'secured a little more than I expected' in the exercise.<sup>43</sup>

#### **OTHER CHANGES IN THE INTERNATIONAL CONTEXT**

Gaining support from Britain to combat agricultural protectionism was important for New Zealand, especially because other developments at that time intensified concerns that the international marketplace was going to become more difficult to work within. A major development that was watched closely at the same time was the establishment of the European Economic Community (EEC). Due to the importance of Europe for world trade and the apparent links between Britain and Europe, the implications of this development were important for New Zealand to understand. One perspective was that the EEC was expected to bring 'a notable access of political and economic strength to the participating countries', which could

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<sup>42</sup> Minister of Agriculture, 'New Zealand Trade Mission to United Kingdom', *External Affairs Review*, Vol.VII, No.3, p.8.

<sup>43</sup> Mr.Holyoake, 'Trade Discussions with the United Kingdom', *NZPD*, Vol.311, 14 June 1957, pp.86-92.

have positive spin-offs for other countries.<sup>44</sup> On the other hand, the developments were also 'arousing apprehension' internationally.<sup>45</sup> For New Zealand, the initial concern was that the trading bloc's development might shut out any opportunities for future expansion of its trade with the member countries. Within a short time, concerns increased that the community's actions might also impact on all areas of New Zealand's existing trade and its future opportunities for trade development.

International concerns about the EEC's formation were based on the possible effects a trading bloc would have on the British market and what this would imply for the Commonwealth countries, many of which (including New Zealand) had developed trade with the European countries since the war. New Zealand economist Frank Holmes also pointed out that this gave rise to the possibility of capital investment being more concentrated within Europe, leaving little for wider-spread investment.<sup>46</sup> Of greatest concern were the implications of the proposed agricultural policy that would be developed collectively with the EEC.<sup>47</sup> These fears were well-founded, because as Singleton and Robertson have noted, the agricultural policies developed in the EEC would serve to entrench worldwide agricultural protectionism.<sup>48</sup> Even though New Zealand did not agree with such developments, it could not ignore the community nor be unsupportive of Britain developing any relationship with it. Holmes concluded from his study of the EEC's formation that Britain would need to align as much as possible with the new community for the good of all the Commonwealth countries.<sup>49</sup>

While these political developments were taking place, the international market place was through the 1950s providing 'fluctuating conditions for external trade', as New Zealand Finance Minister Jack Watts called them in 1957. This was especially the case with declines in food export prices. At first, however, these were balanced by 'very favourable' wool prices. No dramatically different action was taken, especially as the

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<sup>44</sup> 'Report of the Department of External Affairs', *AJHR*, A.1, 1957, p.62.

<sup>45</sup> 'Report of the Department of External Affairs', *AJHR*, A.1, 1957, p.62.

<sup>46</sup> Frank Holmes, 'The Commonwealth and a Free Trade Area in Europe', *International Affairs*, Vol.34, No.1, Jan 1958, pp.39-40.

<sup>47</sup> 'European Economic Community', *External Affairs Review*, January 1958, p.12.

<sup>48</sup> John Singleton and Paul Robertson, 'Britain, Butter and European Integration, 1957-1964', *Economic History Review*, Vol.L, No.2, 1997, p.330.

<sup>49</sup> Holmes, 'The Commonwealth and a Free Trade Area in Europe', p.39.

survey concluded that '(I)t is essential to take a balanced view of trading conditions, and to remember that the prospects for our principal exports are generally sound...'<sup>50</sup> Such sentiments justified a continuation of National's balance of payments policies.

A slump in wool prices later in 1957 created greater concern, however, and the re-election of the Second Labour Government that year signalled a more radical response to reduction in export receipts. By the time the 1958 Economic Survey was written the economic context was painted in a very different light to only a few years earlier. A substantial decline in world business activity through late 1957 and early 1958 had caused a 'slower rate of economic expansion in industrialised countries result(ing) in a weakening in the demand for industrial raw materials.' This and increases in total supply of goods had led to a fall in agricultural product prices. New Zealand's overseas reserves were described as at the 'lowest level since the war'. Consequently, balancing payments became a more 'central problem of economic policy.'<sup>51</sup>

#### **NEW ZEALAND RESPONSES TO THE CHANGED TRADING CONTEXT**

New Zealand's initial policy responses to changes in the terms of trade were not dramatic. They were at first framed in terms of finding solutions within the existing economic management structure, and within traditional trading diplomatic strategies. National continued to adjust import schedules from year to year to ensure the balance of payments was kept in check, while still enabling as much liberalisation as possible. Steven Jones has noted, however, that National's liberalisation policy direction reached 'its high water mark' in the mid-1950s.<sup>52</sup> This was especially so given the change of tactic the Labour Government took after its re-election in 1957.

The change of government signalled more stringent domestic responses to the economic constraints that had developed. Labour used a firmer strategy to pursue stability, especially in response to the wool price drop. It responded to the balance of payments blow-out in 1957 with a similar approach to other times it had dealt with economic crisis; by imposing more controls. Within three weeks of gaining office, the

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<sup>50</sup> J.T.Watts, 'New Zealand Economic Survey', *AJHR*, B.5., 1957, p.52.

<sup>51</sup> A.H.Nordmeyer, 'New Zealand Economic Survey', *AJHR*, B.5, 1958, pp.4-5.

<sup>52</sup> Jones, 'Government Policy and Industry Structure in New Zealand', p.205.

Labour Government re-established import selection and exchange controls.<sup>53</sup> In the 1958 New Year speech, Prime Minister Walter Nash explained the change in policy in terms of the conditions that the economic crisis had imposed. He said that New Zealand's overseas reserves had reached a point 'where alleviating action was unavoidable', because of continued high import spending coupled with falling export returns. A comprehensive programme of import and exchange controls was presented as the only solution.<sup>54</sup>

This approach was continued with what was dubbed the 'Black Budget' in 1958. Finance Minister Nordmeyer noted that '(s)ince the beginning of 1958 the central problem of economic policy has ... been the restoration of balance in our external transactions.'<sup>55</sup> He also sought to 'ensure any reduction in living standards arising from lower overseas prices for our exports is spread fairly throughout the community without hardship or unemployment.'<sup>56</sup> Employment considerations were central to the decisions made about those cutbacks on imports. A comprehensive import licensing schedule was continued on the basis of maintaining the supply 'of those imports which are essential and on which employment depends'.<sup>57</sup>

While those efforts to stabilise the domestic economy progressed, strategies were developed in the international arena to keep abreast of the changes and to secure New Zealand's interests as much as possible. Responses were sought within the traditional Commonwealth context, but here too changes were afoot. The strong ties that had bound the Commonwealth countries were loosening in the late 1950s. First of all, there was a liberalization of controls on dollar currency. After Britain's formal establishment of external convertibility of sterling in 1958, the Sterling Bloc effectively dissolved. New Zealand officials noted that there was 'no longer any reason on currency grounds for discrimination between different sources of supply of

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<sup>53</sup> Extract from 43<sup>rd</sup> Annual Conference of the New Zealand Labour Party, 01.05.59, NA file, ABHS, 950, W4627/950, 56/1/1, box 1404, part 4, New Zealand Affairs: Foreign Affairs: General 1/6/55 - 31/12/61.

<sup>54</sup> Extract from Australian Political Intelligence Bulletin, no.1, handwritten date 7 January 1958 'New Zealand: Political Developments', NA file ABHS, 950, W4627/950, 56/1/1, box 1404, part 4, New Zealand Affairs: Foreign Affairs: General, June 1955 – December 1961.

<sup>55</sup> A.H.Nordmeyer, 'New Zealand Economic Survey', *AJHR*, B.5, 1958, p.4.

<sup>56</sup> A.H.Nordmeyer, 'Financial Statement', *AJHR*, B.6., 1958, p.1.

<sup>57</sup> A.H.Nordmeyer, 'Financial Statement', *AJHR*, B.6., 1958, p.10.

imported goods'. It was also understood that the import licensing structure could continue to 'adequately protect' the balance of payments and domestic industry.<sup>58</sup>

The decision to cease dollar discrimination was not, however, as independent as the official statements professed. The Americans had exerted pressure on New Zealand to liberalise its dollar import policy so that US imports would have greater access to the New Zealand market. They were sensitive about this because of the trade imbalance in New Zealand's favour that was apparent in the late 1950s.<sup>59</sup> In 1960 there were representations from the US Embassy in Wellington in this respect, and pressure was also expected to be applied through the GATT Dillon Round. This made New Zealand's decision to remove any discrimination against dollar imports in licensing schedules from 1960 fairly straightforward, especially because it was hoped that this might also provide an opportunity to gain political leverage for New Zealand's export access to the US market.<sup>60</sup> The effects of the implementation of this policy were apparent even by the next year, when the Officials' Committee noted the doubling of the value of US imports into New Zealand.<sup>61</sup>

New Zealand's interest in opportunities beyond the Commonwealth was influenced somewhat by Britain's apparent interest in pursuing links with Europe and the EEC over the Commonwealth, for example through its leadership in developing the European Free Trade Area (EFTA).<sup>62</sup> A meeting of Commonwealth Finance Ministers in 1958 expressed some last-ditch enthusiasm towards strengthening Commonwealth ties in the face of the development of the EEC. The meeting was formed primarily to review 'the significance for Commonwealth countries of changes taking place in world trade' – not least the formation of the EEC – and 'measures to expand trade between Commonwealth countries.'<sup>63</sup> The implicit objective of formulating a Commonwealth

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<sup>58</sup> E.L.Greensmith, Chairman Officials Committee on Economic and Financial Policy, '1960 Import Licensing Schedule: New Zealand's Dollar Import Policy', NA file AALR, 873, W3158/27, 61/1, Balance of Payments: New Zealand: Balance of Payments Policy, July 1960-October 1960.

<sup>59</sup> In 1958 and 1959, for example, imports from the US were valued at less than half of the export returns that New Zealand was receiving. *NZOYB*, 1962, pp.654,680.

<sup>60</sup> E.L.Greensmith, Chairman Officials Committee on Economic and Financial Policy, '1960 Import Licensing Schedule: New Zealand's Dollar Import Policy', NA file AALR, 873, W3158/27, 61/1, Balance of Payments: New Zealand: Balance of Payments Policy, July 1960-October 1960.

<sup>61</sup> Notes for Ministers' Discussions with US Secretary of Commerce, Mr Luther H. Hodges, 22 November 1962, NA file AAFD, 811, W3738, Box 126/14/1, Foreign Trade: USA: General, 1961-1972.

<sup>62</sup> Singleton and Robertson, *Economic Relations between Britain and Australasia*, pp.163-164.

<sup>63</sup> 'Report of the Department of Industries and Commerce', *AJHR*, H.44, 1958, p.56.

bloc to rival the Europeans did not, however, come about. In reporting on the Conference the following year, Nordmeyer noted that agreement had been made that solutions to world trade would not be found through intensification of the Commonwealth system but through 'co-ordinated international action.'<sup>64</sup>

For New Zealand the traditional Commonwealth relationship, until now so heavily geared towards a 'hubs and spokes' relationship fixated mainly on Britain, now came to take on a more multi-faceted form. This was evident in the development of regular bilateral economic consultations with Australia. These were established in the mid-1950s.<sup>65</sup> Relations were stepped up further in discussions in 1957 when the New Zealand delegation suggested 'there was scope for the dovetailing of Australian and New Zealand economic policy for the years ahead.'<sup>66</sup> On the basis of this understanding, regular consultation over policy was kept up over the following years.

The concept of regionalism was explored in terms of how New Zealand might turn this trend to its own advantage. There was some indication that New Zealand would seek to extend its relations in the Pacific region further than just with Australia, towards more engagement with the Pacific Islands and Asia. New Zealand representatives had already made some references to the development of a more Pacific identity and orientation for New Zealand. This was illustrated in speeches like that of Sir Leslie Munro, New Zealand Ambassador to the United States in 1955. He noted that 'while Asia was considered by Europe and the US as the Far East, to New Zealand it was the 'Near North' and that 'New Zealand spared no effort to become acquainted with her northern neighbours.'<sup>67</sup> A similar view was evident in External Affairs speech notes on New Zealand foreign policy in 1958, which noted that 'the events of the past 15 years have made New Zealanders well aware ... that they are now inextricably involved in events in South and South East Asia', and that the

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<sup>64</sup> A.H.Nordmeyer, 'Economic Survey', *AJHR*, B.5, 1959, p.6.

<sup>65</sup> For example, in May 1953 four Australian officials visited New Zealand for talks which would 'exchange views in an informal way on trade and economic developments and their significance for the economies of Australia and New Zealand. Sidney Holland, 'Visit of Australian Officials, Trade and Economic Questions', *External Affairs Review*, Vol.5, No.5, May 1955, pp.2-3.

<sup>66</sup> Agreed Minutes, Australia-New Zealand Trade Discussions, 6-8 May 1957, NA file AALR 873, W3158/76, 61/3/21, Balance of Payments: New Zealand: Review of Trade Policy: 1957-1968.

<sup>67</sup> Quoted from *Evening Post* article 11 June 1955, in NA file NA file, ABHS, 950, W4627/950, 56/1/1, box 1404, part 4, New Zealand Affairs: Foreign Affairs: General 1/6/55 - 31/12/61.

relationship was mainly focused on the Colombo Plan and participation in the Southeast Asia Treaty Organisation (SEATO).<sup>68</sup>

Relations with Asia and the Pacific tended to focus on encouraging development in the region rather than seeking trade opportunities, but it was nevertheless the start of a shift that would become more important in that area in decades to come. Halstead predicted in 1957 that there were such opportunities ahead for New Zealand exports:

We are already expanding our exports to (the Pacific area) year by year and, as a result of the activities of the Government and the encouragement it is giving to private enterprise, I do not think it will be long before we will be able to export some £10,000,000 worth of goods to the area.<sup>69</sup>

These new strategies illustrated the expansion in New Zealand's foreign policy work over the 1950s. A paper outlining this in 1960 reiterated the point that traditional diplomacy now had to be balanced with the new:

New Zealand's foreign policy therefore grows, as it obviously must, from the need to reconcile geography with history, economic fact and strategic fact. In practical terms at present this means that, without weakening the many links which bind us to Britain and the whole Atlantic Community, we must increase our concern with South East Asia.<sup>70</sup>

Other strategies developed in the international arena to pursue New Zealand's interests were pursued through GATT. The forum would become a more important arena for New Zealand to consult and press its interests, especially as the Commonwealth links declined and given the increasing awareness of the limitations of New Zealand's bargaining power alone. For example, New Zealand representatives took the opportunity in the GATT forum to stress its concerns internationally about the development of the EEC.<sup>71</sup>

It was also within the GATT arena that New Zealand sought to fight against agricultural protectionism. These efforts were challenged by the fact that the

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<sup>68</sup> Speech notes on 'New Zealand Foreign Policy', in NA file, ABHS, 950, W4627/950, 56/1/1, box 1404, part 4, New Zealand Affairs: Foreign Affairs: General, June 1955 – December 1961; the author had had a recent visit to SE Asia.

<sup>69</sup> Mr Halstead, *NZPD*, Vol.311, 6 June 1957, p.109.

<sup>70</sup> 'Outline of New Zealand Foreign Policy', 01 April 1960, NA file, ABHS, 950, W4627/950, 56/1/1, box 1404, part 4, New Zealand Affairs: Foreign Affairs: General, June 1955 – December 1961.

<sup>71</sup> A.H.Nordmeyer, 'Economic Survey', *AJHR*, B.5, 1958, p.16.

countries dumping the agricultural products were also ones which were leaders in the GATT forum, and further those that New Zealand needed to work with to develop its own trade. The USA and the Europeans were the main protagonists. Sutch described the problem in 1961:

For years we have been conscious of the strong industrial countries which have, for whatever reason, guaranteed uneconomically high returns to farmers, have induced surplus production, refused us entry to their market and have even dumped the surpluses into the markets we have traditionally supplied or recently developed. This agricultural protectionism is a permanent fact of political and economic life.<sup>72</sup>

Representatives pushed hard – along with other agricultural exporters like Australia – for this issue to be brought into GATT negotiations, but it was difficult. While control of manufactured and industrial imports was dealt with progressively in GATT negotiations through the 1950s, agriculture remained off the agenda. In 1957 the Assistant Comptroller of Customs K.L.Press highlighted the hypocrisy of this and questioned the fairness of GATT:

In the case of primary products what does New Zealand – and equally the other agricultural exporters – find? ... elaborate systems of subsidy and other forms of special support for the agricultural producers in big industrial countries, plus in some cases total exclusion of imports, and in others limited and even derisory provision for imports. ... I am not talking about restrictions legitimately needed to safeguard a country's balance of payments, but about those which, whether now permitted by a GATT waiver or not, are deliberately protective. ... The conditions of world trade in primary products are *not* the same as those of trade in industrial goods, and what applies to the latter does not necessarily apply to the former. Therefore we submit that the objectives of GATT stated in Article I are inevitably frustrated ... Are these objectives really being attained in the field of trade between the agricultural countries and the industrial countries? Is GATT really doing as good a job for us as it is for the industrial nations?<sup>73</sup>

With this frustration in mind, New Zealand continued to seek to diversify its bilateral trading relationships and diversify its markets. The Labour Government from 1957 followed a similar approach to National in this regard. Diversification efforts through diplomatic expansion were a key part of New Zealand's commercial policy by the end

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<sup>72</sup> W.B.Sutch, *Selling New Zealand's Exports*, Wellington: Department of Industries and Commerce, 1962, p.1.

<sup>73</sup> Statement at GATT 12<sup>th</sup> session in Geneva, K.L.Press, *External Affairs Review*, Vol.VII, No.10, Oct 1957, p.31.

of the 1950s. At the Labour Party conference in May 1959, it was noted that the government had 'pursued an active policy of trade expansion.' An important aspect of this was the development of new trade posts in New Delhi, West Indies and San Francisco, and the 're-examination' of all of New Zealand's trading relationships.<sup>74</sup>

This also meant that economic considerations became more important in the work of the expanding External Affairs Department. In 1958, for example, a memo from the Permanent Head of External Affairs Alister McIntosh to Prime Minister Nash outlined 'major problems of external relations with which the department is dealing at the present time', identifying amongst these seven areas of external economic policy.<sup>75</sup> An overlap in external affairs and trade policy work was becoming more evident. This at times would be difficult to reconcile when balancing the roles of political diplomats and trade commissioners. It sometimes caused tensions between the departments of External Affairs and Industries and Commerce, especially in the development of diplomatic posts. McIntosh was particularly resistant to the insertion of Industries and Commerce representatives into diplomatic posts, for example in 1962 he supported NZMPB representative Alec O'Shea's view that 'New Zealand should not and could not afford two parallel overseas services and that overseas trade should come under External Affairs.'<sup>76</sup> The two services would nevertheless run separately for the time being; the Trade Commissioner Service would continue to be administered separately from External Affairs for the next two decades.

### **STRATEGIES TOWARDS DOMESTIC DEVELOPMENT**

The Labour Government sought to develop trade through a 'concerted effort by both Government and industry.'<sup>77</sup> Within New Zealand this firstly entailed encouraging primary industry production to be more marketing-attuned. Nordmeyer announced in 1958 that the government believed the 'time (had) arrived for a new approach' to marketing, and sought to focus production priorities on market needs rather than just on producing more of the same:

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<sup>74</sup> Extract, 43<sup>rd</sup> Annual Conference of the New Zealand Labour Party, 1 May 1959, NA file, ABHS, 950, W4627/950, 56/1/1, box 1404, part 4, New Zealand Affairs: Foreign Affairs, June 1955-December 1961.

<sup>75</sup> Memo Permanent Head External Affairs to Prime Minister, 11 December 1958, NA file ABHS, 950, W4627/950, 56/1/1, box 1404, part 4, New Zealand Affairs: Foreign Affairs, June 1955-December 1961.

<sup>76</sup> A.D. McIntosh to George Laking, 9 January 1962, in McGibbon, *Unofficial Channels*, p.293.

<sup>77</sup> A.H. Nordmeyer, 'Economic Survey', *AJHR*, B.5, 1959, p.44.

A greater effort must be made to produce goods for export which our potential customers want, rather than to produce the commodities which we think they ought to want. To continue to increase the production of any product, merely because this policy has been profitable in the past, may accentuate rather than diminish our marketing problems. A measure of flexibility, enabling production to be changed from one form to another in response to overseas demand is likely to have a beneficial effect on our economy.<sup>78</sup>

While New Zealand trade commissioners and diplomats worked on expanding export trade relations, the government started to develop strategies towards longer term solutions for the domestic economy. These would remain focused on ways of maintaining full employment to ensure that high standards of living could be maintained. Nordmeyer spelt this out in 1960:

The basic aim is to maintain and improve living standards by the full and efficient use of our productive resources. This implies the effective utilisation and development of the country's natural resources, the maintenance of high levels of employment, the attainment of stability of prices, and the general pursuit of optimum standards of economic welfare for our growing population. Policies adopted to achieve these objectives must be consistent with the need to maintain equilibrium in our balance of payments and to keep our reserves of overseas exchange at a level capable of withstanding short-term adverse fluctuations in export prices.<sup>79</sup>

The challenge, then, was to create an environment where the 'full and efficient use of productive resources' would not upset the 'equilibrium' of New Zealand's balance of payments.

The government was not developing its ideas in isolation. There were a number of other interested parties that joined in the conversations about economic development, what it meant for New Zealand, and how it should be pursued. New Zealand was not alone in this; the notion of economic development was one that was being discussed in multilateral forums especially. While New Zealand had at first taken a paternalist approach towards this by helping with 'developing' countries, over time the notion of development became central to the rhetoric involved with New Zealand's economic management as well.

The formation of new 'think tanks' facilitated domestic debate about development. McKinnon has argued that the New Zealand Institute of Economic Research (NZIER)

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<sup>78</sup> A.H. Nordmeyer, 'Financial Statement', *AJHR*, B.6, 1958, p.7.

<sup>79</sup> A.H. Nordmeyer, 'Economic Survey', *AJHR*, B.5, 1960, p.33.

formed in 1958 and the Monetary and Economic Council (MEC) formed in 1961 'contributed to economic commentary and analysis with a regularity not previously seen in New Zealand.'<sup>80</sup> These organisations were developed with some help from government. The NZIER received a government grant of £10,000 in 1959 to finance its research.<sup>81</sup> The MEC was established through the 1961 Monetary and Economic Council Bill which provided for the establishment of the council 'whose function is to examine and report and make recommendations on the New Zealand economy.'<sup>82</sup> It had been promised in National's election manifesto in 1960, but was not intended to be an official government body. Holyoake argued that the MEC was an 'autonomous body with the right to make reports at any time on any subject', but it could be invited by Ministers to make certain reports.<sup>83</sup> McKinnon argues, however, that neither of these new institutions was completely independent. The links through government funding and the close friendship between Frank Holmes, chairman of the MEC, and Treasury head Henry Lang ensured that the council especially retained close links with Treasury.<sup>84</sup> The work of the MEC, especially with its first report in 1961 entitled *The Current Economic Situation and Outlook*, met with great interest from the government in 1961, and recommendations from it were followed up.<sup>85</sup>

Reports on the New Zealand economy from groups such as these, and those that were formed through consultative conference processes, ensured that there was plenty of discussion material on economic development through the 1960s. Reports especially focused on development within New Zealand and the implications of external developments for the New Zealand economy. The reporting was reflective of a world-wide trend in this area, including those through international organisations such as the World Bank, the UN Conference on Trade and Development (UNCTAD), and the Organisation for Economic Cooperation and Development (OECD). They also illustrate widespread acceptance at that time that changes needed to be made to

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<sup>80</sup> McKinnon, *Treasury*, p.213.

<sup>81</sup> There was no reply made to Thomas Hayman's request to know what the grant had been made for. Mr Hayman, *NZPD*, Vol.321, 6 October 1959, p.2234.

<sup>82</sup> H.R.Lake, 'Monetary and Economic Council Bill', *NZPD*, Vol.327, 25 August 1961, p.1782.

<sup>83</sup> K.Holyoake, *NZPD*, Vol.328, 3 November, 1961, p.3312.

<sup>84</sup> McKinnon, *Treasury*, p.231. Frank Holmes was chairman of the Monetary and Economic Council from 1961-1964, 1969-1972.

<sup>85</sup> K.Holyoake, *NZPD*, Vol.328, 11 October 1961, p.2939; Monetary and Economic Council, *The Current Economic Situation and Outlook*, Wellington: Government Printer, 1961.

develop longer term strategies for the New Zealand economy, even if agreement on what those changes should be was not always universal.

Leading bureaucrats also waded into debates over the best means of management for the New Zealand economy. Sutch, who was Secretary of Industries and Commerce from 1958, would be zealously focused on achieving industrial development for New Zealand. He was also prolific in writing his views on New Zealand's economic management and sought to instigate real change in development policy through his work. In a 1962 address he argued that maximum production and full employment went hand in hand as economic objectives, and that these could only be achieved through continued import selection.<sup>86</sup>

In Sutch's view, New Zealand had to industrialise in order to progress. In 1961 visiting *New York Times* correspondent Homer Bigart quoted Sutch as saying 'we simply must industrialise' or New Zealand would 'forever remain a South Seas farm supplying Europe with wool and dairy products.'<sup>87</sup> At this stage, the understanding of industrial development was framed in terms of providing substitution for imports. Sutch argued that 'for the long term, the full production policy must aim at reducing New Zealand's dependence on imports.'<sup>88</sup> This was in line with international arguments as well. Robert E. Baldwin has noted that import substitution was a dominant growth policy in developing countries through this time, and extensive government intervention was exercised in many industrial countries aimed at influencing growth in their economies.<sup>89</sup>

Sutch's ideas about industrial development were compatible with the Labour Government's. In 1959, it was noted that 'it must be recognised that New Zealand's balance of payments problem is not a transitory problem ... but is a constant pressure on our capacity to earn overseas exchange.'<sup>90</sup> The development of industry was

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<sup>86</sup> W.B.Sutch, *New Zealand's Policy of Full Production*, Wellington: Government Printer, 1962, p.22.

<sup>87</sup> Homer Bigart, 'New Zealand Provides a Balm for Every Variety of Hardship', *New York Times*, 16 January 1961, clipping in NA file, ABHS, 950, W4627/950, 56/1/1, box 1404, part 4, New Zealand Affairs: Foreign Affairs: General, June 1955 – December 1961.

<sup>88</sup> Sutch, *New Zealand's Policy of Full Production*, p.28.

<sup>89</sup> Robert E. Baldwin, *Trade and Growth: Still Disagreement about the Relationships*, Paris: OECD Economics Department, Working Paper No.264, 2000, p.5.

<sup>90</sup> 'Extract from 43<sup>rd</sup> Annual Conference of the New Zealand Labour Party', 1 May 59, NA file ABHS, 950, W4627/950, 56/1/1, box 1404, part 4 New Zealand Affairs: Foreign Affairs, June 1955-December 1961.

identified as a key means by which this could be achieved. It planned an Industrial Development Conference to establish an inclusive programme of development for New Zealand. Sutch was enthusiastic about this, seeing it as an important step to progress New Zealand. He later described the Labour Government's term as the 'first years of a deliberate change aimed at modifying New Zealand's colonial structure.'<sup>91</sup>

### **INDUSTRIAL DEVELOPMENT CONFERENCE**

The 1960 Industrial Development Conference was a consultative planning exercise involving a number of key government officials and industry leaders, and was explicitly framed towards making a priority of developing domestic industry.<sup>92</sup> In his opening address, Nash identified industrial development as the chief means of plotting the 'course of our economic progress for the future',<sup>93</sup> and claimed the problem hindering this development lay in an excessive reliance on imports.<sup>94</sup> Industrial development could, to his mind, counter this, and he clearly saw the government as playing a central role in achieving it. Nash expressed the government's role as 'trying to create the conditions under which (industrial development) can happen faster and more easily.' They were prepared to support 'measures ... needed to create more security for industry in all its forms' and the 'setting up of institutions (that may be) necessary to help promote sound development.'<sup>95</sup> Presenting New Zealand as a newly developing industrial nation, 'infant industry' approaches and arguments for protectionism were evident.<sup>96</sup> The continuation of import licensing, which would secure at least a part, if not all, of the New Zealand market for domestic industry, was seen as a vital means of industrial development.

Labour's thinking on economic development was presented as having 'evolved' since its earlier term in government. Nash explained in his speech that the focus had grown from pursuing security and then stability to pursuing growth. He put this as meaning

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<sup>91</sup> Sutch, *The Quest for Security in New Zealand*, p.426.

<sup>92</sup> A.R. Low, 'Indicative Planning – The New Zealand Experience', *Australian Economic Review*, Vol.3, Issue 3, October 1970, p.20.

<sup>93</sup> Walter Nash, 'Building the Future', *Report on the Industrial Development Conference*, Wellington: Department of Industries and Commerce, June 1960, p.5.

<sup>94</sup> Nash, 'Building the Future', p.11.

<sup>95</sup> Nash, 'Building the Future', p.26.

<sup>96</sup> Dennis R.Appleyard and Alfred J.Field, *International Economics*, 4<sup>th</sup> edition, New York: McGraw-Hill, 2001, p.287.

that it was time to 'shape our policy less in terms of the past and to look more into the future.'<sup>97</sup> Traditional considerations were nevertheless still important, but would be achieved through a new approach, as Nash explained:

... unless New Zealand develops at a faster rate we cannot be assured of security, nor can we be assured of the higher living standards that it has been the purpose of stabilisation policies to preserve.<sup>98</sup>

Economic growth as a concept had recently gained attention in conversations about economic development. Sir Douglas Copland – the Australian economist who had participated in the 1932 Economic Committee and was now the principal of the Australian Administrative Staff College – had earlier that year argued that a growth and expansion approach was 'the basic assumption for economic statecraft in the modern world', and a means for analyzing New Zealand's 'impediments to growth.'<sup>99</sup> Three key 'impediments' he identified were New Zealand's 'great dependence on a few main primary exports', its high propensity to import, and its having 'clung too long to tradition, both as regards its external markets and its reliance on products of the farm.'<sup>100</sup> In Sutch's view, the Industrial Development Conference provided the opportunity for New Zealand to achieve that economic growth, by shaking off what he viewed as previously being a 'defensive' approach towards developing manufacturing, and taking 'a big step towards industrialisation.'<sup>101</sup>

Nash's primary focus for growth was on decreasing New Zealand's reliance on imported goods (which, it was believed, had caused the declining terms of trade) and developing New Zealand industry to provide for domestic consumption needs.<sup>102</sup> This import substitution strategy would enable the high standard of living that New Zealanders enjoyed over the 1950s to be sustained. New Zealand industry would

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<sup>97</sup> Nash, 'Building the Future', p.15.

<sup>98</sup> Nash, 'Building the Future', p.16.

<sup>99</sup> He was, and had presented this paper to the National Convention of New Zealand Society of Accountants on 29 March 1960; Sir Douglas Copland, 'Economic Problems for New Zealand in an Expanding World', *Report on the Industrial Development Conference*, Wellington: Department of Industries and Commerce, June 1960.

<sup>100</sup> Copland, 'Economic Problems for New Zealand in an Expanding World', pp.5-6.

<sup>101</sup> Sutch, *The Quest for Security in New Zealand*, pp.429-430.

<sup>102</sup> Nash, 'Building the Future', p.11.

therefore have to go beyond simply assembling imported components, as was often the case, to adding real value to raw materials.<sup>103</sup>

In the conference there was some thought towards the development of manufacturing for export, but this was mainly focused on primary processing industries. Sutch argued that these needed to be given more emphasis, and complained at the 'unquestioned acceptance (nationally at least) of the policy of New Zealand processing its exports as little as possible'. This he explained as a 'disturbing result' of New Zealand's 'being a specialized supplier of food products deliberately adapted to the eating habits of the British Isles', arguing that it was a key factor holding the economy back.<sup>104</sup>

Forty-one background papers were presented to the conference, looking at a variety of subjects from town planning to farm development to vocation training to external markets and trade promotion.<sup>105</sup> Recommendations were then made towards a number of measures that could work towards regional development, industrial research and design, investment financing, advisory aids, farming and industry diversification and trade promotion.<sup>106</sup> Generally, the consensus was towards protecting infant industries from overseas imports, namely through import licensing.

Nordmeyer described the Industrial Development Conference as a 'milestone in New Zealand's industrial development', especially because it had led to 'a wider understanding of the problems involved and its reports will provide a basis for policies aimed at the full development of our industrial potential.' He also identified a 'system of protection' as providing 'a predictable future free of violent changes and which ensures to industry a determinable share of the New Zealand market.'<sup>107</sup> There was, however, little immediately achieved from the Industrial Development Conference, mainly because Labour was voted out of office later that year. Sutch reflected that the new National Government 'proceeded to slow the pace of

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<sup>103</sup> Nash, *Building the Future*, p.14.

<sup>104</sup> W.B.Sutch, 'Programme for Growth', *Background Papers; Industrial Development Conference*, Wellington: Government Printer, 1960, p.13.

<sup>105</sup> *Report on the Industrial Development Conference*, Wellington: Department of Industries and Commerce, June 1960.

<sup>106</sup> Sutch, *The Quest for Security*, pp.429-430.

<sup>107</sup> A.H.Nordmeyer, 'Financial Statement' *AJHR*, 1960, p.10.

industrial development' due to political pressure, especially regarding the controversial development of a cotton mill.<sup>108</sup>

The Industrial Development Conference was nevertheless important in that it established a programme of consultation about development that was followed through other conferences over the 1960s. Labour Government Minister Warren Freer later reflected that the conference was a positive step towards integration of policy interests between parliament and business leaders, which provided better opportunities for planning.<sup>109</sup> This would encourage a factor that was considered important for the success of such an exercise; the 'buy in' of all parties to the ideas so that the set objectives could enjoy long-term support and cooperation.<sup>110</sup>

### **ECONOMIC POLICY UNDER THE SECOND NATIONAL GOVERNMENT**

National was sceptical about the benefits of the Industrial Development Conference. Jack Watts had described many of the Industrial Development Conference papers as going 'further than factual into the realm of propaganda', and especially argued that Labour had exaggerated the extent of industrial development that had taken place under its government.<sup>111</sup> He further argued that the Department of Industries and Commerce should not be as involved in the development of individual businesses as it had been under Labour.<sup>112</sup> It was implied that a less 'hands on' approach would be taken under the Second National Government.

National nevertheless exhibited a more cautious approach to economic management than it had at the beginning of its first term. Jones has noted that this government was 'less wedded to free market policies' and was more tolerant of import selection than its predecessor.<sup>113</sup> This was especially the case given the understanding Holyoake had gained in campaigning against Nordmeyer's 'black budget'. Ian Templeton argues that the success of Holyoake's campaign against that budget

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<sup>108</sup> Sutch, *The Quest for Security*, p.430.

<sup>109</sup> Freer, *A Lifetime in Politics*, p.115.

<sup>110</sup> John Black, *Indicative Planning and Stable Growth: An Inaugural Lecture Delivered in the University of Exeter on 8 May 1967*, Exeter: University of Exeter, 1967, p.16.

<sup>111</sup> Jack Watts, *NZPD*, Vol.324, 20 September 1960, p.2412.

<sup>112</sup> Jack Watts, *NZPD*, Vol.324, 20 September 1960, p.2413.

<sup>113</sup> Jones, 'Government Policy and Industry Structure in New Zealand', p.206.

'convinced him that drastic shocks to the economy had to be avoided at all costs.'<sup>114</sup> Despite this, import substitution policies did not appear to lessen New Zealand's reliance on importing. In 1961 National Minister of Finance Henry Lake noted that this reliance remained a condition of New Zealand's economic state, and despite 'progress' since the end of the war importing remained a key to development activity for New Zealand:

Despite the progress made throughout the post war period New Zealand remains vitally dependent on overseas trade for a wide range of capital goods, materials, and essential consumer goods. In a sense New Zealand's dependence on supplies from overseas has increased because a higher proportion of our total imports are now of a kind which directly provides employment for a large and expanding section of our workforce.<sup>115</sup>

Import licensing also constrained consumption patterns, and there was some perception that New Zealand living standards were being restricted by the controls, especially to outsiders. Bigart, for example, described a somewhat backward economy operating in New Zealand in 1961:

It is a charming but rather quaint kind of paradise. To stroll through the streets of Auckland and Wellington is like going back through time to an American city of 30 or 40 years ago. ... Tight import restrictions prevent New Zealanders from getting new cars. Import controls and high tariffs to protect backyard industries employing a handful of men mean high prices for most manufactured goods. Clothes, radios, and household appliances cost 50 percent more than outside New Zealand.<sup>116</sup>

Finance Minister Harry Lake acknowledged in the 1962 Economic Survey the challenge for government, noting that 'increasing the rate of economic expansion without driving the economy into balance of payments difficulties has yet to be solved'. He argued that production increases at the stage of development the economy was in would always come at a cost. For the preceding year, an upsurge in production 'was only accomplished at the expense of a heavy increase in our overseas indebtedness.'<sup>117</sup>

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<sup>114</sup> Ian Templeton, 'The Internal Economy', in Margaret Clark (ed.), *Holyoake's Lieutenants*, Palmerston North: Dunmore Press, 2003, p.78.

<sup>115</sup> H.R.Lake, 'New Zealand Economic Survey', *AJHR*, B.5, 1961, p.47.

<sup>116</sup> Bigart, 'New Zealand Provides a Balm for Every Variety of Hardship'.

<sup>117</sup> H.R.Lake, 'Economic Survey', *AJHR*, B.5, 1962, p.24.

Nevertheless, there was an expectation within National that import licensing would eventually be dismantled. Lake further noted in 1962 that import licensing could not be regarded as a permanent answer to New Zealand's balance of payments difficulties, but was a useful economic tool in the short term:

... import licensing is a useful addition to the armoury of weapons which can be used to protect a country heavily dependent on international trade. It is also useful as a short-term measure to allocate foreign exchange according to some set of priorities during a temporary shortage of foreign exchange.<sup>118</sup>

As Prime Minister from 1960, Keith Holyoake influenced Lake's policy approach to be one of 'steady does it' – or sometimes 'stop-go' – as characterisations of the year to year changes in import policy.<sup>119</sup> An emphasis on care and prudence in policy making was clear, especially in the 1963 Financial Statement where he argued that '(P)rudence demands that we should conserve our foreign exchange reserves as a protection against future adverse trading conditions.'<sup>120</sup>

#### **BRITISH APPLICATION TO THE EEC**

The 'future adverse trading conditions' Lake anticipated were based not only on the changes that had taken place in New Zealand's trading context in the 1950s, but also on an even greater threat to New Zealand's trade and economy that had reared in 1961. This was the announcement of Britain's intention to apply to join the EEC. This potentially meant the loss to New Zealand of the entire British market which it remained so reliant on for export income. The British sought to minimise the political impact of their decision on the Commonwealth countries by sending representatives to each country to discuss the decision and its implications. Duncan Sandys, Secretary of State for Commonwealth Relations, visited New Zealand before the application was officially lodged. During four days of discussions, the government acknowledged their support in principle of economic and political unity in Europe, but stressed 'the grave consequences for New Zealand's economy if Britain should join the Common Market without having taken steps to protect New Zealand's vital interests.'<sup>121</sup>

<sup>118</sup> H.R.Lake, 'Economic Survey', *AJHR*, B.5, 1962, p.18.

<sup>119</sup> Templeton, 'The Internal Economy', p.78.

<sup>120</sup> H.R.Lake, 'Financial Statement', *AJHR*, B.6, 11 July 1963, p.3.

<sup>121</sup> Text of Communique from Sandys visit, in 'The European Economic Community', *AJHR*, A.21, 1961, pp.82-83.

These 'vital interests' were based squarely in New Zealand's traditional agricultural production and exporting activity in the sheep and dairy industries. Although Britain had gradually taken less of New Zealand's exports over the 1950s, over half of export receipts still came from Britain. That market was especially important for New Zealand's core sheep and dairy industries which still earned three-quarters of New Zealand's total exports. In 1960, for example, Britain had taken 94 percent of New Zealand's frozen lamb and mutton, and cheese exports, and 89 percent of its butter exports. Even one third of wool exports - which were less constrained in international trade than the food products - went to the British market.<sup>122</sup> It was an understandable comment in the 1962 Economic Survey that the issues raised by Britain's decision to join the EEC were 'among the gravest we [New Zealand] have had to face.'<sup>123</sup>

Duncan Sandys' visit provided some comfort to New Zealand leaders when at the outcome of the talks he was prepared to give assurances that:

... the New Zealand Government would be closely consulted before and during any negotiations, that in such negotiations the British Government would seek to secure special arrangements to protect the vital interests of New Zealand, that Britain would not feel able to join the European Economic Community unless such arrangements were secured, and that the results of any negotiations would be thoroughly discussed with the New Zealand Government before the British Government took the decision to join the European Economic Community.<sup>124</sup>

These commitments for 'close consultation', seeking special arrangements for New Zealand, and especially the British indication that it would not join unless they were obtained, would inform New Zealand strategies in response to the application over the following decade. John Marshall recalled that 'we never let the British forget those words' during the extensive campaign he led to argue New Zealand's case for special access to Britain if and when it joined the Community.<sup>125</sup>

New Zealand's immediate response to the application was similar in nature to previous episodes that had threatened the traditional relationship with Britain. Just

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<sup>122</sup> Calculated from trade figures in *NZOYB*, 1963, pp.666-673.

<sup>123</sup> H.R.Lake, 'New Zealand Economic Survey', *AJHR*, B.5, 1962, p.9.

<sup>124</sup> Text of Communique from Sandys visit, in 'The European Economic Community', *AJHR*, A.21, 1961, p.83.

<sup>125</sup> Marshall, *Memoirs Volume Two*, p.64.

as when imperial preference was challenged by the Americans in the Anglo-American loan negotiations, New Zealand did not seek to challenge Britain's position now but instead express support, while arguing for consideration of its own interests.<sup>126</sup> Strategies to ensure New Zealand's case was heard and understood were based on expanding diplomatic activity. Seeking to protect those 'vital interests' in the British negotiations for entering the Community became predominant in economic diplomacy. The 1962 Economic Survey noted that this overshadowed all other political and economic issues during the past year.<sup>127</sup> A number of different actors including political leaders, officials, and trade representatives, became engaged in closely observing the negotiations Britain was undertaking with the Community, and in ensuring that New Zealand's case was understood by anyone who would have a role in decisions about Britain's entry.

New Zealand's representatives took any opportunity in all diplomatic relations to argue New Zealand's case. Extensive diplomatic activity was pursued in Europe, and diplomatic posts were established in key European centres with the objective of developing New Zealand's relationship with the EEC further. New Zealand embassies had already been opened in The Hague and Paris in 1950. From 1961 to 1965 further posts were established in Brussels, Geneva and Rome.<sup>128</sup> This established what Merwyn Norrish described in later years as 'extensive official presence in Western Europe' that would provide the structure for the intensive ongoing diplomatic work that would be required for pursuing New Zealand's trade interests over the following decades.<sup>129</sup>

New Zealand also expanded its diplomatic activities to argue its case to other countries with an interest in developments in Europe. Marshall and his team also visited the USA and Canada where they carefully explained New Zealand's case to several political leaders and groups, and were pleased to gain support from the

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<sup>126</sup> Australia took a more confrontational position, as it also had in the previous episode. McKenzie, *Redefining the Bonds of Commonwealth*, ch.5.

<sup>127</sup> H.R.Lake, 'Economic Survey', *AJHR*, B.5, 1962, p.9.

<sup>128</sup> Ministry of Foreign Affairs and Trade, Post Election Brief, November 2008, p.5, accessed 28 February 2009, from [http://beehive.govt.nz/sites/all/files/MFAT\\_BIM\\_1.pdf](http://beehive.govt.nz/sites/all/files/MFAT_BIM_1.pdf)

<sup>129</sup> Norrish, 'Changes in the Focus of the Ministry', p.151.

Kennedy administration.<sup>130</sup> New Zealand's tactics in arguing its case included revisiting the traditional expressions of political loyalty that had been so strong through the 1930s and 1940s. An important aspect of Marshall's strategies in Europe was the emphasis on the political loyalty and kinship ties that New Zealand had enjoyed with Britain for over a century.

The breakdown of negotiations for Britain's first application to join the EEC brought some relief to New Zealand, but the realisation of the necessity of keeping watch on international developments, particularly in relation to British movements, was now entrenched in diplomatic policy. Developments within EFTA were also closely monitored, particularly after 'the declared intention of the United Kingdom to develop alternative policies' to those being developed by the EEC.<sup>131</sup>

### **BROADENED DIPLOMATIC STRATEGIES**

The substantial change – or at least the potential for change – in the trade context triggered New Zealand to look further afield at channels through which it could pursue its trade interests. The range of channels became more varied and the tools it employed were multi-faceted. Much of this was led by John Marshall, who as the National Government's Minister of Overseas Trade and of Industries and Commerce headed what he would call New Zealand's 'economic struggle for existence' through the 1960s.<sup>132</sup> Ted Woodfield would later credit Marshall's work in these roles as creating the platform by which more diverse exporting could occur in later decades.<sup>133</sup>

Moves to expand New Zealand participation in the multilateral sphere began in 1961 when it joined the IMF and World Bank. This had been a politically contentious move, unlike most areas of economic diplomacy where political consensus generally prevailed. McKinnon noted that New Zealand's entry into the IMF was vehemently opposed by the Labour Party:

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<sup>130</sup> Marshall, *Memoirs Volume Two*, pp.74,85.

<sup>131</sup> Officials Committee on Economic and Financial Policy Briefing Paper, 'EFTA Developments and their implications for New Zealand', 27 February 1963, NA file, AAFD, 811, W3738/1123, CAB129/1/1 part 1, Cabinet Committee: Foreign Trade: General, 1961-1968.

<sup>132</sup> Sir John Marshall, *Evolution and Foreign Policy: The Struggle for Existence*, Wellington: New Zealand Institute of International Affairs, 1975, p.3.

<sup>133</sup> Noel Lough and Ted Woodfield, 'The External Economy', in Margaret Clark (ed.), *Holyoake's Lieutenants*, Palmerston North: Dunmore Press, 2003, p.92.

Labour fought National's bill to take New Zealand into the International Monetary Fund and the World Bank through an all-night sitting in 1961, with Labour putting up every speaker and National none. Labour debated the issue essentially on ideological grounds and largely unhampered by its own overseas borrowing activities in 1958. Membership of the IMF would lead to unemployment, said Arthur Faulkner, invoking an argument put by one of the most best-known critics of membership, Wolfgang Rosenberg...<sup>134</sup>

The bill was nevertheless passed, but only after National achieved its own consensus. National minister Robert Muldoon was persuaded against crossing the floor to oppose it.<sup>135</sup> New Zealand consequently officially joined the IMF, the World Bank and the International Finance Corporation on 31 August 1961.<sup>136</sup> The key objective in joining the IMF and World Bank was so that New Zealand would have access to external funds for development, but this would not be called on until later in the decade.

The GATT forum was also used to advance New Zealand's interests. In 1961 this was based on a strategy to protect New Zealand's place in the British market. It persuaded Britain through the GATT forum to create measures to counter 'dumping' of meat and dairy products into its market.<sup>137</sup> The quota restrictions Britain imposed as a result meant that New Zealand became subject to some quota restrictions, but these were seen as providing more benefit than overall disadvantage.

GATT was also a forum where New Zealand sought to develop trade opportunities with the USA and with other potential markets, especially if agriculture could be put on the agenda. There was frustration within New Zealand and Australia at the perceived imbalance of benefits these were providing. The common New Zealand view was summarised in the 1962 Yearbook:

There has been a growing disparity between the benefits accruing under GATT to the industrialised countries and the far less tangible advantages it provides for primary producing countries like New Zealand. This has been due primarily to the growing use of quantitative restrictions on

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<sup>134</sup> McKinnon, *Independence and Foreign Policy*, pp.107-8.

<sup>135</sup> Barry Gustafson, *His Way: A Biography of Robert Muldoon*, Auckland: Auckland University Press, 2000, p.74.

<sup>136</sup> H.R.Lake, 'Economic Survey', *AJHR*, B.5, 1962, p.17.

<sup>137</sup> 'Report of the Department of Agriculture', *AJHR*, H.29, 1962, p.20.

agricultural products by most of the large industrialised countries as an aspect of their policies of agricultural protectionism.<sup>138</sup>

In 1962, however, the USA's adoption of the US Trade Expansion Act gave some cause for optimism. Charles Morrison and Thomas Zeiler have described the act as signalling a more concessional approach by the US administration to trade relations.<sup>139</sup> Although the 'key purposes' of the Act were not so much framed around opening the US market as leading international trade enlargement and expansion, and there seemed little scope for direct trade concessions from the US, New Zealand officials considered that 'there is considerable indirect value in the basic philosophy of the Act, which should tend to inhibit the growth of new protectionist activity.' Moreover, New Zealand as a member of GATT would automatically receive the most-favoured-nation rates determined in any negotiating round that the US entered into.<sup>140</sup> There was also a perception that the Act 'provided, for the first time, across-the-board rather than item-by-item tariff-cutting authority'.<sup>141</sup>

New Zealand and Australia had high hopes that some liberalisation of barriers in agriculture through GATT might be achieved through the US Kennedy Administration, given the promise held by the Trade Expansion Act. There was in fact some agreement to bring agricultural trade on to the GATT agenda in the Kennedy Round which commenced in 1962. The Governor General's speech the following year noted that agreement had been made that agriculture 'must' be an objective of that Round was 'an important and most welcome development'.<sup>142</sup>

The GATT road, however, was never a simple one, and the close ANZUS defence relationship was not necessarily translated into the economic sphere. Zeiler summarised in 2001 that 'Australia and New Zealand were cherished allies of the United States during the Cold War, but both were difficult allies when it came to

<sup>138</sup> NZOYB, 1962, p.700.

<sup>139</sup> Charles E.Morrison, 'The United States' in Richard W.Baker and Gary R.Hawke, *ANZUS Economics: Economic Trends among Australia, New Zealand and the United States*, Westport: Praeger, 1992, p.125.

<sup>139</sup> Marshall, *Memoirs Volume Two*, p.206; Thomas Zeiler, 'Commanding the Middle: The American Agenda at the Kennedy Round', *Australian Economic History Review*, Vol.41, No.3, November 2001, p.309,311.

<sup>140</sup> Notes for Ministers' Discussions with US Secretary of Commerce, Mr Luther H. Hodges, 22 November 1962, NA file AAFD, 811, W3738, Box 126/14/1, Foreign Trade: USA: General 1961-1972.

<sup>141</sup> Charles E.Morrison, 'The United States', p.125.

<sup>142</sup> 'Governor-General's speech', *NZPD*, Vol.335, 20 June 1963, p.2.

international trade'.<sup>143</sup> The Kennedy Round gave little to meet the hopes of the New Zealand and Australians in terms of agricultural trade concessions. By July 1964, the Acting Minister of External Affairs J.R.Hanan reported that progress was slow in industrial goods negotiations, and even slower for the agricultural sector. Any concessions to be offered to New Zealand's relief were expected to be small.<sup>144</sup> At the conclusion of the Round, Finance Minister Muldoon was more scathing, commenting that 'from the viewpoint of the countries exporting meat and dairy products, the outcome can only be regarded as a failure.'<sup>145</sup>

### **BUILDING STRUCTURES FOR TRADE DEVELOPMENT**

While National spent much energy developing external strategies for pursuing New Zealand's trade interests, domestically it also created structures by which exporting activity could develop. This would take policy beyond the regulation of trade and control of imports, to thinking about how the export trade could be better developed. These would at first be based on improving on traditional trade activity, but over the rest of the decade the emphasis would shift to include industrial development for exporting.

A first move by National was to deal with the tariff. This had received some attention at the Industrial Development Conference but no significant policy changes had been forthcoming. Tariff issues would receive more attention with the establishment of the Tariff and Development Board in 1962. Marshall later described the Board's establishment as part of his drive for an 'industrial revolution' in New Zealand as Minister of Industries and Commerce. He described the Board as a government 'think-tank' for the 'steady expansion of industry by private competitive enterprise'. This would replace the 'more limited' Board of Trade.<sup>146</sup>

The Tariff and Development Board's establishment has been viewed by some as more of a political tactic than part of an overt development strategy. Christopher Cronin points out that the motivation for the establishment of the board may have been based more on attempting to deal less publicly with resistance to industrial

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<sup>143</sup> Zeiler, 'Commanding the Middle: The American Agenda at the Kennedy Round', p.308.

<sup>144</sup> J.R.Hanan, 'Kennedy Round Negotiations', *NZPD*, Vol.338, 7 July 1964, p.581.

<sup>145</sup> R.D.Muldoon, 'Financial Statement', *NZPD*, Vol.351, 22 June 1967, p.1266.

<sup>146</sup> Marshall, *Memoirs, Volume Two*, p.35.

development policies such as those that had arisen with the proposed Nelson cotton mill in 1961.<sup>147</sup> Austin Mitchell also viewed this as one of many boards which were established to consult with groups independently of the government and make decisions 'independent (or theoretically) so of government', but also thereby 'cushioning government from direct pressure and representation.'<sup>148</sup>

Regardless of the motivations behind its establishment, the Tariff and Development Board can be viewed as one of the first components of an increasingly complex bureaucratic machinery for industrial and trade development that was built over the 1960s. On its establishment it was charged with two initial investigations; 'to examine and report on the criteria for industrial development' in New Zealand, and 'to examine and advise on a proposal to establish an industrial finance corporation.'<sup>149</sup>

The terms of reference for the board's enquiry into industrial development gave hints of the ideas that underlay the government's thinking on industrial development. Manufacturing for export appears to have been only a secondary consideration. The 'development of export markets' was the 10<sup>th</sup> of 14 stated terms, which otherwise tended to focus more on domestic use of resources and competition from imports than on pursuing competitiveness in an international sense.<sup>150</sup>

The board's report from the enquiry concluded that it was 'inescapable' that New Zealand's economy needed to be expanded, but noted that a range of interests needed to be taken into account in creating development criteria.<sup>151</sup> It showed that the government's role was considered central to industrial development, and set down 16 criteria by which industries could be judged suitable for government support. The first of these were 'the contribution the industry makes to developing export markets or otherwise earning overseas exchange' and 'the extent to which the

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<sup>147</sup> Christopher Bruce Cronin, 'Close Encounters Over CER: Auckland Manufacturers and Government at the End of the Seventies', MA Thesis in Political Studies, University of Auckland, 1986, pp.9-10.

<sup>148</sup> Austin Mitchell, *Politics and People in New Zealand*, Christchurch: Whitcombe and Tombs, 1969, p.52.

<sup>149</sup> Marshall, *Memoirs Volume Two*, p.36.

<sup>150</sup> New Zealand Tariff and Development Board, *Report on the Criteria for Industrial Development*, Wellington: Department of Industries and Commerce, 1963, p.5.

<sup>151</sup> *Report on the Criteria for Industrial Development*, p.77.

industry can, by import substitution, save the expenditure of overseas funds, both immediately and in the long term.<sup>152</sup>

Over the following years the Tariff and Development Board had some influence over industrial development policies. Industry studies conducted by the board would survey industries and make recommendations to the government for their future development. These appear, however, to have been relatively minor.<sup>153</sup> The Development Finance Corporation was also established in 1964 in response to the Tariff and Development Board's recommendation 'for an additional institution to assist in providing finance for industrial development.'<sup>154</sup> Jones notes that 'it soon attracted criticism, however, due to its tendency to act only as a lender of last resort.'<sup>155</sup> Another development was the establishment of the Industrial Design Council. This was charged with the responsibility of helping improve the 'quality, efficiency and appearance of New Zealand made goods', after the Tariff and Development Board had identified that this was a failing in existing products.<sup>156</sup>

The National Government was proactive in creating trade development strategies. A consultative approach to planning New Zealand's trade development – to a degree reminiscent of the Industrial Development Conference – was pursued when it staged the Export Development Conference (EDC) in 1963. The Trade Promotion Council which had been established in 1962 (and of which Marshall was chair) had recommended the conference be held.<sup>157</sup> This was presented as attempting to draw 'nation-wide attention on the need for a more aggressive export policy.'<sup>158</sup> Lake followed this up by arguing that industrial development to replace imports was all well and good, but the New Zealand economy still needed overseas trade for sustained expansion. He also acknowledged that expanding traditional trade activities would not be the only answer:

The overriding necessity is an increase in earnings of overseas exchange. Some promising import-replacement industries are within view, but

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<sup>152</sup> *Report on the Criteria for Industrial Development*, p.91.

<sup>153</sup> 'Report of the Department of Industries and Commerce', *AJHR*, H.44, 1965, p.13.

<sup>154</sup> 'Report of the Department of Industries and Commerce', *AJHR*, H.44, 1965, p.13.

<sup>155</sup> Jones, 'Government Policy and Industry Structure', pp.207-208.

<sup>156</sup> *NZOYB* 1971, p.478; Jones, 'Government Policy and Industry Structure', p.208.

<sup>157</sup> Marshall, *Memoirs Volume Two*, p.49.

<sup>158</sup> 'Report of the Department of Industries and Commerce', *AJHR*, H.44, 1964, p.10.

sustained growth in the economy still depends, to a large extent, upon successful overseas trading. New Zealand's objective in the future must therefore be to continue to exploit existing trading opportunities as vigorously as possible; to work for better access to the markets of industrialised countries; and, in countries where there is little, if any, demand for its products, to develop new markets.<sup>159</sup>

The MEC produced a report around the same time as the EDC in which it recommended that New Zealand should increase its export earnings by 50 percent to £18 million. National Minister Duncan McIntyre supported this, arguing that:

If New Zealand wants to maintain its place in the world and provide for our larger population on at least the same standard of living to which we have become accustomed, we must attain this target. ... The need to increase our exports has been stressed more and more and in recent years it has become inescapable that we must do this if we are to survive.<sup>160</sup>

The EDC, which drew wide participation from industry and political representatives, focused on finding new ways to meet the calls to expand New Zealand's exporting activities. Discussion was generally directed towards trade promotion and diversification; mostly in terms of directing current export products to a wider range of markets. That change in New Zealand's approach to exporting was necessary was a 'given' at the conference. The report of the conference's Working Party on Export Product and Market Diversification summed up their view of economic prospects if policy remained static. They noted that export patterns remained similar to 30 years prior, but there was now a significant difference in the prospects they held for the New Zealand economy. They argued that now, even in years when prices for primary exports were good, it might still be necessary to borrow overseas to balance external payments. From this they concluded that 'New Zealand's current export performance is inadequate to maintain the standard of living which we at present enjoy.'<sup>161</sup>

Despite such arguments for exporting change, much of the conference dealt with developing traditional exports to new markets rather than product diversification. New export products which were explicitly discussed were still primary-based. The only 'non-traditional' industries specifically dealt with in background papers were

<sup>159</sup> H.R.Lake, 'Economic Survey', *AJHR*, B.5, 1963, p.30.

<sup>160</sup> D.McIntyre, 'Address in Reply', *NZPD*, Vol.335, 25 June 1963, pp.22-23.

<sup>161</sup> ATL, MS Papers 2151 Folder 431 Bollinger, Export Development Conference Export Development Conference working document report D1.

horticultural. Manufactures were dealt with in a general sense, however, in papers on industrial design and export quality. Author of the latter paper R.H.Stewart argued that 'the time has arrived for us to sell more of the products of our factories, as well as more of our traditional farm products';<sup>162</sup> but implicit was the acknowledgement that these were still some way off contributing significantly to export earnings. NZMF representative G.S.Amos remarked that New Zealand manufacturers had accepted their 'responsibility' to develop exports but this could only be done if they could also 'be assured of a continuing and substantial share of the market.'<sup>163</sup>

At the conference there was clearly an acceptance that the government should play a role in export development, especially through incentive schemes. Representatives from the New Zealand Federation of Labour, the Associated Chambers of Commerce, and the NZMF all expressed their organisations' support for the government to develop tax and financial incentives in this regard.<sup>164</sup> The conference recommendations were mainly along those lines. The government was called upon to provide support for export development mainly through proposed export incentive and rewards schemes.<sup>165</sup>

The government was open to the implementation of incentives and Lake presented this as the focus of that year's Budget.<sup>166</sup> He announced initiatives for development through tax concessions to encourage investment in plant and equipment for both agricultural and industrial producers. Export promotion was also incentivised through the creation of export credit insurance, tourism promotion and tax concessions on export promotion expenditure.<sup>167</sup> A system of tax exemptions from profits on increased exports was also put into effect. The following year Lake presented the

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<sup>162</sup> R.H.Stewart, 'Importance of Quality in Export Goods', Background Paper 10, *Report on the Export Development Conference*, Wellington: Department of Industries and Commerce, 1963, p.1.

<sup>163</sup> G.S.Amos, Supporting Speech from New Zealand Manufacturers' Federation, *Report on the Export Development Conference*, Wellington: Department of Industries and Commerce, 1963.

<sup>164</sup> Supporting Speeches, *Report on the Export Development Conference*, Wellington: Department of Industries and Commerce, 1963.

<sup>165</sup> Marshall, *Memoirs Volume Two*, p.54; Franklin, *Trade, Growth and Anxiety*, p.224.

<sup>166</sup> H.R.Lake, 'Financial Statement', *AJHR*, B.6, 1963, p.1.

<sup>167</sup> H.R.Lake, 'Financial Statement', *AJHR*, B.6, 1963, pp.9,13.

incentives system as having already achieved some success, with a noted 'successful expansion of production in the domestic economy' since its implementation.<sup>168</sup>

Agriculture also received specific attention in export policy developments. Some work towards achieving security of returns to sheep farmers had been achieved through the 1955 Meat Prices Act which established the system (administered by the NZMPB) of annually-fixed prices to the farmer.<sup>169</sup> The NZMPB was made even more central to export activity when the 1964 Meat Act designated it as advisor to the Minister of Agriculture in issuing newly-compulsory licenses for export slaughterhouses. As Savage and Bollard later noted, this gave the Board significant influence over meat exporting activity over the next few decades.<sup>170</sup> The NZMPB also developed a Lamb Market Development Scheme in 1966 which had the objective of decreasing New Zealand's reliance on the British market for lamb exports.<sup>171</sup> This scheme, which ran until 1980, imposed levies on meat exporters who failed to send the set portion of meat to markets outside Britain in any given year.<sup>172</sup>

The Agricultural Development Conference of 1963-1964 followed the EDC, and coordinated public and private interests again, this time in relation to the agricultural industry.<sup>173</sup> Like the EDC, its proposals emphasized the need for export diversification.<sup>174</sup> What was new was that agreed production and export targets were established, a feature of the indicative planning approach which had become internationally fashionable.<sup>175</sup> From that conference, an Agricultural Production Council was established, endowed with the task of supporting and monitoring these targets which were based on decade-long projections.<sup>176</sup> A Forestry Conference in 1964 also sought to set similar development targets for that industry.

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<sup>168</sup> H.R.Lake, 'Financial Statement, *AJHR*, B.6, 1964, pp.1,3.

<sup>169</sup> *NZOYB*, 1968, p.570.

<sup>170</sup> John Savage, 'Export Meat Processing', in John Savage and Alan Bollard et.al (eds.), *Turning it around : Closure and Revitalization in New Zealand industry*, Auckland: Oxford University Press, 1990, p.62.

<sup>171</sup> New Zealand Meat Producers' Board, *Annual Report*, 1966, p.26.

<sup>172</sup> New Zealand Meat Producers' Board, *Annual Report*, 1966, p.15; *NZOYB*, 1970, p.565.

<sup>173</sup> Low, 'Indicative Planning – The New Zealand Experience', p.20.

<sup>174</sup> McKinnon, *Treasury*, p.236.

<sup>175</sup> Hawke, *The Making of New Zealand*, pp.332-333.

<sup>176</sup> Low, 'Indicative Planning – The New Zealand Experience', p.21.

## MARKET DIVERSIFICATION STRATEGIES

The structures that were developed within New Zealand were complementary to external strategies for trade development that were being pursued over the same period. In continuing the approach advocated at the EDC the National Government increased funding for the development of several new international trade posts and increased participation in international trade fairs over the 1960s. Diversification efforts were sought both through new and existing political relations.

The US market was consistently eyed as a potential market for New Zealand, and opportunities were constantly sought. With this in mind, diplomatic representatives sought to take advantage of any opportunity to press New Zealand's case with the US administration. In an aide-memoir to the new US President J.F.Kennedy in 1961, the key areas in which New Zealand valued a cordial relationship with the US were outlined. These included; (i) avoidance of any disruption or depression of our traditional and developing markets; (ii) opportunities for reasonable access to the US market; (iii) interest in US Commercial and Agricultural Policies as an example to other countries; and (iv) cooperation in forums concerned with international trade.<sup>177</sup>

The second of these areas – access to the large, expanding and relatively wealthy US market – was considered to present significant possibilities for New Zealand exports.

There had been a growth in New Zealand beef exports to the US in the late 1950s, but political obstacles to further developing bilateral trade had quickly become apparent. Marshall reflected in his memoirs that the United States farm lobby's 'mission in life (was) to reduce to a minimum imports of any agricultural products which compete with the production of the American farms', necessitating 'eternal vigilance' on New Zealand's part to maintain its export interests.<sup>178</sup> The Americans had been quick to react to a perceived imbalance in the bilateral trading relationship that had developed with the rise in beef exports there. Despite this, New Zealand sustained efforts to build the trade relationship with the US. The Meat Export Development Company (often known as DevCo) was formed in 1960, and was charged with

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<sup>177</sup> E.L.Greensmith, Chairman Officials' Committee on Economic and Financial Policy memo to Chairman, Cabinet Committee on Economic and Financial Questions, 28 April 1961, NA file, AAFD, 811, W3738, Box 126/14/1, Foreign Trade: USA : General, 1961-1972.

<sup>178</sup> John Marshall, *Memoirs Volume Two: 1960-1988*, Auckland: Collins, 1989, p.206.

facilitating orderly marketing to the US and Canada.<sup>179</sup> Through promotional work by this company, there was some expansion of meat exports to the US and Canada in the early 1960s.<sup>180</sup> Such efforts seemed to pay off. By 1962 over 80 percent of New Zealand's beef exports were directed to the US market, but as New Zealand officials noted in a meeting with the US Secretary of Commerce in 1962, this had only been made possible through 'strenuous efforts to meet the requirements of US purchasers and to comply with US veterinary and health standards'.<sup>181</sup>

Unfortunately for New Zealand the optimism towards its opportunities in the US market were also not to last. In 1963 New Zealand was compelled to enter into an agreement to restrict its exports of beef and veal there. The following year, import quotas were imposed by the US that restricted imports further than the agreements had allowed.<sup>182</sup> The US administration was, however, somewhat sympathetic. George Laking was pleased to facilitate a meeting between the Minister of Agriculture Brian Talboys with US President Johnson during his visit to Washington in 1964, where he noted that the President was 'taking a very active interest in the beef problem'.<sup>183</sup> During his visit to New Zealand in 1966 President Johnson also expressed sympathy with New Zealand's trade concerns, and indicated a willingness to adjust the US trade situation so that New Zealand would have more market access, if it was possible. His sympathy and willingness were based on the strong regard that was expressed for defence alliance through ANZUS. It was reported that the leaders agreed that:

The alliance was a staunch one. We had very much in common. We had stood shoulder to shoulder in past military conflicts and were doing so now.<sup>184</sup>

New Zealand representatives attempted to exploit this defence cooperation to lever support from the US for its trade interests. In a policy paper to Cabinet in 1969, it was reported that:

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<sup>179</sup> NZOYB, 1970, p.565.

<sup>180</sup> 'Report of the Department of Industries and Commerce', *AJHR*, H.44, 1964, p.31.

<sup>181</sup> Notes for Ministers' Discussions with US Secretary of Commerce, Mr Luther H. Hodges, 22 November 1962, NA file, AAFD, 811, W3738, Box 126/14/1, Foreign Trade: USA: General 1961-1972.

<sup>182</sup> H.R.Lake, 'Economic Survey', *AJHR*, B.5, 1964, p.22.

<sup>183</sup> G.R.Laking to A.D.McIntosh, 22 April 1964, in McGibbon, *Unofficial Channels*, p.314.

<sup>184</sup> Notes from Special Cabinet Meeting with President Johnson, 20 October 1966, NA file, AAFD, 811, W3738, Box 1085, 126/14/1, Foreign Trade: USA: General 1961-1972.

It has been made clear to the Americans that New Zealand cannot be expected to play its full part in areas of international cooperation, including regional security arrangements, to which the US attaches importance unless we have trading opportunities which give us the economic means.<sup>185</sup>

Hoadley has rightly noted, however, that the trading relationship would continue to be precarious, with meat export agreements revised and renewed several times over through the following decades, usually with the effect of restraining New Zealand meat imports into the USA.<sup>186</sup> Despite the political limits to New Zealand's export development in the USA, that market remained an important destination over the 1960s. The proportion of New Zealand exports directed to the US was 13 percent in 1960, growing to 17 percent by 1969.<sup>187</sup>

Diplomatic expansion, whether politically or economically focused, had the effect of also expanding the Department of External Affairs. In 1966 it was noted that staff numbers in the department had 'mushroomed' to about 200, and there were now 13 diplomatic posts, several consular service posts and a number of separate trade posts maintained by the Department of Industries and Commerce.<sup>188</sup>

As proactive as New Zealand representatives had been in developing new trade relationships, it was however soon apparent that there were limits to the extent of diversification possible for New Zealand. The rise in agricultural protectionism internationally continued to be an issue. Even in countries not exercising such practices, however, the lack of taste for – or means to buy – New Zealand's agricultural exports proved another obstacle. New Zealand's ambassador to the US George Laking argued as much in 1962:

Our problem in selling our products in Asia and the less developed countries is of a different kind. Many of these countries cannot afford to buy our meat and dairy commodities. These are also questions of dietary habits and social customs. These, and related difficulties, make

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<sup>185</sup> 'Cabinet Committee on NZ's Trading Relations with the United States: Policy Paper', 28 April 1969, NA file, 811, W3738, Box 1085, 126/14/1, Foreign Trade: USA: General 1961-1972'.

<sup>186</sup> Hoadley, *New Zealand United States Relations*, p.135.

<sup>187</sup> Calculated from figures in *NZOYB*, 1970, p.644.

<sup>188</sup> 'Growth of the Department of External Affairs', 01 March 1966, NA file ABHS, 950, W4627/950, 56/1/1/, box 1404, part 5, New Zealand Affairs: Foreign Affairs: General 1962-1970.

us all the more conscious of the restrictions we face in Europe and North America.<sup>189</sup>

The hopes for expanding New Zealand's trade interests into Asia did not necessarily play out in the short term, apart from with Japan. A new trade agreement was developed between New Zealand and Japan in 1963 after negotiations had taken place towards dropping GATT Article XXXV. This was a concession that New Zealand did not enter lightly. Despite the apparent political will to expand the relationship, nervousness remained about the threat to New Zealand industry from Japanese imports. In embarking on those negotiations, the Officials' Committee urged that:

... it was essential to secure long-term arrangements for the protection of our manufacturing industries against the threat of disruption from low-cost imports from Japan. If such an arrangement could not be secured, New Zealand could not, at this stage, disinvoke Article XXXV.<sup>190</sup>

The new trade agreement did, however, incorporate concessions by which New Zealand could maintain protection over domestic industries.<sup>191</sup>

This development ensured that the trade relationship with Japan became more important to New Zealand, and exports there increased significantly through the mid-1960s. It became particularly significant for New Zealand mutton exports, taking around 70 percent of the total sales in the late 1960s.<sup>192</sup> By 1969, nine percent of New Zealand's exports were destined for the Japanese market.<sup>193</sup> Even with the maintenance of industry protection, imports from Japan increased. By 1969, goods from Japan comprised 8 percent of New Zealand's total imports.<sup>194</sup> These figures led Richard Kennaway to identify New Zealand's trading relationship with Japan as 'perhaps the most significant success in her policy of trade diversification.'<sup>195</sup>

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<sup>189</sup> G.R.Laking, Address to Institute of World Affairs, San Diego, 20 August 1962, NA File ABHS, 950, W4627/950 56/1/1, box 1404, part 5, New Zealand Affairs: Foreign Affairs: General, 1962-1970.

<sup>190</sup> 'Extract from E(62) M12: Trade Talks with Japan', 5 March 1962, NA file AAFD, 811, W3738, 1085, CAB 126/6/1, Foreign Trade: Japan: General, 1961-1977.

<sup>191</sup> NA file AAFD 811, W3738, 1085, CAB 126/6/1, Foreign Trade: Japan: General 1961-1977.

<sup>192</sup> Calculated from statistics in NZOYB, 1971, p.646.

<sup>193</sup> NZOYB, 1970, p.643.

<sup>194</sup> NZOYB, 1970, p.664.

<sup>195</sup> Kennaway, *New Zealand Foreign Policy 1951-1971*, p.125.

## DEVELOPMENT OF NAFTA

The most significant exercise in New Zealand's trade diversification in the 1960s was the development of the New Zealand-Australia Free Trade Agreement (NAFTA). Britain's EEC application was the final catalyst for New Zealand and Australia to secure such an agreement, and extended the relationship that had slowly evolved since the Canberra Pact, the development of ANZUS, and the economic consultations that had taken place since the mid-1950s. The perceived value of this relationship to both parties had become more sharply acknowledged as the two countries watched the international developments erode their traditional trading relationship with Britain, and they had commenced explicit negotiations to form a trading alliance in 1961.

As a regional free trade agreement NAFTA was viewed as a potential platform for the development of manufactured export trade between the two countries. The idea was that this would allow a partial exposure of industries to each others' markets, and provide a 'first step' for New Zealand and Australian industries towards exporting internationally. It was the most significant effort at export diversification that New Zealand had pursued, especially given that the goods traded were mainly of a secondary nature.

To the government, the NAFTA arrangement was important for New Zealand because it was anticipated that the agreement would provide a new export market including one for New Zealand manufacturers that was four times greater than the domestic one.<sup>196</sup> New Zealand exports to Australia had previously been minimal. Imports, on the other hand, had been more significant, with (for example) imports from Australia totalling in 1965 nearly four times that of exports there.<sup>197</sup> It was therefore also hoped that the terms of the agreement would help address the perceived imbalance of trade.<sup>198</sup>

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<sup>196</sup> Department of Industries and Commerce, 'New Zealand-Australia Free Trade Agreement', *Canterbury Economic Bulletin*, No.495, June 1966.

<sup>197</sup> In 1965, imports from Australia totalled \$127,968,000, whereas exports there totalled \$34,568,000. These represented 19% and 4% of trade respectively. *NZOYB*, 1967, p.646,665.

<sup>198</sup> 'Australian High Commissioner on Free Trade', *New Zealand Manufacturer*, Vol.18, No.4, February 1966, p.51.

Initially the idea was to focus the trading arrangement on the forestry industry. This was however broadened in the final agreement, largely at the behest of the Australians, and so that commitments to GATT were met.<sup>199</sup> Regardless of this, forestry products trade was the initial basis of NAFTA, particularly in providing for intra-industry trade. Initially this stemmed around New Zealand exports of wood pulp and less processed paper to Australia, and imports of more processed Australian paper products to New Zealand.

Despite the perceived importance of NAFTA by the government, its development was contentious, with opposition apparent especially within New Zealand's manufacturing sector. Divisions between different domestic views on New Zealand's trade policy became more evident as a result. The debates were not about the extension of export markets – which tended to be welcomed by all – but concerns over the potential damage to New Zealand industries through allowing competition in the domestic market. This was especially of concern because Australia was perceived to have a higher level of industrial development than New Zealand. Policies on industrial protection and import licensing were focused on in the development of the agreement. There was a clear determination within industrial groups to ensure that protection was maintained; and the NZMF was particularly vocal in this respect. Marshall, who was New Zealand chief's negotiator, described this as having to 'drag New Zealand manufacturers kicking and squealing into overseas markets', the first of these being the NAFTA arrangement.<sup>200</sup>

Within the New Zealand bureaucracy opinions on NAFTA were also divided. In general terms members of the Department of Industries and Commerce were sympathetic about industrial protection, but those in Treasury were less so. A number of academics and commentators also waded into the debate. Frank Holmes later reflected that:

At the time it was a political achievement to get the NAFTA agreement approved by the government. The government's advisers were divided on the issues, with Bill Sutch, the Head of Industries and Commerce, seeing the proposals as dangerous. There were very few strong

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<sup>199</sup> John Singleton, 'After the Veto: Australasian Commercial Policy in the Mid Sixties', *Australian Economic History Review*, Vol.41, No.3, November 2001, pp.297-298.

<sup>200</sup> Marshall, *Memoirs Volume Two*, p.205.

supporters in the farming or business communities. A great majority of manufacturers were opposed to the idea. Even New Zealand Forest Products was against it at first, although to its credit it quickly adopted the strategy of gearing the enterprise to become a competitive exporter.<sup>201</sup>

Holmes and his colleagues in the MEC were supportive of NAFTA because they believed the development of trade with Australia could help counter the impact that Europe's moves towards regionalism would have on the New Zealand economy. They wished to develop competitiveness within New Zealand manufacturing and saw this as only possible through the exposure of New Zealand industry to competition, and doing this with the Australians first would provide some ease of transition. The NZMEC were also keen to see the import licensing system – something they believed to be 'seriously distorting' New Zealand's development – replaced by a 'more rational, less discriminatory system of tariffs'.<sup>202</sup>

Ultimately, the pressure from New Zealand manufacturers and those who empathised with them in bureaucracy ensured that domestic industry protection was given priority in the development of NAFTA. Marshall actually thanked New Zealand manufacturers for being so 'unreasonable, pigheaded and obstructive' in their resistance to the development of the agreement, because he said it provided him with the power to negotiate very strongly to protect industrial interests.<sup>203</sup> Sutch's resistance to the agreement, as noted by Holmes, was also presented by Hoadley as helping take negotiations to a very detailed level.<sup>204</sup>

After protracted and detailed negotiations, the NAFTA agreement was signed in 1964. The primary objective stated in the agreement was the will to develop trade between Australia and New Zealand under conditions of 'fair competition'. Added to that phrase were the words 'as far as possible'; and these few words signify a great deal.<sup>205</sup> Industrial development remained couched in infant industry argument terms, and was included as an important objective within NAFTA. There were several

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<sup>201</sup> Frank Holmes, 'Marshall and External Economic Policy', in Margaret Clark (ed.), *Holyoake's Lieutenants*, Palmerston North: Dunmore Press, 2003, p.116.

<sup>202</sup> Holmes, 'Marshall and External Economic Policy', p.116.

<sup>203</sup> Marshall, *Memoirs Volume Two*, p.28.

<sup>204</sup> Hoadley, *New Zealand and Australia: Negotiating Closer Economic Relations*, p.26.

<sup>205</sup> NAFTA Agreement text; also described in P.J.Lloyd, 'Australia-New Zealand Trade Relations: NAFTA to CER', in Keith Sinclair (ed.), *Tasman Relations*, Auckland: Auckland University Press, 1987, p.147..

provisions to ensure that no damage would be done to domestic industries in the wording of the arrangement. This was done through several safeguard measures. Firstly, Schedule A (containing items for 'free trade') would not include any goods which would be considered damaging to New Zealand manufacturers. Secondly, there was provision for action against goods deemed to be increased in such a quantity that threatened domestic sales of similar goods. Thirdly, temporary withdrawal from the agreement was allowed for goods which needed extra protection for a time. Fourthly, annual reviews would allow for gradual development of Schedule A, so that progressive exposure to competition could be monitored, creating 'minimum disturbance to New Zealand industry.'<sup>206</sup> This would, it was hoped, enable a nurturing environment from which manufactured exports from both countries could develop. Another safeguard clause also provided that until New Zealand industries were more comparable to Australian ones, import licensing should be allowed to remain as a means of industry protection. The expectation was that as they became more developed, industry rationalisation between the two countries would occur.<sup>207</sup>

New Zealand's import licensing structure was effectively sanctioned by the NAFTA agreement. The intention to shield New Zealand manufacturing from Australian competition remained. These concessions built into the final agreement brought Holmes to describe NAFTA as 'what can be charitably described as a Clayton's free trade agreement' and he said that the MEC felt that the included "safeguards" 'greatly undermined the value of the agreement.'<sup>208</sup>

NAFTA did nevertheless meet its objectives in helping develop some New Zealand industries. This was most obvious in the forestry industry. John Singleton has argued that the NAFTA arrangement 'secured the future' of New Zealand firm Tasman Pulp and Paper by allowing free access to the Australian market for its paper products.<sup>209</sup> The forestry industry's contribution to the New Zealand economy grew significantly over the first decade of the agreement, although as has been noted, the conscious

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<sup>206</sup> 'New Zealand's Trade with Australia', *AJHR*, A.19, 1965, pp.13-14.

<sup>207</sup> 'New Zealand's Trade With Australia', *AJHR*, A.19, 1965, pp.12-13.

<sup>208</sup> Holmes, 'Marshall and External Economic Policy', p.117.

<sup>209</sup> 'New Zealand's Trade With Australia', p.11; Singleton, 'After the Veto: Australasian Commercial Policy in the Mid Sixties', pp.297, 300.

development of the industry had been underway well before NAFTA came into operation.

New Zealand's export trade to Australia grew significantly over the 1960s and 1970s. Further investigation is required, however, to ascertain a clear link between the development of the agreement and export growth. Hoadley notes, for example, that other forces such as GATT were obliging more general trade concessions over the period.<sup>210</sup> Regardless, in 1967 Finance Minister Muldoon announced with satisfaction the development of interest in exporting manufactured goods. He saw this as caused by two things; '...the special incentives by government for export development and the desire of manufacturers to take full advantage of New Zealand's free trade agreement with Australia.'<sup>211</sup>

In consultations between Marshall and Australian Deputy Prime Minister John McEwen in 1969, they 'noted with satisfaction' an increase in goods being traded under Schedule A, and jointly expressed the view that 'this increase reflected their expectations when the agreement was originally signed and they looked forward to further substantial growth between the two countries within the framework of the agreement'. The ministers recapped their understanding of the essence of the agreement during this meeting; 'that it was designed to facilitate in sharing in the growth of each other's market and participation in import opportunities.' The inclusion of real competition in this was not intended, however, when they added that 'trade should not be encouraged to develop in any way which would cause serious injury to established industries in either country.'<sup>212</sup>

### **PRESSURES ON THE NEW ZEALAND ECONOMY IN THE MID-1960S**

These developments show that over the 1960s much machinery had been constructed in the effort to develop and diversify New Zealand's trade, and with some success. Developments in the international economic context, however, continued to deliver fluctuating returns for agricultural exports, and the continued excess of import costs over export revenue put the New Zealand economy under

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<sup>210</sup> Hoadley, *New Zealand and Australia: Negotiating Closer Economic Relations*, p.30.

<sup>211</sup> R.D.Muldoon, 'Financial Statement', *NZPD*, Vol.351, 22 June 1967, p.1266.

<sup>212</sup> Communication Wellington to Sydney, 'NAFTA Consultations', 14 February 69, NA file AALN, 847, W4748, Box 195, 22/22/260, part 1, General File: Industrial Coordination under NAFTA, 1968-1972.

increasing pressure. In 1965 McIntosh privately observed that efforts to maintain standards of living against fluctuations in export prices were taking their toll. He wrote to his friend and External Affairs colleague George Laking:

The Government is in a mess financially. I have got no head or understanding for figures but I think wool has dropped £30 million in the last two years. We have lost £10 million over butter because the British would not play on price, and even though wool threatens to stabilise if not recover a little, it is not helping the Government who, as you know, are borrowing overseas right and left at exorbitant rates of interest in order to maintain sufficient sterling balances to bring in essential imports.<sup>213</sup>

Prime Minister Holyoake, however, regarded the problems that New Zealand faced were not because of a need for change, but for trying to do 'too much too quickly'. He reiterated his 'steady does it' position and argued that restraint had to be placed on the economy to control the impact of internal activity on the balance of payments.<sup>214</sup>

External events also continued to challenge economic policy making. A cabinet paper in September 1965 noted a 'marked slowing down in the growth of world trade since the beginning of the year.'<sup>215</sup> Demand for imports in New Zealand, however, continued to be strong. In 1966 it was noted that the previous financial year had witnessed a 'marked deterioration in the balance of payments' as import costs (mainly due to volume increases) had dramatically increased in relation to export revenue, resulting in a current account deficit of £59 million, nearly five times that of the year before.<sup>216</sup> The following year the message was even more bleak. In his first Economic Review as Finance Minister, Muldoon noted that the economy had in the past year 'been subject to severe strain emanating from an excessive level of domestic expenditure in relation to available resources and from depressed prices for wool exports.'<sup>217</sup>

If changes in the international economic context had not contributed enough to insecurity for New Zealand's trade prospects over the late 1950s and early 1960s, the wool price crash of 1966 was to intensify the sense of crisis. The wool price collapse

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<sup>213</sup> A.D.McIntosh to G.R.Laking, 13 August 1965, in McGibbon, *Unofficial Channels*, p.333.

<sup>214</sup> Holyoake cited in H.R.Lake, 'Economic Review', *AJHR*, B.5, 1966, p.7.

<sup>215</sup> Officials Committee on Economic and Financial Policy Paper, 'International Liquidity and World Trade', 03/09/65, NA file AAFD 811, W3738/1123, CAB129/1/1 part 1, Cabinet Committee: Foreign Trade General, 1961-1968.

<sup>216</sup> H.R.Lake, 'Economic Review', *AJHR*, B.5, 1966, p.12.

<sup>217</sup> R.D.Muldoon, 'Economic Review', *AJHR*, B.5, 1967, p.5.

was described by Muldoon as ‘sudden and unforeseen, even in overseas countries’, and had come at a time ‘when official external reserves were already low and when it was difficult to raise adequate long-term capital abroad.’<sup>218</sup> The immediate response within New Zealand to the wool price crash was, similar to before, to cushion the effects as much as possible. The Wool Commission bought a substantial portion of the wool clip to the point that in the last two months of the 1966-67 season, it bought 82 percent.<sup>219</sup>

The decline in wool exports, which contributed to a \$60 million drop in export revenue,<sup>220</sup> also coincided with a ‘disturbing development’ of a ‘worsening outlook’ for New Zealand’s dairy exports. New Zealand dairy export markets were squeezed by ‘mounting world-wide surpluses of butter, cheese and skim milk’, resulting in the loss of some markets and dramatically lower returns from others.<sup>221</sup> The relatively stable meat trade provided a minimal cushioning effect on the balance of payments. Overseas borrowing was deemed necessary to ‘offset the immediate decline in export receipts’ and minimize the fiscal restraints that would be necessary on internal demand through limiting of the import licensing schedule.<sup>222</sup> This led New Zealand to make its first draw-down of IMF funds to meet the balance of payments constraint.<sup>223</sup>

Devaluation was discussed by the government throughout 1966 as an option in response to the balance of payments crisis, and one that McKinnon notes was likely more agreeable than the earlier responses such as import restriction or deflation.<sup>224</sup>

The New Zealand Government’s concerns about the effects such a move might have on the British pound, however, held off a decision to act.<sup>225</sup> These concerns were removed when the British Government devalued the pound in 1967, and New Zealand followed suit. This time the details of the decision reflected the change in focus in New Zealand’s external payments, the dollar was altered to parity with the Australian dollar rather than aligning with the British pound. In announcing this,

<sup>218</sup> R.D.Muldoon, ‘Economic Review’, *AJHR*, B.5, 1967, p.7.

<sup>219</sup> R.D.Muldoon, ‘Economic Review’, *AJHR*, B.5, 1968, p.25.

<sup>220</sup> Gustafson, *His Way*, p.95.

<sup>221</sup> R.D.Muldoon, ‘Economic Review’, *AJHR*, B.5, 1968, p.24.

<sup>222</sup> R.D.Muldoon, ‘Economic Review’, *AJHR*, B.5, 1968, p.13.

<sup>223</sup> Gustafson, *His Way*, p.95.

<sup>224</sup> Muldoon, *The New Zealand Economy*, pp.61-62; Gould, *The Rake’s Progress?* p.115; McKinnon, *Treasury*, p.244.

<sup>225</sup> Muldoon, *The New Zealand Economy*, pp.61-62.

Muldoon expressed the expectation of that this would benefit the economy through 'a boost in our export industries, and ultimately a movement of resources into the field of export production and import substitution.'<sup>226</sup> This would inevitably be only a short-lived boost, however, as greater economic influences would override the effects of the devaluation.

The 1966 wool price crash has been identified by Easton as the 'end of the golden weather' for the New Zealand economy, although, he notes, 'few realised it at the time.'<sup>227</sup> Robert Muldoon sought to assure his Economic Review audience that the economic downturn was part of a normal cycle, stating:

The economy has again shown its sensitivity to changes in world demand and now appears to have entered the downward phase of one of those periodic cycles of economic activity which have characterized our economic history.<sup>228</sup>

Later in the Review, however, he conceded that it was possible that this was more than a cyclical phenomenon, and that synthetic fibres may have made 'a dramatic breakthrough' as serious long-lasting competition to wool.<sup>229</sup>

The closer contact with the IMF during the 1967 crisis made some in New Zealand nervous. NZMF Assistant Secretary H.E.J.Martin was particularly concerned about the pressure such organizations might put on New Zealand to open up its import policies. In November 1967 he argued that New Zealand had over the previous years borrowed heavily from overseas, and the main providers of overseas funds - the IMF, World Bank and the USA and United Kingdom - all had 'very strong views opposed to the use of quantitative restrictions on trade.' He professed 'little doubt that heavy pressure could be brought on New Zealand when seeking loans, for the removal of our present licensing system.'<sup>230</sup> The Labour Party also expressed anxiety about the leverage the international organisations could gain over New Zealand policy. McKinnon noted that at the 1968 Labour Party conference 'Kirk ended with an "impassioned plea": "Let us remember that the New Zealand Labour Party is a New

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<sup>226</sup> R.D.Muldoon, *NZPD*, Vol.354, 23 November 1967, pp.4483-4484.

<sup>227</sup> Brian Easton, 'Two Economic Lieutenants', in Margaret Clark (ed.), *Holyoake's Lieutenants*, Palmerston North: Dunmore Press, 2003, pp.68-69.

<sup>228</sup> R.D.Muldoon, 'Economic Review', *AJHR*, B.5, 1967, p.5.

<sup>229</sup> R.D.Muldoon, 'Economic Review', *AJHR*, B.5, 1967, p.8.

<sup>230</sup> H.E.J.Martin, 'The New Zealand Customs Tariff', *New Zealand Manufacturer*, Vol.20, No.2, November 1967, p.6.

Zealand party, not an IMF party, not a World Bank party, not a submissive party".<sup>231</sup> Martin's and Kirk's concerns were no doubt at least partly due to the report from the World Bank mission to New Zealand in 1967.

### **THE WORLD BANK REPORT ON THE NEW ZEALAND ECONOMY**

The World Bank Report on the New Zealand economy of 1968 was produced by a 'team of experts' who, on the invitation of the New Zealand Government, visited in August 1967. Their brief was to look at the New Zealand economy 'with particular reference to future economic policy and development strategy', and with 'special attention ... to industrial development, diversification of production and exports, and problems related to production and marketing of New Zealand's agricultural commodities.'<sup>232</sup>

The team's evaluation of the New Zealand economy and its development efforts was not flattering. Their report argued that '... a good deal of [New Zealand's] industrial development in the past represents a misallocation of resources.' They criticised the 1962 Tariff and Development Board report for stipulating '16 criteria so broad and general that they can hardly serve as adequate guidelines for industrial development.' New Zealand's industries were also judged as seriously in need of restructuring, not only because of balance of payments difficulties, but also because of their general inefficiency. In the team's view, '... the real choice facing New Zealand is not between policies that pursue export expansion versus those favouring import substitution, but between economically efficient versus inefficient production.'<sup>233</sup> The report argued that '(T)he improvement in the use of New Zealand resources calls for a development strategy much more selective than in the past. It should direct capital and human resources only to those activities which could make a significant contribution to an increase of exports or to import substitution at competitive prices.'<sup>234</sup>

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<sup>231</sup> Kirk quoted in Hayward, *Diary*, cited in McKinnon, *Independence and Foreign Policy*, p.214.

<sup>232</sup> Robert Muldoon, 'Foreword', in 'The World Bank Report on the New Zealand Economy', *AJHR*, B.4, 1968, p.3.

<sup>233</sup> 'The World Bank Report on the New Zealand Economy', pp.20-22,33.

<sup>234</sup> 'The World Bank Report on the New Zealand Economy', p.24.

The World Bank report recommended that significant 'adjustment' be made to the structure of the economy, including the adoption of tariffs in place of import licensing.<sup>235</sup> It cited examples of Denmark, Norway and Ireland as ones that New Zealand could follow, as they had liberalised their trade policies through a range of means to 'encourage competitive industries', and successfully reduce their reliance on agricultural exports.<sup>236</sup>

While it conceded that some temporary protection for 'infant industries' should be allowable, the report argued that the best means for this should be by tariff mechanisms rather than quantitative import restrictions. Even these, it argued, should be kept to a minimum and subject to a reduction programme.<sup>237</sup> The report argued that New Zealand's actions were based on assumptions that 'either New Zealand has had some real gains from her industrial protectionism, or at least her industrial protectionism has strengthened her bargaining power vis-à-vis other countries.'<sup>238</sup>

There was therefore a clear bias within the report towards liberal trade ideals, and against industry protection. This evoked strong reactions from the NZMF; its president R.G.Speirs responded that the report 'came to unrealistic conclusions and made unacceptable recommendations'.<sup>239</sup> The Federation's director A.R.Dellow went further to argue that the report's 'unrealistic recommendations could harm manufacturing' or even 'spell the end of much manufacturing development which is so necessary for the future of our country.'<sup>240</sup>

The report acknowledged that reorientating industries towards competing in the international market place would 'require a trying period of adjustment', saying that '(p)erhaps the most difficult facet would be the necessary changes in existing industries, many of which, in the Mission's view, are high cost and economically

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<sup>235</sup> McKinnon, *Treasury*, p.255.

<sup>236</sup> 'The World Bank Report on the New Zealand Economy', p.23.

<sup>237</sup> 'The World Bank Report', *New Zealand Manufacturer*, Vol.20, No.11, July 1968, p.2.

<sup>238</sup> Report cited in 'The World Bank Report', *New Zealand Manufacturer*, Vol.20, No.11, July 1968, p.2.

<sup>239</sup> 'The World Bank Report', *New Zealand Manufacturer*, Vol.20, No.11, July 1968, p.2.

<sup>240</sup> A.R.Dellow, 'Unrealistic Recommendations Could Harm Manufacturing', *New Zealand Manufacturer*, Vol.20, No. 12, August 1968, p.13.

inefficient.’<sup>241</sup> The necessity of the changes was clearly the point of the argument. It was the next sentence, however, that perhaps best explains the reason why such difficult ‘adjustment’ was not pursued for some time:

While the adjustment period may be painful, the Mission considers the above reorientation the only sound policy which, barring an unexpected sustained upturn in pastoral exports, could in the long-run attain both objectives of balance of payments improvements and economic growth.<sup>242</sup>

An upturn in export returns over the following years seemed to allow a stay on any radical decisions on ‘adjusting’ the New Zealand economy.

In the short term, the report’s most obvious effect was to add weight to support for developing comprehensive planning for economic development in New Zealand. The report argued the merits of a consultative planning approach, stating:

It is hard to imagine an ordinary process of policy formulation in a modern economy without a series of discussions based on well-prepared and well-presented documents, containing forecasts, assumptions on external factors, and policy recommendations preferably with alternatives. Whether this process is called “planning”, indicative or otherwise, is of secondary importance as long as it serves as a proper guide in fields of general economic policy and development.<sup>243</sup>

One recommendation towards this was to strengthen the existing planning unit in the Treasury and set up small units for sectoral planning in other government departments.<sup>244</sup> This was a reflection of international writing on economic development over this time which also showed a strong acceptance of planning as necessary for long-term policy-making. In an OECD publication, it was prescribed as a ‘central ingredient’ for the progress of developing countries.<sup>245</sup>

### **NEW ZEALAND’S APPROACH TO PLANNING**

New Zealanders had started to warm to the idea of indicative planning as a long term development approach. New Zealand economists, including those recruited to Treasury, had observed other countries’ indicative planning efforts in the 1950s and

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<sup>241</sup> ‘The World Bank Report on the New Zealand Economy’, p.24.

<sup>242</sup> ‘The World Bank Report on the New Zealand Economy’, p.24.

<sup>243</sup> ‘The World Bank Report on the New Zealand Economy’, p.54.

<sup>244</sup> ‘The World Bank Report on the New Zealand Economy’, p.15.

<sup>245</sup> Adrianus Vermeulen, ‘Social Aspects of Economic Development’, in Albert Winsemius and John A. Pincus (eds.), *Methods of Industrial Development with Special Reference to Less Developed Areas*, Paris: Organisation for Economic Cooperation and Development, 1961, p.67.

early 1960s and their success in achieving high levels of economic growth which had become a very fashionable means of measuring the performance of economies. In 1965 Lake noted that 'in the more developed western economies, indicative economic planning is today assuming an increasingly important role.'<sup>246</sup> The observation that worldwide forces had pushed the international production, exchange and consumption of industrial products to new highs in this decade, but that New Zealand had not shared as readily in that experience as other Western countries, supported the idea of New Zealand following suit.<sup>247</sup> As well, several New Zealand bureaucrats were influenced by British economic approaches and acceptance of planning, either through their own experience or relationships with their parallel agencies.<sup>248</sup>

Subscription to the idea of indicative planning and the idea of development conferences grew over the mid-1960s in a bipartisan manner. Members of Parliament from both sides of the house had supported the earlier development conferences, although their ideas about how development should be done differed. The perceived success in meeting the targets from the Agricultural Development Conference had also instilled confidence in a broader, trans-sector indicative planning approach.<sup>249</sup> Gustafson suggests that the support of the Labour Opposition reinforced the National Government's decision to extend its indicative planning approach to hold a national planning exercise.<sup>250</sup> John Gould later summarised these forces as making it appear, for New Zealand policy makers the mid-1960s, that the time was 'ripe' for a concerted effort to be made in national planning.<sup>251</sup>

New Zealand's approach to planning would be an adaptation of what had been observed of other countries' approaches. While France and Britain's methods had been studied, Muldoon noted that 'New Zealand could not, in the foreseeable future, even if it wished to do so, embark on as complex and ambitious system of analysis

<sup>246</sup> H.R.Lake, 'Economic Review', *AJHR*, B.5, 1965, p.28.

<sup>247</sup> Hawke, *The Making of New Zealand*, p.267.

<sup>248</sup> Henry Lang, Secretary to Treasury from 1967, was one, and instrumental in recruiting many others with similar experience. McKinnon, *Treasury*, p.229.

<sup>249</sup> Muldoon noted that production targets had been met, and bettered, within the first 3 years. R.D.Muldoon, 'Economic Review' *AJHR*, B.5 1968, p.35.Low, 'Indicative Planning – The New Zealand Experience', p.21.

<sup>250</sup> Gustafson, *His Way*, p.99.

<sup>251</sup> Gould, *The Rake's Progress?* p.134.

and consultation as operates in those countries.’ They would, however, take lessons from the experiences of countries with more comparable efforts, such as Canada, the Netherlands, Ireland and Sweden. The Treasury Planning Unit was established in 1966.<sup>252</sup> After some alteration of its role the following year, this became known as the Planning Division.<sup>253</sup>

Developments within Treasury, and particularly the support of Henry Lang as leader of Treasury, were seen as important factors in making the planning approach more central to New Zealand policy. Lang has been credited with leading the department into a new role as economic policy and planning coordinator for the New Zealand Government.<sup>254</sup> The Treasury Planning Division was active in facilitating a series of consultative exercises throughout the country and amongst a range of industries and government departments, leading to a perceived widespread political and public acceptance of the planning approach. The approach was pushed further by the announcement of the National Government to hold a National Development Conference (NDC) in 1968.<sup>255</sup>

### **THE NATIONAL DEVELOPMENT CONFERENCE**

In announcing the NDC, Muldoon explained that the deteriorating terms of trade and the responses to it had provided the ‘opportunity for some restructuring of the economy, with a broadening and consolidation of the export base and a widening of the range of competitive import-saving industries’.<sup>256</sup> This was one of the earliest references to the idea of restructuring that would gain ground over the following decade. For now, the NDC’s objectives had a very broad focus. They were:

To outline a programme and set targets for national development, which over the next decade will give the necessary guidance and stimulus and provide the fullest opportunities and facilities for all sections of the community to develop and direct their resources, skills, “know-how”, and productive effort into those channels which can best promote economic growth and social development.<sup>257</sup>

It was believed that by doing this, New Zealand would:

<sup>252</sup> H.R.Lake, ‘Economic Review’, *AJHR*, B.5, 1966, pp.33-35.

<sup>253</sup> R.D.Muldoon, ‘Economic Review’, *AJHR*, B.5, 1968, p.35.

<sup>254</sup> McKinnon, *Treasury*, p.272.

<sup>255</sup> R.D.Muldoon, ‘Economic Review’, *AJHR*, B.5, 1968, p.36.

<sup>256</sup> R.D.Muldoon, ‘Economic Review’, *AJHR*, B.5, 1968, p.36.

<sup>257</sup> R.D.Muldoon, ‘Economic Review’, *AJHR*, B.5, 1968, p.36.

... achieve a rate of economic progress which will ensure adequate employment opportunities for a growing population, maintain high levels of social welfare, and promote a rising standard of living.<sup>258</sup>

Austin Mitchell, a former lecturer in political science at Canterbury University, was more sceptical of planning conferences, however. He described the process as 'planning by jamboree'. Such planning conferences, he argued, were merely exercises in winning over the public to the government's wishes, so that they could 'win publicity and support for a policy the government was going to adopt anyway.'<sup>259</sup> Mitchell appeared to be in a minority in his scepticism, however. Participation in the conference was wide-ranging and involved over 600 participants from a wide range of fields. Political support was also broad. The opposition Labour Party was generally supportive of the planning exercise, but did complain that none of their representatives were invited to join any of the conference's working committees.<sup>260</sup>

The central target that emerged from the NDC was for the New Zealand economy to achieve an average annual growth rate of 4½ percent. This was far above what the country had achieved over previous years, but was a rate which was considered 'both practicable and desirable for the next decade.'<sup>261</sup> Accordingly, each of the conference groups set their own targets to meet this.

The calculations towards 'targets' were based on certain assumptions about the future of New Zealand's external trade. With regards to the terms of trade, relative changes in export and import prices were noted as the greatest influence over the rates of growth from year to year; therefore, prices were the key factor in determining how well the terms of trade fared. It was therefore concluded that 'if standards of living are to be maintained or increased in a period of falling export prices [which was the current trend] additional ways of earning exports must be found, or an additional volume of exports must be produced to pay for the needed imports.'<sup>262</sup> Norman Kirk argued against the way the targets were set, arguing that

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<sup>258</sup> R.D.Muldoon, 'Economic Review', *AJHR*, B.5, 1968, p.36.

<sup>259</sup> Mitchell, *People and Politics in New Zealand*, p.51.

<sup>260</sup> Norman Kirk, 'Address to NDC Conference', Summary Record of Proceedings, *Report on the 2<sup>nd</sup> Plenary Session of the NDC*, Wellington: Department of Industries and Commerce, 1969.

<sup>261</sup> R.D.Muldoon, 'Economic Review', *AJHR*, B.5, 1969, p.28.

<sup>262</sup> 'Report of the Targets Committee', *Report of the Proceedings of the National Development Conference*, Plenary Session 27-29 August 1968, Wellington: Government Printer, 1969, p.11.

they were based on National's 'stop-go' policies which he noted had been 'rightly criticised at this conference and elsewhere'.<sup>263</sup>

Industrial and trade development strategies had mainly focused on primary industries (agriculture and forestry especially) in the earlier conferences of the decade, however a shift in thinking was evident at the NDC. There was a clear acknowledgement that manufacturing was an important potential source for New Zealand's export development. Specific manufactured export development targets were pursued. The stated target for New Zealand manufacturing from the NDC was that exports from this sector should rise from 5 percent to 30 percent of total exports by 1978. This would mean that by 1978-79, receipts from manufacturing exports would have to increase by 445 percent.<sup>264</sup> These were targets that the committee described as 'challenging but realistic.' They noted, however, that the environment for industrial expansion would have to include having 'access to the capital, imports, and other resources they need if they are to do the job assigned to them.'<sup>265</sup>

In terms of the balance of payments, emphasis was placed on the objective of reducing the size of the deficit to one which 'as far as is possible to foresee, can be financed by normal types of overseas capital inflow without resort to heavy emergency government borrowing.'<sup>266</sup> Here, the committee cautioned that satisfactory growth rates would not simply occur as a matter of course:

On the contrary, growth rates will remain low unless a major and possibly unprecedented effort is made on the part of the whole community on the one hand to stimulate exports of goods and services, and on the other hand to find ways of increasing the volume of domestic production for a given level of imports. This will require an all round better use of resources.<sup>267</sup>

Condliffe, who had visited New Zealand through 1968-1969 and written a book that engaged with the NDC process, asserted that meeting these objectives would require much larger scale capital investment in industry than in the past. He further argued that a reorientation of manufacturing to exporting rather than supplying the local

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<sup>263</sup> Norman Kirk, 'Address to NDC Conference'.

<sup>264</sup> 'Report of the Targets Committee', *Report of the Proceedings of the NDC*, p.19.

<sup>265</sup> 'Report of the Targets Committee', *Report of the Proceedings of the NDC*, p.16.

<sup>266</sup> 'Report of the Targets Committee', *Report of the Proceedings of the NDC*, p.11.

<sup>267</sup> 'Report of the Targets Committee', *Report of the Proceedings of the NDC*, p.11.

market was required. He noted that this had started to occur, but in his view ‘bolder and more imaginative approaches’ to industrial development and marketing would be necessary to reach the NDC targets.<sup>268</sup> Part of becoming more competitive meant the dismantling of industrial protectionism and government involvement in production. He aired his views:

For too long New Zealand has sought development almost exclusively by mixed enterprises based on government participation and directed primarily to supplying the domestic market behind the shelter of import licensing... The role of government is to set the conditions that safeguard the national interest, leaving the technical operations – and the risks – to those whose experience and training lies in industrial management, cost control and, not least, marketing.<sup>269</sup>

To some degree agreement with Condliffe’s arguments about import policy was apparent in the NDC. Amongst the many other recommendations resulting from the conference, perhaps the most important for signalling change to previous industrial development policies was Recommendation 209A. It made a general commitment to dismantling New Zealand import licensing, but there were those who were reticent about the move. Kirk, for example, argued that the environment for manufacturing had to be more stable in New Zealand before they could be expected to develop and meet the export targets that were being set.<sup>270</sup> After much negotiation the final wording of Recommendation 209A was cautious. Replacing original sentences which explicitly asked for the progressive dismantling of import licensing ‘with all practicable haste’,<sup>271</sup> it recommended that:

The manufacturing sector should be accorded a level of protection sufficient to promote steady industrial development, increasing manufactured exports and full employment. This level of protection, however, should be such as to encourage competition, efficiency and reasonable prices to other sectors and to consumers and should also have regard to the need to give the consumer choice and variety. It is accordingly recommended that the system of protection should be flexible, that import licensing should be replaced by tariffs as the main measure of protection and that this transition should be carried out in accordance with a clearly defined programme and within a reasonable

<sup>268</sup> Condliffe, *The Economic Outlook for New Zealand*, pp.128-129.

<sup>269</sup> Condliffe, *The Economic Outlook for New Zealand*, p.133.

<sup>270</sup> Kirk, ‘Address to NDC Conference’.

<sup>271</sup> Original recommendations 212-215 (deleted), NDC, *Recommendations, National Development Conference Second Plenary Session, 5-9 May 1969*, Wellington: National Development Council, 1969, pp.76-77.

time. It is recognised however that there are cases where other protective measures including import licensing may be more appropriate than a tariff.<sup>272</sup>

The idea was that import restrictions through licensing would be replaced by uniform import tariffs. Recommendation 209A was acknowledged by Muldoon as the most significant outcome of the conference.<sup>273</sup>

Considering the emphasis on developing industry for export, it is in retrospect surprising that consideration of the NAFTA arrangement was marginal in the NDC submissions. As a new market relationship that had enabled export product diversification, there was only limited reference to perceived opportunities for development. The Overseas Markets and Exporting Committee did observe that the agreement was 'stimulating trade between the two countries' and that it offered improved access for many New Zealand products into Australia.<sup>274</sup> The final recommendation regarding the arrangement endorsed its perceived importance to New Zealand's development, by recommending that:

The Government continue to encourage New Zealand trade with Australia by –

- (a) Encouraging further special arrangements under Article 3:7 of the New Zealand-Australia Free Trade Agreement.
- (b) Putting further items into Schedule A of the Trade Agreement after full consultation of the industries concerned and where it can be shown that this would result in increased trade; the extension of Schedule A should be a process that should be pursued with caution in a way that will ensure the continued development of New Zealand's industries.<sup>275</sup>

In stipulating the need to 'pursue with caution' any extensions of the agreement, anxiety about its effects were also clearly evident.

The language of this recommendation and that of 209A showed tacit support of trade liberalisation both through expanding NAFTA and loosening more general border

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<sup>272</sup> Recommendation 209A, NDC, *Recommendations*, pp.69,74.

<sup>273</sup> Gould noted that 'some cynics claimed that the 127-word Recommendation 209A was worth more than all the rest of the mountain of paper produced by NDC put together', Gould, *The Rake's Progress?*, p.136.

<sup>274</sup> 'Report of the Overseas Markets and Exporting Committee to the National Development Conference', *National Development Conference, May 1969: Committee Reports*, Wellington: Government Printer, 1969, NDC 13, p.69.

<sup>275</sup> Recommendation 118 (amended), NDC, *Recommendations*, p.52.

protection, but was also vague enough to allow concessions which avoided real policy change. With no firm commitment made, only marginal changes were made to either policy over the following years. Schedule A expanded only in a piecemeal fashion and the talk surrounding dismantling import licensing essentially remained just that.

From the outset, the government accepted that the targets recommended by the Conference would 'need to be subject to constant review.' For this purpose, new structures were formed which would constitute what Muldoon called the 'planning machinery', which he described as vital for carrying out the stated goals of the conference.<sup>276</sup> The structures included comprehensive and complex relationship networks between different government departments and private sector actors. To oversee the work, a National Development Council was established with 14 members, including the Deputy Prime Minister John Marshall as Chairman and the Minister of Finance Robert Muldoon as Deputy Chairman.

At its first meeting the National Development Council recommended that 'sectoral' councils be established.<sup>277</sup> These were set up in the areas of educational planning, distribution, fisheries, forestry, manufacturing, tourism, agricultural production, building industry, mineral resources, national research, trade promotion and transport advisory. The National Development Council and these sector councils were charged with 'keeping under review (1) the targets and objectives of the NDC; and (2) measures necessary for their attainment. Government departments were also closely linked with the council structure. A Targets Advisory Group, headed by Reserve Bank Governor A.R.Low and connected to Treasury, was set up as an advisory body to the Council, with its focus stipulated as 'giving special attention to a continuing review of progress towards the NDC targets and, periodically, of the targets themselves.' The Department of Labour also housed a 'Manpower Planning Unit' which advised the National Development Council and the sector councils 'on matters concerning manpower planning and forecasting.'<sup>278</sup>

In the short term the planning efforts appeared successful, with the economy growing 'vigorously' over the year 1969-1970. It was, however, also noted that this

<sup>276</sup> R.D.Muldoon, 'Economic Review', *AJHR*, B.5, 1970, pp.31, 33.

<sup>277</sup> Noted in R.D.Muldoon, 'Economic Review', *AJHR*, B.5, 1970, p.33.

<sup>278</sup> R.D.Muldoon, 'Economic Review', *AJHR*, B.5, 1970, p.34.

was largely in response to a resurgence in primary export prices. Nevertheless, the activity brought about by the NDC reinforced government confidence that the planning process would help keep the national economy on a strong growth path.<sup>279</sup>

In the early aftermath of the NDC, the National Development Council and other sector councils were very active in following up the hundreds of recommendations from the conference, and monitoring the pursuit of targets. It very much seemed that indicative planning had found a niche for itself in New Zealand economic policy. In his review at the end of the 1960s, Reserve Bank Governor A.R. Low noted that:

“Indicative planning” is in the process of being established in New Zealand as a normal administrative procedure. The idea is accepted; the machinery is almost fully set up; the people directly involved and to a lesser extent the general public are more conscious of basic economic realities and the need for better resource allocation.<sup>280</sup>

#### **CHANGING IDEAS IN ECONOMIC MANAGEMENT**

Despite the complex bureaucratic machinery that was created through these exercises, there was some indication that ideas about removing government from economic activity were emerging by the end of the decade. Muldoon expressed in 1970 that economic control was not desired by the New Zealand Government, but it did have a role to play:

(w)hile the need for Government to provide the right economic climate and to give the necessary encouragement to development was acknowledged, it was generally agreed that market forces should, where practicable, be allowed to determine the allocation of resources. In this way it was hoped to harness the drive and risk-taking ability of private enterprise.<sup>281</sup>

The NDC did not go as far as the World Bank recommended in restructuring the economy, but did attempt to change the emphasis of some key sectors.

By 1969 trade had come to take an increasingly important role in foreign policy. A number of recommendations from the NDC regarding trade diplomacy were noted by John Marshall – and can be seen by historical activity – as already part of government policy. These included that ‘maximum effort to secure freer access for New Zealand’s

<sup>279</sup> R.D.Muldoon, ‘Economic Review’, *AJHR*, B.5, 1970, pp.38-39.

<sup>280</sup> Low, ‘Indicative Planning – The New Zealand Experience’, p.23.

<sup>281</sup> R.D.Muldoon, ‘Economic Review’, *AJHR*, B.5, 1969, p.29.

exports ... be continued'; that the government 'look for new opportunities to enter into trade agreements.' The NDC recommendations to extend trade representation 'in markets with significant potential' and 'increase staff in existing posts where warranted' were also under consideration.<sup>282</sup>

Through the ideas put forward in the NDC, it is clear that the priorities for industrial development had taken a definite turn. They were no longer based just on import substitution, but on growing export opportunities, or in Easton's terms, Export-Oriented Industrialisation.<sup>283</sup> In the 1969 Economic Review, Robert Muldoon enthused that manufactured exports had 'expanded sharply' over the previous year. He noted a 'greater awareness by manufacturers of the advantages of exporting'.<sup>284</sup> Sales returns were not so prominent in those advantages he identified, which were:

... the availability of taxation and import licensing incentives, improved export services, greater availability of export finance, and the special arrangements being fostered under NAFTA.<sup>285</sup>

He also noted that two other factors that had recently encouraged greater export activity were 'the competitive advantages conferred by devaluation and the restraint of demand in the domestic market.' In his view, private import payments had been restrained more by the higher costs of import due to devaluation rather than by import licensing. He indicated that import licensing had been liberalised, with about 55 percent of imports by then free from licensing, and stated 'it is Government policy that over a period import licensing should generally be replaced by tariffs.'<sup>286</sup>

In a recurring theme in balance of payments' policy patterns, when the context offered some relief, less urgency was evident in New Zealand's responses. By 1969 the crisis was somewhat averted and Muldoon declared that the economy had 'recovered rapidly from the most serious economic crisis since the Second World War.' There was a definite tone of optimism in his report, noting that export receipts had recovered well through a bounce back in wool prices. World trade was noted to

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<sup>282</sup> J.R.Marshall, 'Memo For Cabinet: NDC Recommendations, Action taken as at 20/8/69', NA file AAFD, 811, W3738/735, 44/14/1 part 1, Government Departments: Trade and Industry: General, 1961-1977.

<sup>283</sup> Easton, *In Stormy Seas*, p.167.

<sup>284</sup> R.D.Muldoon, 'Economic Review', *AJHR*, B.5, 1969, p.14.

<sup>285</sup> R.D.Muldoon, 'Economic Review', *AJHR*, B.5, 1969, p.15.

<sup>286</sup> R.D.Muldoon, 'Economic Review', *AJHR*, B.5, 1969, p.15.

have risen 'exceptionally fast' in the past year, 'probably the largest increase since the Korean War years.' Stronger international demand for wool had enabled prices to rise and the Wool Commission had been able to dispose of a 'substantial portion' of its stockpile.<sup>287</sup>

Indeed, the upturn in balance of payments over the following years did seem to help politicians put off those politically difficult decisions about restructuring, and those policies would experience a stay until almost a decade later.

## **CONCLUSION**

The 1950s and 1960s were a period of substantial change for New Zealand trade policy. The external context presented the New Zealand economy with issues which completely shook the basis on which the economy and its trade had been based. The rise of competition in the British market, the fluctuating paths of international commodity prices, the development of the EEC and then Britain's applications to join it all compounded the perceptions that New Zealand's traditional economy and trading platform were under real threat. The substantial developments that took place in both the foreign policy and domestic policy aspects of New Zealand's trade policy can be understood in terms of responses to those threats.

Domestically, the moves to accelerate industrial and export development were tied to notions of diversification. Industrial development was treated as a means of diversifying New Zealand's productive base, at first towards the goal of lessening pressure on the balance of payments. Industrial development would provide for import substitution. Export development, in its preliminary phase, sought mainly to find new markets for New Zealand's exports. Diversification, then, would provide a means by which New Zealand could lessen its dependence, on imports for consumer goods, and on Britain as the main export market. The development of NAFTA especially nurtured the notion of exporting industrial products and basing New Zealand's trade activity closer to home.

Government strategies towards industrial and export development grew to be multi-faceted over the 1960s. These grew from simply providing a protective environment

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<sup>287</sup> R.D.Muldoon, 'Economic Review', *AJHR*, B.5, 1969, pp.7,14,17.

for New Zealand industry to offering incentives for development. These ideas gained ground as consultation with the wider business and academic community grew through the development conferences of the 1960s. These are evidence that the links and communication between industry and government were very strong at this time. Ideas were also developing in interaction with the diplomatic diversification that was occurring. The more regular consultation with a range of countries both bilaterally and through the multilateral institutions ensured that New Zealand policy makers were engaging with international trends in policy thinking, and being influenced by them.

By the end of the 1960s New Zealand's successes in developing a wider diplomatic and trading base, growing industrial exporting through the NAFTA relationship, and in laying substantial plans for New Zealand's future development, seemed to warrant confident expressions about New Zealand's trading future. It seemed that New Zealand was well placed going into the 1970s to build on the extensive work done internally and externally towards economic consolidation and to reap the subsequent rewards.

## Chapter Four: Development to Deregulation: The 1970s and 1980s

New Zealand entered the 1970s with a clear agenda in place for the development of the economy and diversification of its trade. The plans had been built through broad political interaction and consultation on the economy. They had also been built on an understanding of the international context that had changed significantly over the 1960s. The international outlook was now much broader, and New Zealand was more engaged with a range of countries and multilateral institutions. This broadened context was, however, to present what Bruce Brown called a 'triple whammy' to the New Zealand economy over that decade.<sup>1</sup> New Zealand had to engage with an increasingly volatile international economy. The knocks from this to New Zealand's existing economic framework would trigger a series of internal responses that would come to dramatically alter trade policy.

The dramatic effects of the worldwide economic crises provided fertile ground for questioning the conventional structures of New Zealand economic and trade policy. Trade was placed much more overtly at the heart of foreign policy and diplomatic activity during the 1970s, especially in terms of seeking to diversify political relationships for export trade gain. This led to the lines between the domestic and foreign elements of trade policy becoming increasingly blurred.

New Zealand's economic structure was challenged more than ever and consensus grew on the need for change. Divisions in thinking about how this should be done, however, became increasingly obvious. This was particularly so in relation to industrial development and its relationship to import licensing. Ultimately, ideological and diplomatic pressure from both within and outside of New Zealand, given more weight by the uncertain international context, led to commitments to liberalise New Zealand's import policies and to pursue more 'outward-looking' trade policies. Initially the steps towards this were incremental and designed to create a relatively smooth transition for New Zealand industries. These gained momentum in the 1980s, however, to cause more dramatic change. Market-oriented policies were

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<sup>1</sup> Bruce Brown, 'New Zealand in the World Economy', in Bruce Brown (ed.), *New Zealand in World Affairs III: 1972-1990*, Wellington: Victoria University Press, 1999, p.53.

implemented which would carry through changes that had been commenced, but not fully committed to, previously.

### **NEW ZEALAND ENTERS THE 1970S**

After the highs and lows of the 1960s, New Zealand entered the 1970s guided by a new set of political and economic strategies. The changes in the external context and the broadening of diplomatic relations over the 1950s and 1960s had led to very different understandings of New Zealand's place in the world by this time. Even in 1967, New Zealand Ombudsman Guy Powles had noted that in the space of a generation substantial changes had occurred in New Zealand's outlook, especially in terms of letting go of traditional ties with Britain and facing closer geographical connections:

Our rose-tinted colonial spectacles, through which we used to look out from our corner of the world, have been taken away; the motherly shadow of Victorian England that half lingered in our minds has vanished, leaving us psychologically stranded where we really are - in the Pacific, on the other side of the world from Britain, stranded by a receding tide of European settlement on the disturbed and disturbing shores of Asia.<sup>2</sup>

The notion of New Zealand being stranded had been especially prevalent in the early 1960s after Britain applied to join the EEC and appeared to focus more on developing relations with Europe than maintaining the traditional Commonwealth ties. Secretary of External Affairs George Laking in fact expressed his view that New Zealand was now at a turning point in its international relations, especially as 'some of the certainties on which we relied in the past are gone'. Those past certainties related especially to the relationship with Britain that New Zealand had accepted without question when it followed it into war in 1939. He stated that '(N)ow we are far from the day when Mr Savage could so completely express New Zealand's national will and its international purpose in a single phrase.'<sup>3</sup>

The responses in diplomatic activity and in domestic development efforts had contributed to perceptions that a more independent 'Pacific' New Zealand was

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<sup>2</sup> Sir Guy Powles, 'New Zealand's Changing Role in a Changing World', Address to triennial conference of the NZ Fed of University Women, Auckland, 19 August 1967, NA file ABHS, W4627, 950, 56/1/1, box 1404, part 5, New Zealand Affairs: Foreign Affairs: General, 1962-1970.

<sup>3</sup> George Laking, 'International Problems Confronting New Zealand in the 1970s', Address to the national conference of the NZIIA, 30 August 1969, NA file ABHS, W4627, 950, 56/1/1, box 1404, part 5, New Zealand Affairs: Foreign Affairs: General, 1962-1970.

emerging. Prime Minister Keith Holyoake illustrated this in a speech in 1971. While noting that New Zealand now had a broad range of interests, he acknowledged that this change had been necessary in responding to developments beyond New Zealand:

We've been affected by Britain's reassessment of its interests and capacities "East of Suez" (and application to EEC). Both adjustments have required us to alter our attitude and policies, to diversify our economy, to seek new markets and new guarantees for our security. In the process, we've grown up. We've created a new kind of society in which the basic British principles have merged with the traditions of Polynesia. A society adapted to new needs and a new environment. In the last analysis, our place in the world will be determined by the way we demonstrate the strength and value of that society. From it has come the force of will to develop our own nation. We ask only that our right to continue that process of development will be recognised and protected.<sup>4</sup>

That right he mentioned was based on maintaining access to the British market, especially when Britain's entry into the EEC looked particularly likely after its third application to join in 1967. New Zealand's diplomatic work to argue for the protection of New Zealand's 'vital interests' continued as it entered the 1970s facing the challenge of keeping up the diplomatic momentum in arguing its case, as well as the test to see whether their achievements in this so far would pay off in the final negotiations for Britain's accession.

These considerations had placed economics far more centrally in New Zealand's foreign policy, as Laking's 1969 speech showed. He gave a significant amount of attention to trade issues, arguing that New Zealand's capacity to take on international obligations in terms of aid would depend on its 'ability to create new patterns of trade in response to international developments.'<sup>5</sup> Laking therefore framed New Zealand's international position as being more vulnerable to a wider context than before, but also willing to mark its own track, if its key needs could be met.

Laking acknowledged the links between domestic and foreign policy objectives in pursuing New Zealand's interests. He noted the effect the NDC outcomes were having on policy and planning, and expressed the view that the exercise had confirmed 'that

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<sup>4</sup> Sir Keith Holyoake, Address to Foreign Press Association Luncheon, London, 20 April, 1971, *New Zealand Foreign Affairs Record*, April 1971, pp.4-6.

<sup>5</sup> George Laking, 'International Problems Confronting New Zealand in the 1970s', Address to the national conference of the NZIIA, 30 August 1969, NA file ABHS, W4627, 950, 56/1/1, box 1404, part 5, New Zealand Affairs: Foreign Affairs: General 1962-1970.

to provide the basis for even comparatively modest rates of growth in our living standards, we must achieve in the 1970s very much higher levels of exports'. External Affairs' role in achieving this was recognised in terms of seeking to extend and expand export markets. Laking remarked, however, this was not just about market promotion, it was also about fighting political barriers to trade. He noted that New Zealand depended on other governments for its economic welfare, because it was their activities that ensured exporters were 'continually confronted by trade barriers'. External Affairs, he said, would continue to battle and seek to find ways to 'expand our ability to influence them' for New Zealand's trade interests.<sup>6</sup>

New Zealand politicians and representatives accordingly entered the 1970s with trade matters very prominent in their understanding of the 'national interest'. The participation of a range of government and private actors both in the diplomatic process for the EEC negotiations and in the NDC planning process had facilitated the expansion of dialogue on New Zealand's economic development and a clearer understanding of the roles that domestic and foreign policy actors could play in developing export interests. The direction of this was no doubt helped by the targets that had been set by the NDC.

### **ONGOING PLANNING**

The targets that had been set by the NDC now provided the platform for the Department of Industries and Commerce's work towards industrial development. The department's 1970 report stated that the conference had 'confirmed what has become increasingly evident in the past decade – the important and central role of the manufacturing sector in the economic development of New Zealand.'<sup>7</sup> This was especially apparent given the emphasis that had been placed on development of the manufacturing sector, and the allocation of the greatest growth targets to them, at the conference.

Reserve Bank Governor A.R. Low expressed his view that indicative planning was set to provide a means of 'restructuring' the economy. This he equated with developing

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<sup>6</sup> George Laking, 'International Problems Confronting New Zealand in the 1970s', Address to the national conference of the NZIIA, 30 August 1969, NA file ABHS, W4627, 950, 56/1/1, box 1404, part 5, New Zealand Affairs: Foreign Affairs: General 1962-1970.

<sup>7</sup> 'Report of the Department of Industries and Commerce', *AJHR*, H.44, 1970, p.4.

New Zealand's productive ability so that increased reliance could be placed on 'non-traditional industries and exports',<sup>8</sup> essentially manufactured exports. Industries and Commerce expressed confidence that this could be achieved, arguing that there had been a 'significant change in attitudes over the past 10 to 15 years' towards manufacturing.' It noted that:

Today there is a widespread confidence among manufacturers that they can compete internationally on markets overseas and in New Zealand. Also there is a much greater pride throughout the community generally in our manufacturing industries and ... recognition that they have an important role to play in the future economic development of New Zealand.<sup>9</sup>

For Industries and Commerce, a key focus of their work would be based on the guidelines set down by Recommendation 209A. The recommendation's wording essentially agreed that protection of New Zealand industry should continue in a way that would 'promote industrial development, manufactured exports, and full employment' and at the same time encourage competition, efficiency, reasonable prices, and choice and variety to consumers and other sectors of the economy.' The replacement of import licensing with tariffs was implicit in this recommendation, but again compromise was evident, where it was also noted that 'import licensing or other protective measures could be more appropriate in certain specific cases.'<sup>10</sup>

Industries and Commerce were also heavily involved in administering and tightly controlling New Zealand's trade relationship with Australia through NAFTA. This was a key relationship for New Zealand's industrial development and trade diversification policies, and therefore held great importance for meeting the objectives of manufactured export development set down by the NDC. Australia was consistently identified as New Zealand's most important market for manufactured goods, taking about half of these annually.<sup>11</sup>

Complex systems were in place to guide Industries and Commerce's work in monitoring reciprocal imports and attempts at industrial rationalisation through

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<sup>8</sup> Low, 'Indicative Planning – The New Zealand Experience', p.23.

<sup>9</sup> 'Report of the Department of Industries and Commerce', *AJHR*, H.44, 1970, p.4.

<sup>10</sup> 'Report of the Department of Industries and Commerce', *AJHR*, H.44, 1970, p.4.

<sup>11</sup> See for example 'Report of the Department of Trade and Industry', *AJHR*, G.14, 1974, p.34; 'Report of the Department of Trade and Industry', *AJHR*, G.14, 1976, p.35.

NAFTA. Trade was monitored through the administration of Schedule A which allowed Australian manufacturers free access to the New Zealand market. Items would generally only be added to NAFTA Schedule A where there was no competing domestic industry in New Zealand, or where it was felt that industry had developed enough to cope with competition being allowed in.

Efforts towards rationalising New Zealand industry with Australia's were dealt with under what was called 'Article 3:7' of the agreement. Under Article 3:7 arrangements, goods which were not included in Schedule A could be granted import licences through the granting of reciprocal concessions for similar goods from Australia. Reciprocal trade of similar items through Article 3:7 was considered a vehicle towards more intra-industry trade, industry rationalisation and the expansion of Schedule A. An Industries and Commerce official explained in 1969 that the arrangements were 'basically seen by New Zealand as a means of getting exports off the ground where they would not otherwise take place because of a tariff barrier, as well as edging products into Schedule A.'<sup>12</sup> There was much bureaucratic activity through this arrangement, but progress towards reaching those overarching objectives was slow. A number of applications for licences were turned down, for example, on the reasoning that allowing imports could cause 'material damage' to New Zealand or Australian industry, or that their import 'would have an adverse effect on the domestic economy.'<sup>13</sup>

Australian dissatisfaction with the slow pace by which Schedule A expanded was evident in the late 1960s. Australian officials requested a review of the formula by which entitlements for import licences were calculated in October 1969, arguing that the arrangements as they stood 'offered Australia few advantages' and highlighting New Zealand's advantage in the balance of trade by approximately \$2 million.<sup>14</sup> This

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<sup>12</sup> F.Lee (for Secretary) communication to New Zealand Trade Commissioner, Melbourne, 'NAFTA 3:7: General Motors (NZ) Ltd', 25 August 1969, NA file AALN, 847, W4748, Box 195, 22/22/260, part 1, General File: Industrial Coordination Under NAFTA, 1968-1972.

<sup>13</sup> Taken from examples of letters for Article 3:7 rejections compiled by F.Lee, Department of Industries and Commerce, for 3<sup>rd</sup> Annual NAFTA meeting between Australian and New Zealand manufacturers and Australian and New Zealand government officials, 20 August 1969, NA file AALN, 847, W4748, Box 195, 22/22/260, part 1, General File: Industrial Coordination Under NAFTA, 1968-1972.

<sup>14</sup> Memo to Chairman, Cabinet Economic Committee, 'NAFTA Article 3:7: Australian Request for Reciprocal Import Licence Formula', NA file AALN, 847, W4748, Box 195, 22/22/260, part 1, General File: Industrial Coordination Under NAFTA, 1968-1972.

led to an increase in allocation by New Zealand, which after much discussion was agreed because it would be 'both in keeping with the spirit of NAFTA and would serve as an indication of New Zealand's desire to promote the growth of mutual trade'.<sup>15</sup>

Statistical evidence that manufactured exports had expanded four-fold over the last half of the 1960s decade, mainly through NAFTA trade, and the buoyant New Zealand economy in 1970 led Finance Minister Muldoon to express confidence in the current direction of economic development policies. He noted that internal economic activity was high, with demand high due to 'record export earnings, large cash resources in the financial sector, and optimism about future business prospects'.<sup>16</sup> Many of the targets set from the NDC had been met in the first year of implementation, but this could mainly be attributed to rises in international meat and wool export prices, which had also enabled the Wool Commission to reduce most of its stockpile. The situation was nevertheless presented by Muldoon as evidence of the early success of the NDC, and reinforced his confidence that the planning process would help keep the national economy on a strong growth path.<sup>17</sup>

### **BRITAIN ENTERS THE EEC**

Through 1970 and 1971 the final stages of negotiations for Britain's entry to the EEC progressed. In the 1971 Foreign Affairs annual report, Holyoake expressed his nervousness at that point:

I believe the logic and justice of our case are now widely accepted, but I cannot be certain that they will prevail. Should Britain join the Community, a continuing arrangement subject to review is needed to preserve the volume and value of New Zealand's traditional trade to the enlarged Community in butter, cheese and lamb. A simple transitional arrangement would not be the answer. At best this would impose a massive dislocation of our economic resources together with grievous social effects.<sup>18</sup>

This is evidence of the vulnerability New Zealand felt at the final decision ultimately being beyond the country's control. The following year there was relief at the

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<sup>15</sup> Memo to Chairman, Cabinet Economic Committee, 'NAFTA Article 3:7: Australian Request for Reciprocal Import Licence Formula', NA file AALN, 847, W4748, Box 195, 22/22/260, part 1, General File: Industrial Coordination Under NAFTA, 1968-1972.

<sup>16</sup> 'Economic Review', *AJHR*, B.5, 1970, p.7.

<sup>17</sup> 'Economic Review', *AJHR*, B.5, 1970, pp.38-39.

<sup>18</sup> Keith Holyoake, 'Report of the Ministry of Foreign Affairs', *AJHR*, A.1, 1971, p.3.

concessions for New Zealand received through Britain's accession agreement, the Luxembourg Agreement.<sup>19</sup> Protocol 18 to the Agreement gave assurances of New Zealand butter and cheese access for the next five years, with limits subject to incremental decreases over that time.<sup>20</sup> Because wool and sheep meat were not included in the EEC's Common Agricultural Policy, their access at least was not limited by Britain's accession to the EEC. New Zealand's efforts to argue its case to the range of actors involved in Britain's accession appeared to have paid off. New Zealand's effort was described by Laking as 'an almost classic case of successful diplomacy', given the full range of sectoral interests and government resources that had been coordinated and utilised in arguing New Zealand's case.<sup>21</sup>

All in all, this was a very good result for New Zealand, even though matters of prices and the renewal of agreements for access would need almost constant ongoing attention. This ensured that trade policy would remain in large part directed towards the politics of access for New Zealand agricultural exports to Britain and Europe for at least another two decades.<sup>22</sup> It would also be directed by the conditions of Protocol 18 which committed New Zealand to diversify its trade away from the heavy reliance on the British Market. Article 5 set down the considerations that would be taken into account in reviewing access. One of these was that there would be progress in New Zealand's diversification efforts, so that its reliance on the British market would reduce. The wording of the article acknowledged the potential for the EEC's policies to hamper these efforts by including a commitment that they would 'strive to pursue a commercial policy which does not run counter to this progress'.<sup>23</sup> This was also an issue which New Zealand representatives would have to continue to contend with over the following decades.

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<sup>19</sup> Keith Holyoake, 'Report of the Ministry of Foreign Affairs', *AJHR*, A.1, 1972, p.3.

<sup>20</sup> 'Protocol on the Import of New Zealand Butter and Cheese into the United Kingdom', *AJHR*, A.30, 1972, p.2.

<sup>21</sup> Laking in Templeton, *An Eye, An Ear and a Voice*, p.59.

<sup>22</sup> The negotiations and outcomes for trade over the 1960s to 2000 are detailed in my Masters thesis; Carol Davenport (Neill), 'Trading in Traditions: New Zealand Exports to the European Union, 1960 to 2000', Master of Arts Thesis in History, Massey University, 2004.

<sup>23</sup> 'Protocol on the Import of New Zealand Butter and Cheese into the United Kingdom', *AJHR*, A.30, 1972, p.3.

New Zealand's strategies in trade diplomacy over the 1970s were somewhat paradoxical as it attempted to pursue its interests in different contexts. In seeking to maintain access to the British market, New Zealand's arguments had been based on emphasising New Zealand's ties of 'kinship' to Britain and Europe, and the strength of historical ties through culture, politics, defence and in trade. The argument was also based on the substantial dependence of the New Zealand economy on Britain's market and its potential ruin should it be suddenly shut out of it. On the other hand, New Zealand efforts to establish new trade relationships were based on presenting itself as a more independent, Pacific nation. These illustrate the multi-faceted trade diplomacy approach that had developed, and would only become more complex over the following decade.

#### **DOMESTIC POLICY DEVELOPMENT AND DEBATES**

Trade considerations were becoming increasingly complicated within domestic policy development as well. National had been steering its approach to economic management to be less interventionist, but had to temper this with concerns to keep the economy stable. The buoyancy of the New Zealand economy in 1970 was not all good news in this regard. A shortage of labour instigated expansionary immigration policies to meet the requisite demand.<sup>24</sup> Muldoon also cautioned that the pressure on the domestic economy from high demand needed to be balanced, and he designed policies to encourage that balance. Measures included reintroducing selective building programmes in the main metropolitan areas, increasing immigration, firm controls over new commitments involving government expenditure increases, and new systems of price surveillance. The NDC commitments were also adhered to by a further relaxation of import controls. Allowances for motor vehicle imports, for example, were increased to divert demand pressure from domestic producers to external producers.<sup>25</sup> These factors indicate the growing pressure on the economy that would become a feature of New Zealand's economic management of that decade and that would challenge the implementation of the NDC plans. At this

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<sup>24</sup> 'Economic Review', *AJHR*, B.5, 1970, p.8, 11.

<sup>25</sup> R.D.Muldoon, 'Financial Statement', *AJHR*, B.6, 1970, p.6.

stage, however, faith in the path that had been set down was evident in official statements.

The National Government's commitment towards dismantling import licensing continued to be evident as Muldoon sought to relieve the pressure on the economy. In an additional financial statement in October 1970 in which he announced more stringent measures to stem inflationary pressures, he reiterated this, stating that 'it is the Government's firm intention to continue with its policy of replacing import licensing by tariff protection.'<sup>26</sup> The policy was stepped up the following year with the announcement that the government had 'decided to institute a major review designed to accomplish the objective ... of replacing import licensing by tariffs as the main measure of protection ... within 5 years.'<sup>27</sup>

National clearly intended to maintain industrial protection even without import licensing, but the commitment to dismantle this structure that had now been in place for over three decades was contentious. They would be challenged to maintain electoral satisfaction as responses to their policies were made public, and divides in public attitude towards industrial development, protection, and economic management became more evident throughout the following years. In a speech at a National Party meeting in October 1970 Customs Minister Lance Adams-Schneider referred to 'some in the community' who had called for complete removals of all elements of protection including tariffs, but he responded that 'this is not on!' and gave several reasons why it 'would not be prudent' at that stage. These included giving assurances to specific industries and the more general commercial and public communities to ensure their own and wider economic security.<sup>28</sup>

Those 'in the community' that Adams-Schneider mentioned as wanting protection removed were from both official and private quarters. Members of the Reserve Bank and Treasury were part of this, as were organizations like the Chambers of Commerce, the MEC (often with Frank Holmes prominent) and retailer groups. Their arguments tended to follow those that the World Bank Report and Condliffe had

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<sup>26</sup> R.D.Muldoon, 'Statement', *AJHR*, B.6A, 27 October 1970, p.18.

<sup>27</sup> R.D.Muldoon, 'Financial Statement', *AJHR*, B.6, 1971, p.15.

<sup>28</sup> L.R.Adams-Schneider, 'Minister Speaks on Problems', *New Zealand Manufacturer*, Vol.25, No.1, November 1970, p.3.

presented in the late 1960s, saying that removing import licensing would be a first step towards opening up the New Zealand economy and its industries to competition and ultimately, efficiency. Low expressed satisfaction with the government's decision to implement a fixed programme to remove import licensing, calling it 'one of the most important decisions to be made in New Zealand for many a long day.'<sup>29</sup> He further remarked that introducing more competition to New Zealand industries would enable greater efficiency and productivity, something that he argued was seriously needed in New Zealand. He summed up his view that '(T)he greatest enemies of productivity and therefore of rising living standards are the limitation of competition, inflation and obstruction to change.'<sup>30</sup> It was import licensing that he viewed as a central element in limiting that competition. Low asserted that 'comfortable positions' needed to be disturbed in order for productivity to be stimulated. This was a subtle swipe at those arguing for import licensing to be maintained, and who he clearly saw as benefiting from the government's previous lack of decisiveness about dismantling licensing.<sup>31</sup>

Those who Low was directing his criticism towards were mainly from the manufacturing sector, a group which was equally vocal in arguing for the need for continued protection through import licensing. This was especially evident through the NZMF. In his 1971 New Year message, Federation president L.H.Stewart argued that pressure on the government to 'precipitate action (including dismantling import licensing) which could be harmful to the economy and damaging to the manufacturing industries ... must be resisted.'<sup>32</sup>

Manufacturers exhibited real nervousness for their businesses as the government's plans for a review proceeded. After the government's announcement of the review, outgoing NZMF president H.H.Saunders noted a 'sharp decline in confidence within the sector' due to growing uncertainty of what the government's 'true objectives' were in proceeding with the review. He argued that the NZMF was keen to secure from the government 'a clear-cut undertaking that import licensing would be

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<sup>29</sup> A.R.Low, *Evening Post*, 9 March 1972; quoted in Malcolm McKinnon, *Treasury: The New Zealand Treasury 1840-2000*, Auckland: Auckland University Press, 2003, p.257.

<sup>30</sup> A.R. Low, 'Prerequisites for Higher Productivity,' *Canterbury Economic Bulletin*, No.549, 5/1971.

<sup>31</sup> A.R.Low, *Evening Post*, 9 March 1972 quoted in McKinnon, *Treasury*, p.257.

<sup>32</sup> L.H. Stewart, 'Events Move to a Climax', *New Zealand Manufacturer*, Vol.25, No.4, January, 1971, p.1.

removed only after Government was satisfied that the replacement tariff would provide an equivalent degree of protection as that at present provided.'<sup>33</sup>

Sections of government were also sympathetic to maintaining import licensing for industrial protection, especially within the Department of Industries and Commerce. The department's work tended to be guided by mechanisms to protect industry, and through their close connections with import licensing and trade control measures had established close relationships with New Zealand manufacturing interests and unions. As department secretary over the 1950s and 1960s Sutch had strongly influenced institutional ideas about industrial development which included the acceptance of protectionist measures to achieve such goals. Wooding has argued that the strong advocacy of import licensing waned after Sutch's departure in 1965,<sup>34</sup> but a belief in its usefulness for New Zealand development was still evident in his successors. In 1967, leading Industries and Commerce official Geoff Datson reiterated the department's objectives to 'help industry, but not restrict it'. In his interpretation, restriction essentially meant exposing industry to competition. He considered that the department's role, especially through import licensing, was to 'balance overseas spending with maintaining industry at a good level.'<sup>35</sup> The complex bureaucratic machinery dealing with NDC activity and the NAFTA schedules ensured that such ideas remained an accepted part of the department's functioning.

Treasury recognized the protectionist tendencies of the Department of Industries and Commerce and members sought to influence a change in their thinking in the early 1970s. In an address to Industries and Commerce in November 1970, C.H.Terry (Director of Treasury's External Economic Division) argued that New Zealand should follow international shifts in understanding about industrial development, and recognise that encouraging industrial development for domestic markets was 'no longer appropriate' and in fact 'retard(ed) economic development by promoting high-cost small scale industries which contribute little to exports.' His argument was based on recent work by World Bank advisor Bela Balassa who argued that such

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<sup>33</sup> H.H.Saunders, 'Industrial Growth Represents Remarkable Record', *New Zealand Manufacturer*, Vol.28, No.2, November 1972, p.18-19.

<sup>34</sup> Wooding, 'New Zealand in the International Economy', p.104.

<sup>35</sup> G.H.Datson, 'Department's role in Import Licensing', *New Zealand Manufacturer*, Vol.19, No.3, December 1966/January 1967, p.67.

‘inward-looking’ policies should be replaced by ‘outward-looking’ policies which would expose domestic producers to international competition and become more efficient. It was in this area that Terry argued that Industries and Commerce should direct its energies. He recommended that ‘instead of employing most of its skills to administering controls of one sort or another ... it could develop a comprehensive plan for industrial development and integration of the New Zealand economy with the rest of the world.’<sup>36</sup>

At first Treasury based the argument for ‘outward-looking’ policies on the urgency for New Zealand to ready itself for the loss of the British market on entry to the EEC, but even with the concessions to New Zealand made through the Luxembourg Agreement, they still argued for change. The official line through the Officials’ Committee on Economic and Financial Policy (led by Treasury Secretary Henry Lang) was that the most important of these was ‘the rapid development of internationally competitive industries.’<sup>37</sup>

#### **NAFTA DEVELOPMENTS**

The NAFTA relationship was generally recognised as the primary means by which New Zealand could develop industrial exports. Because of this, the arrangements would also be subject to the debates over protection and liberalization. Manufacturers were wary of any extensions of Schedule A and their influence over this was evident in the slow pace of its expansion. Treasury recognized this in a 1971 paper reviewing NAFTA. It was noted that Schedule A’s expansion had essentially come to a standstill, because it had got to a point where local industries might be affected by any further expansion. Schedule A had in the first few years of the agreement been extended in a ‘comparatively painless’ way for manufacturers because the goods added were not made in New Zealand. Further steps, however, would require the inclusion of goods made in New Zealand, and the report assessed that ‘producers fear their ability to

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<sup>36</sup> C.H.Terry, précis of talk given to Department of Industries and Commerce, ‘The Economic Aspects of Trade Policy’, 4 November 1970, NA file AALR, 873, W3158, 61/1/28, part 2, Treasury: Balance of Payments: New Zealand Cabinet Committee on Overseas Trade Policy, November 1970-October 1971.

<sup>37</sup> H.Lang, ‘Future Directions in New Zealand’s Trade and Economic Policies’, Officials Committee on Economic and Financial Policy, 24 September 1971, NA file AALR, 873, W3158, 61/1/28, part 2, Treasury: Balance of Payments, New Zealand Cabinet Committee on Overseas Trade Policy, November 1970-October 1971.

compete with Australia.<sup>38</sup> This was reiterated in a 1973 review of NAFTA, where it was noted that there was 'some reluctance on the part of industry to move from the limited free trade facilitated by Article 3:7 arrangements to unrestricted free trade provided for in Schedule A.'<sup>39</sup>

These statements support Lincoln College Professor Owen McCarthy's description of NAFTA in 1972 as just 'slowly evolving'.<sup>40</sup> Members of Treasury were obviously frustrated by this. Terry had argued in 1971 that the development of NAFTA was in his view 'excessively timid'.<sup>41</sup> Exchanges with Australian representatives also suggested that they were also frustrated with the slow pace of NAFTA's development. In May 1973 Australian Minister of Overseas Trade J.F.Cairns argued that because the international context for both Australia and New Zealand had changed, it was in New Zealand and Australia's best interests to work together to develop their trade competitiveness. He called for a development of NAFTA that would give both countries 'a better chance of building our economic strength together rather than separately.'<sup>42</sup> In response the NAFTA review that year formulated new 'intermediate' schedule arrangements with the view to countering the 'reluctance of industry to move from the limited free trade under Article 3:7 to full free trade as provided for by Schedule A'.<sup>43</sup> This led to the addition of intermediary schedules B, C and D which would allow partial liberalisation of trade for certain items. Schedule B, for example, included 'industry-wide agreements on a less permanent basis than Schedule A'.<sup>44</sup>

These changes, incremental as they were, alleviated manufacturers' concerns about competition. The inclusion of Schedule B was described by NZMF vice-president A.L.Laidlaw as 'a major step forward' in NAFTA that 'would provide a new opportunity

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<sup>38</sup> Briefing Paper to Cabinet Committee on Overseas Trade Policy, 'Trade Relations with Australia' (undated), NA file AALR, 873, W3158, 61/1/28, part 2, Treasury: Balance of Payments, New Zealand Cabinet Committee on Overseas Trade Policy, November 1970-October 1971.

<sup>39</sup> 'Seventh Annual Ministerial Review of NAFTA: Joint Communique', *NZFA*, March 1973, p.17.

<sup>40</sup> McCarthy, 'New Zealand, The Ten and Future Market Strategies', *Canterbury Economic Bulletin*, No.559, 4/1972.

<sup>41</sup> C.H.Terry, précis of talk given to Department of Industries and Commerce, 'The Economic Aspects of Trade Policy', 4 November 1970, NA file AALR, 873, W3158, 61/1/28, part 2, Treasury: Balance of Payments, New Zealand Cabinet Committee on Overseas Trade Policy, November 1970-October 1971.

<sup>42</sup> J.F.Cairns, 'Australian Industry and NAFTA', *New Zealand Manufacturer*, Vol.28, No.8, May 1973, p.37.

<sup>43</sup> Briefing notes to Cabinet Economic Committee, 'NAFTA Ministerial Meeting 27 November 1973', NA file AALN 847, W4748, 22/22/260, part 2, Industrial Coordination under NAFTA.

<sup>44</sup> 'Report of the Department of Trade and Industry', *AJHR*, G.14, 1976, p.51.

for the expansion of trans-Tasman trade', and clearly in a way manufacturers were more comfortable with.<sup>45</sup> The developments of the schedules and the progress that had been made in October 1973 between manufacturers in New Zealand and Australia led *New Zealand Manufacturer* editor J.W. Donlon to describe NAFTA as having 'come of age'.<sup>46</sup>

### NDC REVIEWS

In the run-up to the 1972 election debates over economic development continued, especially as the economy sputtered in response to international trade changes. This would later be associated with much bigger problems in the international trade economy, but in the meantime was described as a slow rate of international economic growth and some instability in the international monetary system.<sup>47</sup> Political journalists Ian Templeton and Keith Eunson noted that the optimism for progress from the NDC had eroded in the years since:

New Zealand's political and economic history between 1969 and 1972 makes a dismal tale. The high hopes with which the country entered the 1970s – it had been christened the "development decade" – quickly evaporated in one of the worst bouts of inflation, if not the worst, New Zealand has known.<sup>48</sup>

The consensus celebrated as a key feature of the NDC was no longer so apparent. This was especially evident at the 1972 follow-up National Development Conference and the arguments that arose there over interpreting Recommendation 209A. Manufacturing interests asserted their discomfort with policy changes since 1969 and pressed for an addendum to the resolution on revised targets stating that 'in the light of changed conditions they no longer see recommendation 209A as appropriate to maintain a level of confidence in the manufacturing sector which will enable the sector to fulfil the targets in terms of import substitution and export earnings.' When this was passed by a narrow margin at the Conference, the National Development

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<sup>45</sup> 'NAFTA – Schedule B Opportunities', *New Zealand Manufacturer*, Vol.29, No.3, December 1973, p.35.

<sup>46</sup> J.W. Donlon, 'NAFTA Comes of Age', *New Zealand Manufacturer*, Vol.29, No.1, October 1973, pp.25-26.

<sup>47</sup> W.E. Rowling, 'Financial Statement', *AJHR*, B.6, 1973, pp.5-6.

<sup>48</sup> Ian Templeton and Keith Eunson, *In the Balance: Election '72*, Dunedin: John McIndoe, 1972, p.9.

Council established a special committee to conduct a review of recommendation 209A.<sup>49</sup>

The committee's brief was to 'review National Development Conference recommendation 209A and report its findings to the National Development Council urgently.' It took submissions from a range of organisations including the Chambers of Commerce, Federated Farmers of New Zealand, Manufacturing Development Council, New Zealand Bureau of Importers and Exporters, NZMF, and New Zealand Retailers' Federation. A variety of views on industrial protection policy were evident in the submissions. The Retailers' Federation, for example, criticised the government for being 'unduly responsive to claims for increased protection', and suggested streamlining the Tariff and Development Board's functions. The Manufacturers' Federation, on the other hand, argued that over the previous two years 'there had been a significant loss of confidence by manufacturers ... over the Government's policy for protection' particularly because of the 'absence of a comprehensive policy ... for the development of industry and to the failure of the Government to develop detailed plans for and attitudes regarding the implementation of recommendation 209A.'<sup>50</sup>

The compromises that had been made in confirming Recommendation 209A's original wording made it so broad that it was open to interpretation rather than allowing any clearly understood policy direction. This was evident in the review committee's conclusion that the principles apparent in Recommendation 209A were generally agreeable to all parties. They argued, however, that the means of its implementation needed to be agreed on in a more specific way, and in a way that would remove ambiguity from industrial protection policies. They recommended that a structure be created that enabled an explicit programme for change. It was suggested that the Tariff and Development Board be charged with establishing appropriate benchmark criteria that could be used to determine what levels of protection were most appropriate for individual industries 'which in the board's opinion will best aid each

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<sup>49</sup> *Report on Industrial Protection in New Zealand: Review of Recommendation 209A*, Wellington: National Development Council, October 1972, p.9.

<sup>50</sup> *Report on Industrial Protection*, pp.9,22-24.

industry to achieve a desirable rate of growth' to reach the general objectives of the recommendation.<sup>51</sup>

The National Government in the meantime sought to progress its policy to dismantle import licensing. It acted on a more general interim statement the review committee had made in June that year which had recommended that the government set down a 'broad indicative timetable' for reviewing the products affected in import licensing and set down a provisional period for the phasing out of import licensing. In the 1972 budget this was followed up, with Muldoon announcing that in most cases where industries were to be exempted from import licensing, provision would be made for a phase-out period of up to 3 years.<sup>52</sup>

The outcomes of the review did little to assuage the manufacturers' concerns. In October that year, H.E.J.Martin expressed concern at the 'government's failure to formulate and pursue a comprehensive policy for manufacturing in New Zealand.'<sup>53</sup> The following month outgoing NZMF president H.Saunders reiterated these concerns. It was clear the Federation was feeling ignored in the government's policy development because it had not been able to secure 'an acceptable interpretation of what Government meant when it referred to the provision of "adequate tariffs" or "adequate protection".'<sup>54</sup> National sought to allay the manufacturers' concerns by reasoning that 'as the import licensing review proceeds, manufacturers will lose their uncertainties about licences and levels of tariff',<sup>55</sup> but the manufacturers were not easily assured. Their resistance to National's policies were later considered by National members to have contributed to costing them the general election that month.<sup>56</sup>

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<sup>51</sup> *Report on Industrial Protection*, pp.37-39.

<sup>52</sup> *Report on Industrial Protection*, pp.15,42.

<sup>53</sup> H.E.J.Martin, 'Call for Comprehensive Industrial Policy', *New Zealand Manufacturer*, Vol.28, No.1, October 1972, p.59.

<sup>54</sup> H.H.Saunders, 'Industrial Growth Represents Remarkable Record', *New Zealand Manufacturer*, Vol.28, No.2, November 1972, pp.18-19.

<sup>55</sup> Mr Gair (Minister of Customs), 'Licensing Uncertainties Will be Lost', *New Zealand Manufacturer*, Vol.27, No.2, November 1971, p.20.

<sup>56</sup> McKinnon, *Treasury*, p.260.

### THIRD LABOUR GOVERNMENT

The election of the Third Labour Government led by Norman Kirk in 1972 implied a reversal of National's policies to dismantle import licensing. They had promised as much in their election manifesto, stating that:

Where existing industrial units have been, or are being, adversely affected as a result of import relaxation, protection will be reapplied to ensure full utilisation of both industrial and labour capacity.<sup>57</sup>

This was responded to positively by the manufacturing sector, who expressed general satisfaction with the change of government. An election review article in the *New Zealand Manufacturer* noted that 'cautious optimism' now prevailed because Labour's industrial programme represented a 'progressive approach to what manufacturers regarded as the major issue of economic policy – the industrialisation of New Zealand'.<sup>58</sup> NZMF leader Fred Turnovsky expressed the hope that confidence would now return to the sector, especially because of Labour's declared commitment to 'continue with import licensing as the main measure of protection' and to a regional development programme.<sup>59</sup> After a meeting between the Federation and the new government in February, an article entitled 'Fresh Air Wafts Through Corridors' celebrated the agreements in principle between the two parties on the importance of the manufacturing sector as 'key to the improvement of the country's social as well as its economic needs'. The Federation's submission to the Labour ministers 'were, broadly speaking, an endorsement of the Government's election manifesto' and the report noted several areas of agreement between the two parties on issues relating to industrial policies, including the removal of 'the threat of the abandonment of import control' from the Tariff and Development Board's review agenda.<sup>60</sup>

The Labour Government sought to create strategies for the development of the New Zealand economy and industry in a way that fitted more with its philosophical roots than National's. The National Government had indicated that it preferred a more 'hands off' approach to economic planning and management, with Muldoon asserting

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<sup>57</sup> *1972 Election Manifesto*, Wellington: New Zealand Labour Party, 1972, p.25.

<sup>58</sup> Trade Cycle, 'Labour's Landslide Victory: Cautious Optimism Prevails', *New Zealand Manufacturer*, Vol.28, No.3, December 1972, p.10

<sup>59</sup> Trade Cycle, 'Labour's Landslide Victory: Cautious Optimism Prevails', p.11.

<sup>60</sup> 'Fresh Air Wafts Through Corridors', *New Zealand Manufacturer*, Vol.28, No.5, February 1973, pp.20-31.

in 1971 that market forces, rather than government, should determine the allocation of resources.<sup>61</sup> This was reflected in the NDC structures where the sectoral councils operated at arms-length from the government. Labour, on the other hand, asserted that government should have a central role in economic planning, and a number of Labour ministers argued this over its first year back in power. Minister of Overseas Trade J.A.Walding, for example, argued that the government's job was not to 'simply preside over present threats' but to 'foster changes within the economy and society so that the life of each individual is enriched, and to ensure that this improvement was soundly and securely based.'<sup>62</sup>

Labour demonstrated a lack of faith in the planning structures that National had developed, and the National Development Council's activities were effectively wound down over 1973.<sup>63</sup> This was first indicated in the 1973 Budget where Finance Minister Bill Rowling announced that the government was 'reviewing' the NDC planning structure. He explained that this was because Labour had 'always believed in the concept of indicative planning', but that in their view the National Government 'did not provide the leadership required in the areas of long term planning', nor did they think that the National Development Council could 'provide a substitute for Government action in this field.'<sup>64</sup>

Responsibility for economic planning was shifted to the Cabinet Policy and Priorities Committee. This brought the government back into the central role in planning. In his Financial Statement in 1974, Rowling announced that the reorganisation of New Zealand's planning structures fitted with 'the Government's conviction that, if the planning process is to result in effective action, the Government itself must provide leadership.'<sup>65</sup>

Gould argued that this showed that under Labour 'for the time being at least, the flirtation with participatory "indicative planning" was over.'<sup>66</sup> This was at least true

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<sup>61</sup> R.D.Muldoon, 'Economic Review', *AJHR*, B.5, 1969, p.29.

<sup>62</sup> J.A.Walding, *Planning for New Zealand's Trading Future*, Palmerston North: New Zealand Geographical Society, 1973, p.1.

<sup>63</sup> Hawke, *The Making of New Zealand*, 1985, p.333; McKinnon, *Treasury*, p.238.

<sup>64</sup> W.E.Rowling, 'Financial Statement', *AJHR*, B.6, 1973, p.2.

<sup>65</sup> W.E.Rowling, 'Financial Statement', *AJHR*, B.6, 1974, p.4.

<sup>66</sup> Gould, *The Rake's Progress?*, p.137.

for the dismantling of the NDC structures, but Labour would still have some commitment to planning. Walding acknowledged that indicative planning could be valuable, but 'only to the extent that positive action results from any recommendations.'<sup>67</sup> To Labour's thinking, this had not been the case. They put in place measures to make the sectoral councils more closely accountable to government. In 1974 they became obliged to report directly to the appropriate government ministers.<sup>68</sup> The Minister of Trade and Industry, for example, was appointed as the chairman of the Manufacturing Development Council in 1974. A shift in the council's role in planning was also made. The emphasis in its responsibility became to 'keep the Minister informed on commercial trends', especially with regard to monetary and fiscal policies.<sup>69</sup> Rather than leading planning, it was now to be more of the eyes and ears of the government informing their planning strategies.

Despite Labour's drive to put government more centrally in economic planning and industrial development, its strategies were not wholly reverting to the approaches of previous Labour governments. Rowling's biographer John Henderson noted that he was keen to develop industry, but in a more strategic way than the previous Labour administration, which he considered 'made some mistakes in industrial development because it was obsessed with the idea that all industry was good industry.'<sup>70</sup> Rowling's ideas reflected the shift in attitudes to industrial development that had developed over the 1960s, seeing manufacturing activities less as vehicles for import substitution and more for export development. He was to place most emphasis on encouraging export-oriented and regionally-based industries.<sup>71</sup>

Labour emphasised the importance that it expected the manufacturing sector to play in New Zealand's economic development because it was recognised as 'the area where the greatest gains in growth and productivity can now be realised relatively quickly.'<sup>72</sup> Some bureaucratic changes were made to work towards these objectives, including the passing of the Trade and Industry Amendment Act. This changed the

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<sup>67</sup> Walding, *Planning for New Zealand's Trading Future*, p.14.

<sup>68</sup> W.E.Rowling, 'Financial Statement', *AJHR*, B.6, 1974, p.4.

<sup>69</sup> 'Report of the Department of Industries and Commerce', *AJHR*, G.14, 1975, p.23.

<sup>70</sup> John Henderson, *Rowling: The Man and the Myth*, Auckland: Australia and New Zealand Book Co., 1981, p.89.

<sup>71</sup> Henderson, *Rowling*, p.89.

<sup>72</sup> W.E.Rowling, 'Financial Statement', *AJHR*, B.6, 1973, pp.14-15.

name of the Department of Industries and Commerce to that of the Department of Trade and Industry, a move that Trade and Industry Minister Warren Freer explained as better reflecting 'the department's current role in overseas trade and its wider responsibilities in industry and industrial development.'<sup>73</sup> That import licensing would be part of achieving those objectives was evident in the transfer of import licensing administration from the Customs Department to Trade and Industry. Labour also sought to develop manufacturing exports through 'the selective use of financial incentives and assistance', including extensions to the existing export incentive scheme.<sup>74</sup>

Labour's commitment to continue import licensing was evident in Freer's announcement in May 1973 of a 'redefinition' of the Tariff and Development Board's role to focus on making recommendations to government on the restructuring of the tariff. He said:

Manufacturers will no longer be in the unenviable position – before hearings go up to the board – of being under the threat that import licensing will be removed from their products.<sup>75</sup>

He argued, nevertheless, that protection should be 'discriminate', and reiterated Rowling's views in stating that protection would be available to manufacturers, but 'not at the cost of reduced productivity.'<sup>76</sup>

Treasury was generally dissatisfied with this change in policy direction. Lang criticised Labour's efforts to allay manufacturers' fears, arguing in 1973 that '(W)e should be consciously aiming to create an open, adaptable economy, based on our natural advantages and talents', and not protecting industries which in his view had inefficient structures.<sup>77</sup> To Lang's mind, manufacturers and trade unions' fears about opening the economy were 'exaggerated' and further 'under-estimate(d) the basic strength of large sections of our industry.'<sup>78</sup>

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<sup>73</sup> W.Freer, Minister Trade and Industry to Chairman, Cabinet Committee on Legislation and Parliamentary Questions, February 1973, NA File AAFD, 811, W3738/735, 44/14/1 pt.1, Government Departments: Trade and Industry: General, 1961-1977.

<sup>74</sup> W.E.Rowling, 'Financial Statement', *AJHR*, B.6, 1973, pp.15-16.

<sup>75</sup> 'T and D Board's Role Defined', *New Zealand Manufacturer*, Vol.28, No.8, May 1973, p.23.

<sup>76</sup> 'Stability Needed Says Freer', *New Zealand Manufacturer*, Vol.28, No.10, July 1973, p.56.

<sup>77</sup> Henry Lang, 'The Relationship Between Economic and Foreign Policy', *New Zealand Foreign Affairs Review*, 26 August 1973, p.20.

<sup>78</sup> Lang, 'The Relationship Between Economic and Foreign Policy', p.20.

Against this, manufacturers argued that industrial development should be evaluated on more than simple economic factors. Turnovsky argued that as well as measuring performance in terms of resource use, productivity, profits and price competitiveness, the contribution of an industry to the country's social objectives should also be taken into account. He further argued that industries should be viewed in a way that 'widen(s) our horizons beyond the mere workings of the price mechanism, important as they are, to take into account the social benefits and costs of industry', and he argued that a 'community impact report' should be included in the review of any industry's needs.<sup>79</sup>

While Labour sought to realign the domestic aspects of trade policy, Walding aimed in his role as Minister of Overseas Trade to make better linkages between his brief in negotiating trade access internationally and the activities of Trade and Industry. In 1973 an additional deputy secretary was appointed to the department to lead the Trade Policy and Export Services divisions, and would report directly to Walding. This move was designed to bridge the information gap that Walding considered existed between him and the current department structure.<sup>80</sup> It also signalled the more conscious understanding of the importance of integrated strategies between the foreign and domestic factors in New Zealand's trade policy, and between the Trade Commissioner Service and Foreign Affairs.

Labour developed a more strategically 'Pacific' foreign policy which also included trade considerations. Kirk argued in 1973 for a more independent, Pacific-focused foreign policy 'based on moral principles and active participation in international affairs'.<sup>81</sup> Again Lang responded that this would only be possible if accompanied by a more expansive trade policy. In his view:

Our pattern of trade, particularly our export trade, clearly must have an impact on the limits to which we can pursue an independent foreign policy based on non-economic considerations.<sup>82</sup>

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<sup>79</sup> F.Turnovsky, *Industrial Development for Social and Economic Advancement*, Wellington: New Zealand Manufacturers' Federation, 1973, pp.16-17.

<sup>80</sup> J.A.Walding, Memorandum for Cabinet, 5 July 1973, NA file AAFD, 811, W3738/735, 44/14/1 pt.1, Government Departments: Trade and Industry: General, 1961-1977.

<sup>81</sup> Norman Kirk, 'Review of Foreign Policy 1973', *New Zealand Foreign Affairs Review*, December 1973, p.29.

<sup>82</sup> Lang, 'The Relationship Between Economic and Foreign Policy', p.19.

Trade policy was clearly becoming more closely linked in perceptions to all aspects of New Zealand's political – as well as economic - capability.

### **CHANGES IN THE INTERNATIONAL CONTEXT**

All of these changes were occurring in the context of the official entry of Britain into the EEC on 1 January 1973, which Owen McCarthy at the time argued was just one part of a general sea-change in the international economic environment which New Zealand must learn to deal with. McCarthy noted that the previously strong Commonwealth ties had ensured New Zealand had been 'sheltered from the hurly burly to some extent.' In future, New Zealand would have to condition its strategies to the new patterns of international trade, with the recognition that 'trade is economics plus politics.'<sup>83</sup> The interaction of these factors would make trade policy making even more complex as the international context presented even more significant challenges to the New Zealand economy.

The 'triple whammy' to the New Zealand economy that Brown has identified was delivered over this time.<sup>84</sup> The entry of Britain into the EEC was the first. Although New Zealand had secured continued access to the British market for the meantime, it was an issue that would consume much of the New Zealand government and industry representatives' time and resources over the following decades, as they sought to retain access to the market for over the following decades. Two other external blows had more direct and sudden impacts on the New Zealand economy, and would severely threaten diversification efforts. These were the commodity price slump of 1973 and the oil shocks of 1973 and 1979.

Brown described the commodity price slump as signalling 'the end of a period of relatively good export prices which, with some ups and downs, had lasted from the end of World War Two in 1945.'<sup>85</sup> New Zealand had, as we have seen, been affected by other price drops over the previous decades, and they dropped again in the 1974/75 year, especially for pastoral and dairy products after significant rises in price over the early 1970s. In terms of long-range trends, however, the price drops would

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<sup>83</sup> McCarthy, 'New Zealand, The Ten and Future Market Strategies'.

<sup>84</sup> See page 205.

<sup>85</sup> Brown, 'New Zealand in the World Economy', p.21.

not have been overly extraordinary if it had not been for the dramatic import price rises that accompanied them.<sup>86</sup> The root of these was the substantial increases in oil prices from 1973.

The first oil shock was a worldwide event. New Zealand was affected in the same way as many commodity-producing countries when the international price of oil more than tripled from 1973 to 1974, with the consequence of 'raising import costs and lowering real incomes in the industrialised and oil-importing developing countries alike.'<sup>87</sup> New Zealand's imports of petroleum products doubled in price in 1974 and quadrupled by 1976.<sup>88</sup> The first rise was noted in the 1974 Budget by Rowling as causing a sharp deterioration in New Zealand's terms of trade, effecting a reduction of two to three percent of the country's real income.<sup>89</sup> Rapidly rising fuel costs drove up total import costs and squeezed other imports over the following years. Imports of petroleum and petroleum products comprised six to seven percent of total imports through the 1960s and early 1970s, but in 1975 they rose to 12.7 percent, the following year to 14 percent, and by 1980 to 20 percent.<sup>90</sup>

Prices for the more general import items New Zealand sought also increased as a result of the oil shock, but international primary product prices did not. New Zealand was therefore one of the most vulnerable of countries to the effects of the oil shocks because its terms of trade suffered dramatically. In 1975 Bob Tizard, now Finance Minister, noted that the rise in prices of New Zealand's major imports led to large balance of payments deficits, rising domestic inflation and significantly less real income and purchasing power for New Zealanders.<sup>91</sup> Graph 4.1 illustrates how the dynamics between export revenue and import costs changed dramatically due to these international price changes. Whereas since the 1930s total import costs had tended to be kept lower than export revenue, from 1974 to 1977 the reverse occurred, causing significant balance of payments deficits.

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<sup>86</sup> Pastoral and dairy price indices rose from 1000 in 1971 to 1729 in 1974, and dropped to 1471 in 1975. Based on June years, and with the base year 1971; Export Prices Index, *NZOYB*, 1982, p.638.

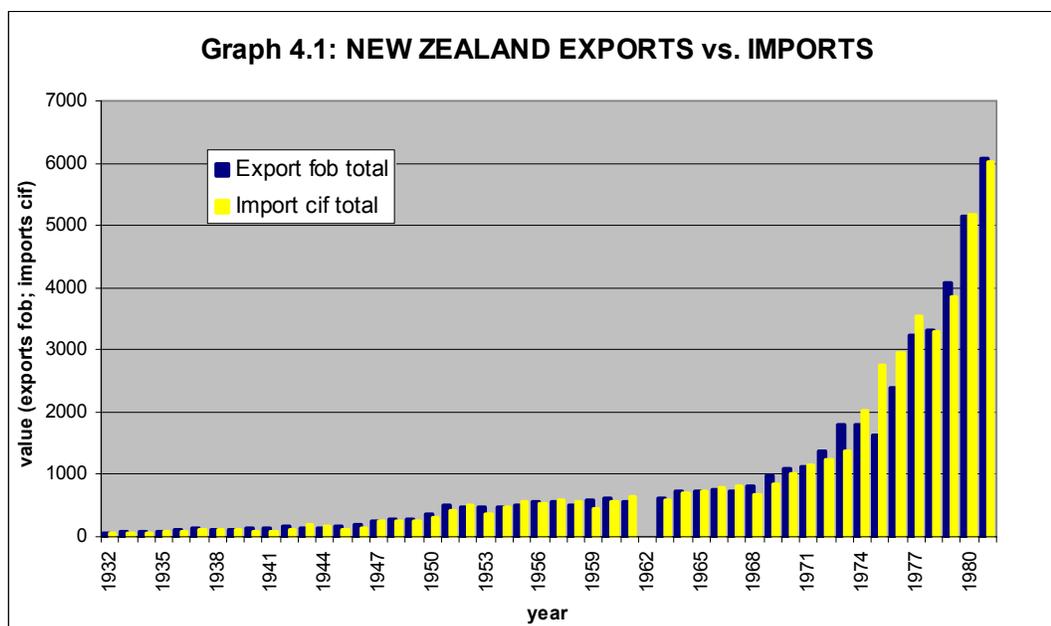
<sup>87</sup> Stanley W.Black, *Learning from Adversity: Policy Responses to the Two Oil Shocks*, Princeton: Princeton University, 1985, p.5.

<sup>88</sup> The Import Prices Index recorded petroleum and products as 1052 in 1973, 1834 in 1974, 3239 in 1975 and 4337 in 1976. *NZOYB*, 1978, p.617.

<sup>89</sup> W.E.Rowling, 'Financial Statement', *AJHR*, B.6, 1974, p.1.

<sup>90</sup> Calculated from import figures, *NZOYB*, 1976, 1978, 1982.

<sup>91</sup> R.J.Tizard, 'Financial Statement', *AJHR*, B.6, 1975, p.2.



Source: Compiled from *NZOYB*, 1964, p.1117; *NZOYB*, 1973, p.597; *NZOYB*, 1984, p.969.

Note: Full year statistics not available 1962.

## NEW ZEALAND RESPONSES

Once again, external developments had highlighted the susceptibility of the New Zealand economy to forces outside of its control. Rowling argued that New Zealand could do little but respond by adapting to those changes 'which are beyond our control and which vitally affect New Zealand interests.'<sup>92</sup> The Labour Government's initial response was to borrow overseas to try to ameliorate the sudden shock on the New Zealand economy. Import licensing was also again re-tightened as a tool to balance trade costs with revenue. This met with approval from the NZMF. After the release of a much larger import licensing schedule in 1974, the *New Zealand Manufacturer* commented:

If any proof were needed that the Government has learned a lot about New Zealand industries and commerce in the last eighteen months, it is showing in the bulky 277-page Import Licensing Schedule produced by Minister of Trade and Industries (Mr Freer) for the 1974-75 season.<sup>93</sup>

It added that manufacturers and importers generally had greeted the schedule with a sigh of relief, even if such measures could not guarantee any hiatus from the worries

<sup>92</sup> W.E.Rowling, 'Financial Statement', *AJHR*, B.6, 1974, p.1.

<sup>93</sup> Cedric Mentiplay, 'The Import Licensing Schedule: Proof and Prediction', *New Zealand Manufacturer*, Vol.29, No.8, May 1974, p.15.

of the current financial crisis. What it could do at least was to provide some hope that economic conditions could 'stay put' rather than deteriorate.<sup>94</sup>

Another short-term means by which Labour sought to cushion the New Zealand economy was through devaluation of the New Zealand currency. In September 1974 the government revalued and then devalued the New Zealand dollar.<sup>95</sup> Rowling announced that the decision was made because the Australian Government had devalued their dollar, which the New Zealand dollar had parity with since 1967. Devaluation would also prevent speculation on New Zealand currency. In the short-term, Labour was also motivated to cushion the effects of the balance of payments deficit. They had calculated that the move would give a \$120 million boost to farm incomes.<sup>96</sup> A further devaluation in August 1975 sought to achieve the same short-term effect.<sup>97</sup>

Longer term strategies were also developed by Labour in response to the oil crisis. Rowling argued that they that would have to include moving 'more resources into exporting to pay for the higher cost of imports.'<sup>98</sup> In 1975 Tizard reiterated that this was a key element in Labour's long-term economic objectives, and again the focus would turn to developing industry for exporting. Labour's approach in this regard was to continue extensions to the export incentive scheme that had begun in 1973. Extensions to the scheme over the following two years were based on the emphasis on the 'development and expansion of new markets.'<sup>99</sup>

The Labour Government also followed new avenues of planning for industrial development through the establishment of the Industrial Development Commission (IDC) in 1975. This replaced the Tariff and Development Board, a change Labour said was designed to place a new emphasis on 'examining the total development needs of industry rather than import protection requirements alone.'<sup>100</sup> Freer summed up the broader-ranging objectives:

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<sup>94</sup> Mentiplay, 'The Import Licensing Schedule', p.15.

<sup>95</sup> Singleton et.al., *Innovation and Independence*, p.52.

<sup>96</sup> W.E.Rowling, *NZPD*, Vol.394, 25 September 1974, p.4530.

<sup>97</sup> Singleton et.al., *Innovation and Independence*, p.52; Gould, *The Rake's Progress*, p.143.

<sup>98</sup> W.E.Rowling, 'Financial Statement', *AJHR*, B.6, 1974, p.2.

<sup>99</sup> R.J.Tizard, 'Financial Statement', *AJHR*, B.6, 1975, p.9.

<sup>100</sup> 'Report of the Department of Trade and Industry', *AJHR*, G.14, 1976, p.14.

...to ensure that manufacturers' interests are given not only adequate and proper protection but also the environment and the assistance necessary to enable them to expand, to improve their efficiency, and to move rapidly into world export markets.<sup>101</sup>

The IDC would undertake studies of individual industries in New Zealand to evaluate their 'performance and prospects', essentially in terms of how much they would need government assistance to develop their competitiveness. Alongside this, Tizard acknowledged an acceptance that the New Zealand economy would need to undergo 'structural change' to cope with the changing world, one which was 'increasingly characterised by rapid changes in demand patterns, in technology, and in relative costs.'<sup>102</sup> Tizard stated that Labour's intention was to support industries in this:

Adaptation to new conditions is necessary for progress, but such change has economic and social costs. Accordingly, it is now widely accepted that Government should actively assist industry in coping with structural change. The required changes will necessarily take place gradually and will be carried out in an environment of adequate protection for the adapting industries.<sup>103</sup>

Complete liberalization was clearly not yet part of the idea of 'structural change'. Labour intended to use the existing economic framework to cushion the effects of change on industries.

While New Zealand's domestic responses to the more uncertain external context were taking shape, its diplomatic efforts sought to protect and extend New Zealand's interests through new political relationships. These were especially focused on pursuing export interests, both by pursuing new trade relationships and markets, and by campaigning against agricultural protectionism which continued to limit new market opportunities for New Zealand. Broader multilateral engagement was a means towards this.

One step involved New Zealand joining the OECD in 1973. This was a move presented as providing opportunities for cooperation with other countries which had become increasingly diplomatically important to New Zealand, especially with the accession of Britain to the EEC. In announcing New Zealand's membership, the *New Zealand*

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<sup>101</sup> Freer, *A Lifetime in Politics*, p.215.

<sup>102</sup> R.J.Tizard, 'Financial Statement', *AJHR*, B.6, 1975, pp.7-8.

<sup>103</sup> R.J.Tizard, 'Financial Statement', *AJHR*, B.6, 1975, p.8.

*Foreign Affairs Review* noted that '(P)articipation in the OECD should contribute to the achievement of New Zealand's economic and social objectives, both domestically and internationally', especially in tackling international trade problems. Participation in the Agriculture Committee was particularly of interest. This was not so much related to direct trade negotiations – although some did take place within the forum in later years – but as a means to establish support against international agricultural protectionism and general financial and monetary consultations.<sup>104</sup> As the international economic situation turned for the worse in the following years, the forum was further viewed as useful for consultation and information gathering about the constantly-changing context.<sup>105</sup>

GATT also remained an important avenue for pursuing trading opportunities and to campaign against agricultural protectionism. The GATT Tokyo Round, which commenced in 1973, was once again anticipated as a forum by which this might be addressed. New Zealand sought to push for these through a range of diplomatic talks, including regular bilateral consultations with the USA which commenced in 1970.<sup>106</sup> Robert Muldoon also took opportunities to argue for this to be included in GATT through the OECD forum.<sup>107</sup> There was little movement in the area of agricultural trade, however, and in fact the early years of the whole Tokyo Round were overshadowed by concerns about the international economic downturn.<sup>108</sup> In the final report on the Tokyo Round, the New Zealand assessment was that although there were some marginal concessions that would be received on agricultural products, it was still a 'major disappointment' that the negotiations had 'failed to grapple with the basic problems of agricultural protectionism and access' and

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<sup>104</sup> In May 1973 the OECD member countries were Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Japan, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, United Kingdom, USA. 'New Zealand Membership of the Organisation for Economic Cooperation and Development', *New Zealand Foreign Affairs Review*, May 1973, pp. 16-22.

<sup>105</sup> See, for example, 'Report of the Ministry of Foreign Affairs for the year ended 31 March 1976', *AJHR*, A.1., 1976, p.31.

<sup>106</sup> Cabinet Committee on Overseas Trade Policy, Report on United States/New Zealand Economic Consultations (2-3 April 1970), 9 April 1970, NA file AAFD, 811, W3738 Box 1085 Ref 126/14/1, Foreign Trade: USA: General, 1961-1972.

<sup>107</sup> R.D.Muldoon, Financial Statement, *AJHR*, B.6, 1977, p.2.

<sup>108</sup> 'Report of the Ministry of Foreign Affairs', *AJHR*, A.1., 1976, p.31.

essentially 'left relatively untouched the differences in rules and attitudes which exist between trade in industrial and agricultural products.'<sup>109</sup>

### **EXPORT DIVERSIFICATION**

The prevalence of agricultural protectionism did not completely hamper New Zealand's efforts to find new markets for its agricultural products. By 1972 New Zealand had managed to reduce its dependence on the British market so that just 27 percent of total New Zealand exports were directed there.<sup>110</sup> That market did, however, remain of crucial importance to traditional exports; 80 percent of frozen lamb and 73 percent of New Zealand's butter and cheese exports were still sent to Britain.<sup>111</sup>

A mixture of new markets had been found for dairy products, especially dried milk and casein. These included Japan, the US, the Philippines, Jamaica and South Africa. Japan had also become an important buyer of mutton, with 67 percent of frozen mutton exports being directed there.<sup>112</sup> These 'non-traditional' markets for New Zealand's agricultural goods were developed through the widening of diplomatic and trade promotion activity. Ted Woodfield, an officer in Trade and Industry at the time, noted that there were two considerations that guided New Zealand's search for new markets; that they had a taste for New Zealand's meat and dairy produce, and 'an ability to pay.'<sup>113</sup> Countries which were considered to be doing particularly well in the current international economic environment were focused on as potential trade partners.

China was one market which met this criteria and the New Zealand Government sought to tap into it by developing bilateral political relations. Some relations had been established in the 1950s, but Cold War politics put a formal relationship out of the question. Over the early 1970s, however, Western attitudes to China softened as it was seen to favour pursuing relations within the United Nations over its bilateral links with the Soviet Union. The Ministry of Foreign Affairs noted in 1971 that the US

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<sup>109</sup> 'White Paper on the GATT Multilateral Trade Negotiations', *AJHR*, G.14A, 1979, p.9.

<sup>110</sup> *NZOYB*, 1975, p.609.

<sup>111</sup> By value; calculated from export statistics, *NZOYB*, 1975, pp.615-629.

<sup>112</sup> Calculated from export statistics, *NZOYB*, 1975, pp.620-625.

<sup>113</sup> Ted Woodfield, *Against the Odds: Negotiating for New Zealand's Future*, Wellington: Dunmore Publishing, 2008, p.168.

had relaxed trade restrictions against China, and that Australia was making moves to 'normalise' relations with it too.<sup>114</sup> Holyoake wrote an article that year expressing the wish of the New Zealand Government to develop better relations with China, especially in terms of extending trade relations.<sup>115</sup>

Diplomatic relations were established between New Zealand and China in December 1972, and the Third Labour Government continued to develop the relationship. A New Zealand trade delegation headed by Walding visited there in March 1973. A New Zealand embassy was established in Beijing in 1973,<sup>116</sup> and a Chinese trade delegation visited New Zealand on a 'goodwill visit'. The *Foreign Affairs Review* quoted China's Trade Minister Pai Hsiang-Kuo as saying that this formal establishment of diplomatic relations had 'created favourable conditions for the further development of economic and trade relations' between the two countries.<sup>117</sup> Agreement was also made for the establishment of a joint trade committee between the two countries to conduct annual consultations.<sup>118</sup>

These efforts did not immediately provide a great surge in export revenue for New Zealand from China, but consistent efforts were made over the following years to develop trade relations there. New Zealand representatives continued to express their view that substantial opportunities were there to be tapped into. Trade grew between the two countries over the 1970s so that by 1980 the Department of Trade and Industry reported that exports to China had 'expanded rapidly and diversified' in recent years. Wool, tallow and forest products were the main export items.<sup>119</sup>

The Middle East was another region which obviously fitted the criteria Woodfield outlined. As that region emerged as an extremely wealthy market with the dramatic rises in oil prices through the 1970s, New Zealand representatives sought ways to develop export opportunities there. Relations with Iran were stepped up in 1974 with the visit of the Shah and Shahbanou of Iran being described as a 'major event'.

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<sup>114</sup> *New Zealand Foreign Affairs Review*, April 1971, pp.35-37.

<sup>115</sup> Sir Keith Holyoake, *New Zealand and China*, Wellington: Ministry of Foreign Affairs, 1971.

<sup>116</sup> Ministry of Foreign Affairs and Trade, 'Government Briefing', November 2008.

<sup>117</sup> Visit of the Minister of Foreign Trade of the People's Republic of China', *New Zealand Foreign Affairs Review*, July 1973, pp. 3-6.

<sup>118</sup> 'Report of the Department of Trade and Industry', *AJHR*, G.14, 1975, p.48.

<sup>119</sup> 'Report of the Department of Trade and Industry', *AJHR*, G.14, 1980, p.40.

During the visit it was announced that because of the 'fast-developing' relations between New Zealand and Iran, an embassy would be established in Tehran the following year.<sup>120</sup> A trade agreement was also signed between the two countries in 1974, in which it was agreed to 'take all appropriate measures to facilitate, strengthen and diversify trade between the two countries.'<sup>121</sup> Over the rest of the decade, Iran and other Middle Eastern countries such as Iraq and Saudi Arabia grew to be significant markets for New Zealand's dairy and sheepmeat exports.<sup>122</sup>

New Zealand also developed trade relations with the Soviet Union from the 1960s which became more significant in the 1970s. Tony Wilson has noted that the New Zealand government had been able to 'keep commerce separate from politics' to develop this relationship in the Cold War environment.<sup>123</sup> This was made easier by the context of détente over the 1970s. Reciprocal visits between the Soviet Foreign Trade Minister Patolichev and Walding in 1973 resulted in a reconfirmation of the bilateral trade agreement that had been signed in 1963, and a commitment to hold annual consultation through a joint New Zealand-Soviet Trade Commission.<sup>124</sup> A New Zealand trade post was established in Moscow in 1974. New Zealand exports to the Soviet Union grew over the 1970s, especially in mutton, wool, hides and skins, but it was not straightforward.<sup>125</sup> Wilson reflected that it was a relationship that required a lot of political nurturing and an 'ongoing physical (political) presence in Moscow' so that New Zealand's interests would be taken into account in the development of the Soviet Government's Five Year Plans for trade.<sup>126</sup>

Over the mid 1970s New Zealand also developed trade relations with a range of countries in Asia and Latin America. Trade posts were established, for example, in Indonesia in 1971 and in Peru and Chile in 1972. In 1974, New Zealand's Washington ambassador was also accredited to Mexico. Diplomatic skills were tested in the pursuit of these new markets. In developing new bilateral relationships with countries

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<sup>120</sup> 'Report of the Ministry of Foreign Affairs', *AJHR*, A.1, 1975, p.22.

<sup>121</sup> 'Report of the Department of Trade and Industry', *AJHR*, G.14, 1975, p.48.

<sup>122</sup> *NZOYB*, 1982, p.575.

<sup>123</sup> A.C.Wilson, *New Zealand and the Soviet Union, 1950-1991: A Brittle Relationship*, Wellington: Victoria University Press, 2004, p.55.

<sup>124</sup> Wilson, *New Zealand and the Soviet Union*, p.70.

<sup>125</sup> 'Report of the Department of Trade and Industry', *AJHR*, G.14, 1975, p.32.

<sup>126</sup> Wilson, *New Zealand and the Soviet Union*, p.72.

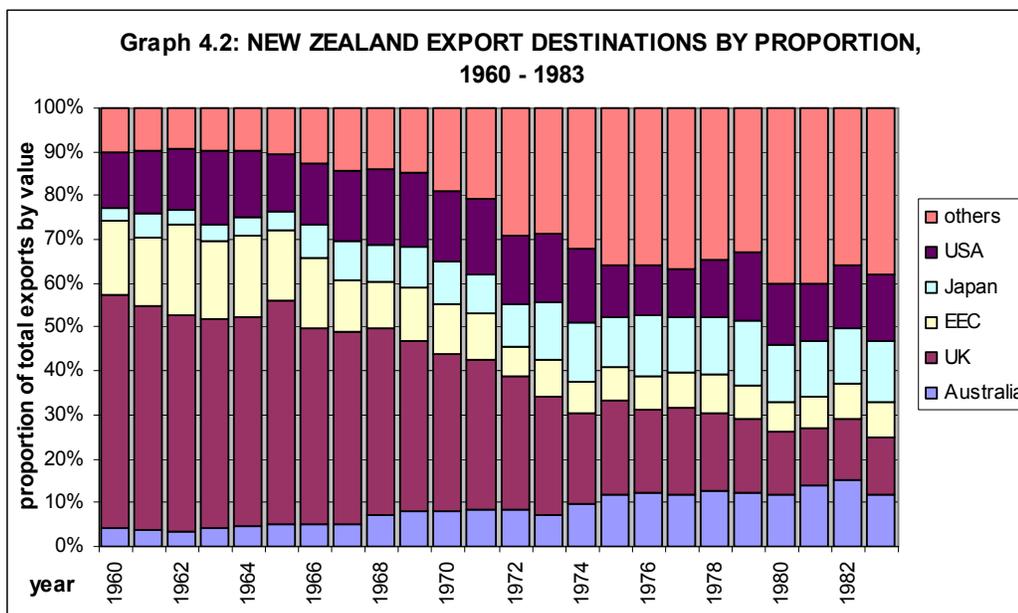
such as these, New Zealand representatives were often taken out of their comfort zones and were challenged to balance economic objectives with traditional political standpoints. There were, however, a number of promising results, especially evident through the number of bilateral trade agreements that were signed over the mid 1970s. On the whole, the diversification of diplomatic relations and the number of new markets New Zealand was selling to contributed to a general perception that New Zealand had been quite successful in diversifying its trade activities.

This perception was supported by studies seeking to measure New Zealand's export diversification at that time. That these studies took place is evidence of the importance that diversification held at that time, especially as one author Peter Crawford explained, diversification was a measure of New Zealand's break from being a dependent economy.<sup>127</sup> That dependence was on trade with Britain, and reflected ideas such as Sutch's from the 1960s that as New Zealand developed less dependence on that market it would shake off its 'colonial' status.

Graph 4.2 shows that if diversification is measured by the reduction of reliance on the British market, significant success could be claimed. Britain took a progressively smaller proportion of New Zealand exports through the 1960s and 1970s, but reductions did appear to slow through the latter decade. The USA and Japanese markets, which had grown significantly in importance in the 1950s and 1960s, held a fairly steady share of the market in the 1970s. Often, this was not simple, however; New Zealand representatives had to keep a close watch and often act on creeping agricultural protectionism in those markets.

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<sup>127</sup> Peter Crawford, 'The Increasing Diversification of New Zealand's Exports 1952 – 1979', Bachelor of Arts with Honours Dissertation in Geography, Massey University, 1979.



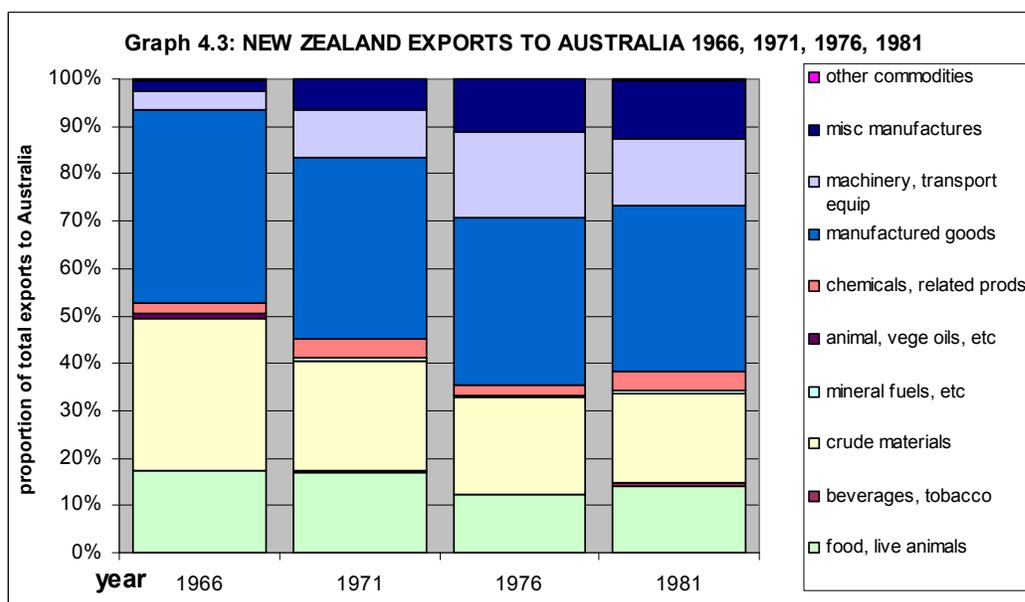
Source: Compiled from NZOYB, 1964, p.659; NZOYB, 1966, pp.636-639; NZOYB, 1974, pp.626-627; NZOYB, 1984, p.630

In the late 1970s Peter Crawford and Gary Hawke analysed statistics like those that Graph 4.2 is based on and concluded that market diversification had occurred. They also noted, however, that there had been no great liberation from traditional export behaviour. The products exported remained predominantly agriculturally-based. Hawke noted that diversification was not a straightforward process but was caused by a complex interplay of product and market changes, including the transposing of those traditional patterns onto different destinations.<sup>128</sup> There was little indication that the coveted structural economic change, in terms of diversifying New Zealand's export base, had yet occurred.

Graph 4.2 further shows that despite the prominence of a few large export markets there was a growth in the importance of 'other markets' over the 1970s. It was on that type of evidence that New Zealand politicians especially tended to focus in expressing satisfaction with diversification efforts. The government's export incentives schemes were often acknowledged as having greatly helped this occur. A growth of manufactured exports in the first few years of the incentives scheme's

<sup>128</sup> Gary Hawke, *Diversification of New Zealand Exports*, Wellington: Victoria University of Wellington Department of Economics, 1979.

operation in the 1960s had been attributed it.<sup>129</sup> Through the 1970s successive governments continued to tinker with the system, consistently expressing the view that it was an important mechanism for achieving diversification. In the 1976 Budget Muldoon produced statistics to show that with the growth of manufactured exports to almost 14 percent of total exports, the export incentive structure ‘must be judged an outstanding success’. He argued that this was ‘not the time to rest on our laurels’, however, and announced a review of the system for the 1977 budget.<sup>130</sup>



Source: Compiled from *New Zealand Export Statistics*, Wellington: New Zealand Department of Statistics, 1966-1981.

The trade relationship with Australia was the main avenue by which export product diversification had taken place. Graph 4.3 illustrates the nature of exports sent there, and shows that these were mainly manufactured. In the mid-1970s nearly 70 percent of the goods exported to Australia were manufactures of some kind, and primary products consistently comprised less than 20 percent. This trade was also vital for the development of New Zealand’s secondary exports because the Australian market took a substantial proportion of them. For some categories of manufactures, for

<sup>129</sup> See, for example, A.H.Cameron, 'Devaluation - The Big Event of 1967', *Canterbury Economic Bulletin*, No.511, November 1967.

<sup>130</sup> R.D.Muldoon, 'Financial Statement', *AJHR*, B.6, 1976, p.19.

example paper products, floor coverings and domestic appliances, Australia took between 70 to 90 percent of total exports.<sup>131</sup>

Despite these developments and the resources committed to diversifying New Zealand's trade, the trading relationship with Britain continued to be considered of vital importance. Consistent effort and resources were also being directed towards maintaining that traditional relationship. In 1976 it was noted that one third of New Zealand's expenditure on overseas posts was concentrated in Europe.<sup>132</sup> Much of that activity was directed towards arguing New Zealand's case to EEC members for the retention of British market access. Muldoon commented in 1977 that this would be continued for the time being, because in his view New Zealand's relationship with the European Community was 'probably the most important thing on which our foreign service is engaged.'<sup>133</sup>

### THIRD NATIONAL GOVERNMENT

The Labour Government did not get much chance to develop its long-term plans for industrial development or export-led growth because after the 1975 election, National was back in government. National had regrouped while in opposition under the new leadership of Robert Muldoon, and had regained electoral support by leveraging off the uncertain international economic context and criticising Labour's responses to the shocks.<sup>134</sup> The party went back into power with a clear agenda to enact change in New Zealand's domestic and international affairs in response to the challenges presented by the international trading environment. It had toned down its ideas about import liberalisation, and maintained the system of import licensing, despite Treasury's briefing to the incoming government advocating change.<sup>135</sup> Treasury official Roger Kerr recalled that National considered that it had been their

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<sup>131</sup> Calculated from *New Zealand Export Statistics*, Wellington: New Zealand Department of Statistics, 1970-1978.

<sup>132</sup> New Zealand Taskforce on Economic and Social Planning, *New Zealand at the Turning Point*, Wellington: Taskforce on Economic and Social Planning, 1976, p.160.

<sup>133</sup> 'An Exclusive Interview with the Prime Minister', *New Zealand International Review*, May/June 1977, p.7.

<sup>134</sup> Gustafson, *His Way*, pp.158,160; Bob Jones, *Memories of Muldoon*, Christchurch: Canterbury University Press, 1997, p.20.

<sup>135</sup> McKinnon, *Treasury*, p.260.

policies to dismantle import licensing that lost them the confidence and support of business in the 1972 election:

... as a relatively junior civil servant through the 1970s I heard constant references back to that – it was seared in the minds of ministers like Talboys, Templeton and others of the Muldoon Cabinet, and it made it hard to get momentum about protection up again.<sup>136</sup>

The Muldoon Government did, however, seek to revamp New Zealand's economic and trade strategies. A number of studies and reviews were commissioned to determine their direction, and, it would seem, to gather a more solid support base for change than they had previously enjoyed. The Task Force on Economic and Social Development and the Plimmer Committee were two of these. Both dealt from different perspectives on issues which would impinge on trade policy approaches over National's term.

National's commitment to planning was again evident in the studies it commissioned. Hugh Templeton, a National minister at the time, recalled that Muldoon's acceptance of his initiative to establish a Commission for the Future was based on the idea of using this to build on the earlier indicative planning platform.<sup>137</sup> The Task Force on Social and Economic Planning was established in April 1976, and was more obviously charged with developing the planning framework. Its brief was to study New Zealand's previous planning experience and recommend 'an institutional framework to meet present-day requirements for planning' in New Zealand. The Taskforce included public servants from the departments of Trade and Industry, Agriculture and Fisheries, Foreign Affairs and Works and Development, members of the Reserve Bank and Treasury, and was headed by Frank Holmes, at that time Professor of Money and Finance at Victoria University. The members spent six months in consultation and discussions with various government departments, organisations and individuals throughout New Zealand, and reading the volume of material from over 300 submissions to it.<sup>138</sup>

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<sup>136</sup> Roger Kerr quoted in McKinnon, *Treasury*, p.260.

<sup>137</sup> Hugh Templeton, *All Honourable Men: Inside the Muldoon Cabinet 1975-1984*, Auckland: Auckland University Press, 1995, p.99.

<sup>138</sup> New Zealand Taskforce on Economic and Social Planning, *New Zealand at the Turning Point*, pp.i-ii, ix.

The Taskforce's findings were published in October 1976 in a report called *New Zealand at the Turning Point*. The notion of the turning point could be applied to a number of areas of its assessment in both social and economic terms, and it was certainly applied through the idea of 're-orientating' the New Zealand economy. In the group's assessment, New Zealand's view of its place in the world had to be changed. They noted that 'in many areas New Zealand's view may still be based on notions which no longer apply to the country's niche in the world.'<sup>139</sup> The Taskforce argued that New Zealand had to acknowledge this changed context more explicitly as it developed future planning mechanisms.

The Taskforce blamed New Zealand's vulnerability on what it framed as economic mismanagement rather than the changes that had taken place in the international economic context. It concluded that planning had been deficient in the past because there had been little policy development which effected change in economic behaviour in New Zealand. Further, they noted that a satisfactory mechanism for coordinated planning had been lacking, because the work of previous planning committees (for example, the NDC's sector councils) had tended to be overlooked by 'ministerial and departmental pre-occupation with short-term matters' in previous governments rather than concentrating on long-term strategies.<sup>140</sup> The Taskforce endorsed statements that had already been made by Deputy Prime Minister Brian Talboys, and recommended that a Planning Council be established as the basis of future planning's 'machinery'.<sup>141</sup> They recommended that the Commission for the Future be encompassed within planning legislation that would formalise this structure.<sup>142</sup>

## **NEW APPROACHES TO PLANNING**

National's approach to planning this time was different to its last planning endeavours in that a more explicitly ideological approach was evident. The influence of 'free trade' proponents was apparent in the arguments about how export-led

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<sup>139</sup> New Zealand Taskforce on Economic and Social Planning, *New Zealand at the Turning Point*, p.197.

<sup>140</sup> New Zealand Taskforce on Economic and Social Planning, *New Zealand at the Turning Point*, p.x.

<sup>141</sup> 'Top Economist to Head "Task Force"', *New Zealand Herald*, 22 April 1976; New Zealand Taskforce on Economic and Social Planning, *New Zealand at the Turning Point*, p.xiii.

<sup>142</sup> New Zealand Taskforce on Economic and Social Planning, *New Zealand at the Turning Point*, p.xiv.

production should be developed. The Taskforce made it clear that an important part of future planning development should, in their view, involve developing more efficient and competitiveness in production for export:

Simply exporting (both goods and services) is insufficient – priority must be given to those industries which can withstand international competition, can exhibit long-term export potential, and which can display an efficient use of national resources in the fullest possible extent.<sup>143</sup>

The Taskforce clearly believed protectionist policies should be dismantled. They argued that '(P)roducing a particular product in New Zealand instead of importing it does not necessarily make economic sense'. Import controls were only acknowledged as useful for stabilisation purposes, and they 'strongly urged' that market forces should be used more in future to limit spending - and identified an import-deposit scheme as possibly useful for this – rather than maintaining a 'more extensive' import licensing system. They further argued that '(A)t best, licensing can be effective only in the short-run, and then only if its use is co-ordinated carefully with other stabilisation measures.'<sup>144</sup>

The Taskforce specifically considered New Zealand's trade policy and identified what it considered to be its most important elements. They suggested that new opportunities should be prioritised over the retention of traditional markets, and that making a commitment to these priorities should help limit the past 'ad hoc' way that New Zealand had pursued trade strategies. They also emphasised the importance of developing New Zealand's international economic diplomacy bilaterally and multilaterally, and exploring new strategies to encourage the private sector to seek new markets and improve the fields of technology, communications and transport.<sup>145</sup> It was clear that they saw the most benefit for developing export opportunities would be through bringing more of a marketing approach to New Zealand's trade diplomacy.

The New Zealand Planning Council was the successor to the Taskforce, established in 1977 by the New Zealand Planning Act. Holmes continued to play an important role

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<sup>143</sup> New Zealand Taskforce on Economic and Social Planning, *New Zealand at the Turning Point*, p.194.

<sup>144</sup> New Zealand Taskforce on Economic and Social Planning, *New Zealand at the Turning Point*, pp.195-197.

<sup>145</sup> New Zealand Taskforce on Economic and Social Planning, *New Zealand at the Turning Point*, p.202.

as the chair of the Council. The first discussion paper produced by the Planning Council continued the arguments of the Taskforce and used strong language to express its view of New Zealand's economic position. Entitled *A Moment of Truth*, the paper opened arguing that '(I)n the last few years, New Zealand has got itself into a hole', and based its analysis of the country's problems on external trade. It noted that the extent of the country's problem 'is best summarised by looking at the balance of payments'. The Council acknowledged that external developments had contributed to this, but also emphasised what it perceived as deficiencies in the domestic economy. It argued that 'our problem is also caused by the fact that we have one of the poorest records of increasing productivity of any country in the world', noting that this had contributed to a significant decline in New Zealand's standard of living relative to the rest of the world.<sup>146</sup> It was clear that the Planning Council viewed restructuring the economy as a key solution for New Zealand's economic development. It concluded that:

... if we have the will to do so, we can restructure our economy, eliminate our balance of payments deficit, and still preserve a society which will be attractive to our children and grandchildren.<sup>147</sup>

In its publication *Planning Perspectives*, the Council defined restructuring as changing 'what is produced, how it is produced, and who produces it.' They advocated bringing a 'greater reliance on market forces' in the management of the economy, citing examples of frustration with government involvement in business process and intervention in the market as causing inefficiency in New Zealand. Government still had a role to play, they said, for example, by 'correct(ing) distortions created by restrictive practices, and mak(ing) appropriate adjustments to income', but that it should employ market-oriented practices – rather than administrative ones, as it had in the past – to address economic imbalances.<sup>148</sup>

While the Council advocated for the development of new industries in New Zealand, it acknowledged the continued importance of agriculture in exporting. It argued that

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<sup>146</sup> New Zealand Planning Council, *A Moment of Truth*, Wellington: New Zealand Planning Council, 1977, p.1.

<sup>147</sup> New Zealand Planning Council *A Moment of Truth*, p.7.

<sup>148</sup> New Zealand Planning Council, *Planning Perspectives 1978-1983*, Wellington: New Zealand Planning Council, 1978, pp.58-59.

it was 'not a question of farming versus manufacturing versus service industries', but how all of these could contribute to expanding New Zealand's exports. In terms of agriculture they emphasised the need to shift production to focusing on 'winning a greater value for each unit of agricultural produce'. This could be achieved, they said, by paying much more attention to market and consumer needs in developing production strategies, and the government's role should be to 'stimulate and support private activity' towards this. Policy should be directed at 'maintaining the relative profitability' of the manufacturing and service industries and resources should be directed towards 'activities which are efficient'. The Council argued that these changes were necessary to address New Zealand's current economic difficulties, and to do nothing was not an option if economic growth and expanded employment opportunities were to be achieved.<sup>149</sup>

The Planning Council's argument was not terribly new; it was similar to what had been argued by the MEC, the NZIER, members of Treasury, the Reserve Bank and the Chambers of Commerce up to two decades before. What was different here was that the ideas had become more commonplace through government language and general and academic debate. Harvey Franklin's book *Trade, Growth and Anxiety* published in 1977 echoed many of the views of the Planning Council. He reflected on the development of New Zealand's welfare state and past efforts in industrial development, and concluded that protectionist policies had not, in fact, insulated New Zealand from external influences; it was now, despite the long programme of import substitution and manufacturing development, still as vulnerable to the external economic environment as ever. He also argued that New Zealand's economy needed to be restructured; it should become more 'open and outward-looking' as a society and international trader, and that free trading in manufactured products would help develop this. Trade policy, he said, should also shrug off its mainly ad hoc approach – something he attributed to British-derived habits – and take lessons from successful countries such as Germany, Japan, the US and Denmark in developing trading strategies.<sup>150</sup>

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<sup>149</sup> New Zealand Planning Council, *Planning Perspectives*, pp.61-62,86,89.

<sup>150</sup> Franklin, *Trade, Growth and Anxiety*, pp.99,101,226.

The increase in expression of ideas such as these were part of the greater voice of those against protection becoming apparent both in New Zealand and overseas. The NZMF continued to resist them, however. After the Planning Council published a paper on trade and growth which advocated an end to import licensing in 1980, NZMF president Laurie Stevens attacked it as a 'pointless academic exercise which will only succeed in confusing the marketplace.'<sup>151</sup>

### **THE RISE OF 'NEW' ECONOMIC THINKING**

Support for adding more radical liberalisation measures to the notion of economic restructuring was, however, gaining ground in New Zealand. This was a reflection of the increasing prominence of new ideas about economic management internationally. Political leaders in Britain and in the USA in the late 1970s developed economic approaches that exhibited strong influences from Monetarism and 'free trade' thinkers.

Monetarism was mainly based on the writing of American scholar Milton Friedman, who framed his argument that government should be removed from private economic activity around the concept of allowing individuals personal, economic and political freedom. Friedman argued that when governments had developed interventionist economic and employment policies after the 1930s they had actually misunderstood the context they were responding to. He explained the Depression as having been the result of 'government mismanagement rather than by any inherent instability of the private economy.'<sup>152</sup> He argued that rather, '(W)hat we urgently need, for both economic stability and growth, is a reduction of government intervention not an increase'. In Friedman's view, government's role should be confined to providing a 'stable monetary framework for a free economy', and leave the rest to the individual, who would then have the freedom to 'produce growth in the economy, if that is in accord with their values'.<sup>153</sup>

This translated into policies being adopted in Britain and the USA where the governments removed themselves from the development and activities of business

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<sup>151</sup> 'Planning Council Paper Under Fire', *Manufacturer*, 7 April 1980, p.1.

<sup>152</sup> Milton Friedman, *Capitalism and Freedom*, 40<sup>th</sup> Anniversary Edition, Chicago: University of Chicago Press, 2002, p.38.

<sup>153</sup> Friedman, *Capitalism and Freedom*, p.38.

and industries. Economic historian Roger Backhouse has emphasised that this was more than just a change of attitude to the state's role in the economy:

... it was a radical shift of worldview, involving a transformation of attitudes across a wide range of the political spectrum as well as being associated with profound changes in economic theory.<sup>154</sup>

In Britain it was argued that this type of thinking had begun to permeate the thinking in wider society as well. University of Manchester lecturer Ian Gough (a member of the Conference of Socialist Economists) argued in 1979 that monetarism had not only been taken on as the philosophy of Britain's Conservative Government, but also by the country's media. He noted that, in view of an economic crisis at that time:

From *The Times* to *The Sun*, massive cuts in state spending have been advocated as an essential answer to the crisis. Alongside arguments about the stifling effect of state spending on industrial enterprise, investment and exports, are encountered strong attacks on the "bloated bureaucracy" of the welfare state, and on welfare scroungers, together with support for IMF intervention and attempts to restore "foreign confidence". Many even seemed to think that hardship and sacrifice per se were a good thing and would restore the economy...<sup>155</sup>

The effects of these influences were evident in New Zealand as well. Engagement with the IMF over the late 1970s ensured that their biases towards neo-classical, free market economic approaches were being directly passed to government leaders and advisers.<sup>156</sup> Members of Treasury and the Reserve Bank were particularly open to such ideas.

The monetarist influences were described by Victoria University Economics Professor Brian Philpott in 1978 as the 'Laissez Faire Counter Revolution', which he described as a 'heady and potent economic brew' of ideas committed to giving the price mechanism prominence in economic activity, and removing governments from any interference in it. He noted that these ideas had become evident in the language of sections of the New Zealand business, banking and media community.<sup>157</sup> He argued against these views, however, and emphasised the importance of government's role

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<sup>154</sup> Roger E. Backhouse, 'The Rise of Free Market Economics: Economists and the Role of the State since 1970', *History of Political Economy*, Vol.37, Annual Supplement, 2005, p.355.

<sup>155</sup> Ian Gough, *The Political Economy of the Welfare State*, 11<sup>th</sup> reprint, Houndmill: MacMillan, 1992, p.135.

<sup>156</sup> Gustafson, *His Way*, p.268.

<sup>157</sup> Brian Philpott, *The Role of Government in Maximising Future Economic Growth*, Wellington: Victoria University Project on Economic Planning, Discussion Paper 14, July 1978, p.3.

in the economy. Nevertheless, he cautioned that import substitution policies should be more carefully applied than they had been in the past:

...New Zealand has suffered in the past from the indiscriminate application of policies of import substitution for its own sake with little regard to the relative costs and efficiency with which it was carried out. Thus when I talk of import substitution I stress efficient or economical import substitution which takes account of the resource cost involved in saving foreign exchange in this way.<sup>158</sup>

Ultimately the National Government developed an approach which reflected a similar attitude to Philpott's, by committing to the general principles of the Planning Council's recommendations but taking only incremental steps towards them in policy recommendations. This produced something of a 'middle ground' approach over the following years as it sought to provide an environment in which industry could best orientate itself towards exporting, and yet still be cushioned from the pressures on international competition. To some extent, however, it simply gave weight to complaints that the ad hoc approach was being continued. Gustafson has noted that Muldoon's hesitancy in taking the Planning Council's advice to liberalise import controls caused some tensions within the National Government as some members were frustrated at the lack of commitment to truly market-orientated policies.<sup>159</sup> Muldoon's firm grip on the finance portfolio, however, ensured that policy would be developed only at a pace that he was comfortable with.

#### **FOREIGN POLICY ADMINISTRATION REVIEW**

The Muldoon Government reviewed foreign policy administration as part of its planning strategies. Trade considerations were clearly a part of the objectives. In his first annual report as the new Foreign Affairs Minister, Brian Talboys referred to the need for foreign policy to help New Zealand deal with the uncertainties wrought by the international economy. He stated the priority of the government was to take an active role in international affairs with all countries possible, and that this was especially important in relation to economic issues, where he noted that 'our present economic situation demands that our interests be pursued internationally with

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<sup>158</sup> Philpott, *The Role of Government in Maximising Future Economic Growth*, p.10.

<sup>159</sup> Gustafson identifies the 'market-orientated minority' as McLay, Quigley, and new-comers McLean, Cox, Kidd and Thompson. Gustafson, *His Way*, p.268.

greater rather than lesser vigour in the period ahead.<sup>160</sup> The commissioned review on foreign policy administration, headed by Sir Clifford Plimmer, sought to establish ways that New Zealand's diplomatic activity could be conducted most efficiently towards this.

The Plimmer Committee (as it was informally called) noted that although New Zealand's 'fundamental objectives' in foreign policy had remained 'more or less constant' over the previous three decades, the context within which New Zealand had pursued them had not. They were especially clear that New Zealand could no longer rely on following Britain in its foreign affairs, and it had been forced to be more self-reliant, adding '(W)e must look after ourselves, for no one else will.'<sup>161</sup> The committee's report presented 47 recommendations for improving New Zealand's foreign affairs administration. Most of these were centred on the idea of establishing an Overseas Service which integrated the functions of the diplomatic service with the trade commissioner service. This was based on the committee's agreement that 'there should be the fullest possible integration' of the different elements of New Zealand's external activities.<sup>162</sup> They emphasised especially the need to bring political and trade diplomacy under one umbrella, because, they said:

... trade and politics, in international relations, are inextricably meshed. Economic powers, control of resources, and access to markets are, just as much as broader questions of security, the very substance of international politics. Few economic or trade goals can be pursued without regard to a complex range of political relationships. Indeed it is true to say that most economic and trade objectives must be pursued increasingly by political means. Trade and politics go hand in hand.<sup>163</sup>

It would be another decade before foreign affairs and trade were completely bound together, but as a result of this report some steps were taken to facilitate the increased importance of one to the other. The Overseas Service Committee was established in April 1978 to take on the role of advising the Minister of Foreign Affairs on 'all aspects of administrative policy for the overseas services'. Membership of the Committee was designed to ensure a coordinated approach to New Zealand's

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<sup>160</sup> Brian Talboys, 'Report of the Ministry of Foreign Affairs', *AJHR*, A.1., 1976, p.3.

<sup>161</sup> *Report of the Review Committee on Foreign Policy Administration*, Wellington: Government Printer, 1977, p.2.

<sup>162</sup> *Report of the Review Committee on Foreign Policy Administration*, p.34.

<sup>163</sup> *Report of the Review Committee on Foreign Policy Administration*, pp.2-3.

external activities, with representation from members of Foreign Affairs, Defence, Trade and Industry, Tourist and Publicity, Treasury and the State Services Commission.<sup>164</sup>

Changes within the Department of Trade and Industry were also made. The department reported in 1978 that it had been 'restructured and reorganised' to alter the nature of its work as a result of the Plimmer report, and noted that its relationship with New Zealand's overseas service would alter as a result.<sup>165</sup> This included a more conscious coordination of the work of the diplomatic core and the Trade Commissioner Service. This came to be considered a successful move, with Talboys in 1981 attributing these changes to having enabled 'considerable integration' of New Zealand's overseas activities, with better connections made and a pooling of services established between Trade and Industry and Foreign Affairs.<sup>166</sup>

The Plimmer Committee's acknowledgement of the close relationship between economic and foreign policy considerations was also reflected in wider discussions in New Zealand, including those between government and the academic community. The 1979 Otago Foreign Policy School focused on Economic Strategies and Foreign Policy, with the Vice Chancellor Robin Irvine noting the timeliness of this for the domestic economy:

This is an anxious time for New Zealand, tightly bound in the confines of a dependent economy, troubled by lack of economic growth and attendant industrial problems, burdened with the weight of welfare services at home and a heavy load of debt overseas.<sup>167</sup>

Deputy Secretary of Foreign Affairs Ian Stewart commented further that the future of economic policies 'both reflect and in turn affect New Zealand's internal social and economic aspirations' and that while New Zealand had only limited opportunities in shaping its overseas interests, it was in 'pursuing a set of domestic policies consistent with its internal and external objectives'.<sup>168</sup> Head of the Foreign Affairs Economics

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<sup>164</sup> 'Report of the Department of Trade and Industry', *AJHR*, G.14, 1979, p.47.

<sup>165</sup> 'Report of the Department of Trade and Industry', *AJHR*, G.14, 1978, pp.5, 47-48.

<sup>166</sup> Brian Talboys, *NZPD*, Vol.440, 1 September 1981, p.3132.

<sup>167</sup> R.O.H.Irvine, 'Introduction', in Ralph Hayburn and Bill Webb (eds.), *Economic Strategies and Foreign Policy: Proceedings of the Fourteenth Otago Foreign Policy School*, Dunedin: University Extension, University of Otago, 1979, p.v.

<sup>168</sup> Ian Stewart, 'Concluding Remarks', in Hayburn and Webb, *Economic Strategies and Foreign Policy*, p.8.

Division, Terence O'Brien, reiterated the view of Foreign Affairs that the ability of New Zealand to modify the external context in which it operated was limited, but there was more freedom to make decisions about how New Zealand would domestically chart its course. The desire was therefore evident for foreign policy to be shaped in a more strategic way than 'simply responding always to external influences.' O'Brien argued that '(I)t must be to our advantage to chart a course rather than to rely solely on the drift of events.'<sup>169</sup>

O'Brien appeared cynical about recent attempts in long term planning such as those of the Planning Council, calling such exercises 'crystal ball gazing' which tried to consider how New Zealand 'should restore its economic fortunes' into the 1980s. O'Brien noted that the key issue for New Zealand was that it had 'passed forever beyond the old situation of placing all our trade eggs in one basket', and that '(W)e now live and trade in a larger, harsher world where everything depends on our ability to detect quickly and exploit effectively the targets of opportunity'. Those 'targets' he identified lay mainly in markets of the Asia-Pacific basin and in re-stimulating the relationship with Australia.<sup>170</sup> As O'Brien noted, it really just meant external economic strategies had to pursue more of the same, but better:

In some important measure it remains a matter largely of doing the same things we have done before, but doing them better, with greater overall purpose, with new insight and fresh objectives. Foreign policy must remain as servant of economic strategy, just as external developments will continue to shape that strategy.<sup>171</sup>

The absorption of the recommendations of the Taskforce towards re-orienting policy approaches to export production, and the Plimmer Committee's ideas about the importance of trade considerations in diplomacy were apparent in government vocabulary even before the committee's report was released. In introducing the 1977 Budget Muldoon noted that the balance of payments outlook would depend on three things; 'the growth in export production, world demand for our exports, and access to markets.' He noted that the latter two, however, 'are largely beyond our

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<sup>169</sup> Terence O'Brien, 'Economic Strategies and Foreign Policy', in Ralph Hayburn and Bill Webb, (eds.), *Economic Strategies and Foreign Policy: Proceedings of the Fourteenth Otago Foreign Policy School*, Dunedin: University Extension, University of Otago, 1979, p.31.

<sup>170</sup> O'Brien, 'Economic Strategies and Foreign Policy', pp.34-35.

<sup>171</sup> O'Brien, 'Economic Strategies and Foreign Policy', p.35.

power to influence.<sup>172</sup> New Zealand would, however, seek to put trade matters increasingly at the forefront of foreign policy in an effort to pursue that interest. Muldoon also put in place a number of policies which sought to optimise production within New Zealand. He announced measures which sought to 're-establish a basis for growth', with the three-fold objectives of increasing the 'proportion of national production which is exported'; stimulating the 'development of efficient import replacement industries'; and encouraging better utilisation of New Zealand's 'scarce resources, and particularly of imported capital equipment.'<sup>173</sup> This was also reflected in Trade and Industry's report that year, in which they argued that '(I)f we are to trade our way out of our difficulties, greater effort must be put into exporting.'<sup>174</sup> Within the department a task force had been set up to 'to carry out a survey of present and potential exporters in order to identify any impediments to exporting which were being experienced.'<sup>175</sup>

#### **EXPORT DEVELOPMENT STRATEGIES**

Alongside the bureaucratic changes, National sought to develop export marketing strategies through an 'Export Year' campaign. This was designated from April 1978 to March 1979, and was directed at New Zealand exporters, and designed towards giving an extra 'push' for New Zealand exports.<sup>176</sup> Activities were mainly educational in orientation, and included publicity campaigns, symposiums for industry and labour representatives, and workshops.<sup>177</sup> In evaluating the activities, NZMF member Wayne Coffey considered that the campaign had gone some way to meeting its objective of 'creating a greater awareness within the community at large of the value to the nation of exporting.'<sup>178</sup>

In line with the recent conversations focusing on the links between economic and foreign policy, the Ministry of Foreign Affairs was recognised as having an important role to play in the Export Year campaign. Talboys noted that this was especially so

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<sup>172</sup> Robert Muldoon, 'Financial Statement', *AJHR*, B.6, 1977, p.2.

<sup>173</sup> Robert Muldoon, 'Financial Statement', *AJHR*, B.6, 1977, p.5.

<sup>174</sup> 'Report of the Department of Trade and Industry', *AJHR*, G.14, 1977, p.5.

<sup>175</sup> 'Report of the Department of Trade and Industry', *AJHR*, G.14, 1977, pp.5-6.

<sup>176</sup> 'Report of the Department of Trade and Industry', *AJHR*, G.14, 1978, p.30.

<sup>177</sup> Brian Talboys, 'Export Year Proposals', *NZPD*, Vol.416, 29 November 1977, p.4834; Wayne Coffey, 'Export Year 1978-1979', *New Zealand International Review*, November/December 1978, pp.24-25.

<sup>178</sup> Coffey, 'Export Year 1978-1979', p.24.

because of the political considerations involved in accessing export markets. He argued that increasing exports was not as simple as 'get out and sell', but that '(A) panoply of protective measures grossly distorts the free flow of world trade' that governments had imposed, so it was only by governments – and diplomatic pressure from other governments – that barriers could be reduced or dismantled.<sup>179</sup>

National's strategies in export promotion extended to further development of the export incentives system, to which it continued to show a commitment. In 1975 they had announced the decision to add a raft of new incentives for exporters, and initiated a substantial review of the system.<sup>180</sup> The following year Muldoon expressed that the export incentive system 'must be judged an outstanding success', using the increase in manufactured exports that year to comprise 14 percent of total export receipts as evidence.<sup>181</sup> In their review of export incentives in 1977, University of Otago economists Ross Cullen and Paul Wooding agreed with this point, concluding that the operation of export incentives had probably – combined with NAFTA – had 'a positive effect' on New Zealand's exports of 'non-traditional' goods.<sup>182</sup> They nevertheless expressed concern that successive tinkering with the export incentive system had brought it to a point where the system was 'rather confusing to exporters.'<sup>183</sup>

This was a fair comment given National's actions over the mid-1970s. In 1978 further additions to the system gave 'high priority status' to certain products for which exporters could obtain benefits additional to the export incentives.<sup>184</sup> In the 1979 Budget, Rob Muldoon announced a new system of export incentives for the following five years which would include three schemes; the Export Performance Taxation Incentive, the Export Market Development Taxation Incentive and the Export Programme Grants Scheme. Muldoon expressed confidence that this would 'assist exporters much more effectively and in a way which is fully consistent with the

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<sup>179</sup> Brian Talboys, 'Report of the Ministry of Foreign Affairs', *AJHR*, A.1, 1979, pp.3-4.

<sup>180</sup> R.J.Tizard, Financial Statement, *AJHR*, B.6, 1975, p.9.

<sup>181</sup> R.D.Muldoon, 'Financial Statement', *AJHR*, B.6., 1976, p.19.

<sup>182</sup> Ross Cullen and Paul Wooding, *Export Incentives in New Zealand 1962-1977*, Dunedin: University of Otago Economics Discussion Paper No.7803, 1978, p.25.

<sup>183</sup> Cullen and Wooding, *Export Incentives in New Zealand 1962-1977*, p.25.

<sup>184</sup> L.R.Adams-Schneider, *NZPD*, Vol.417, 24 May 1978, p.230.

Government's overall objectives'.<sup>185</sup> It was also satisfactory to the NZMF, with Fred Turnovsky noting his pleasure that the review outcomes had been along the lines of discussions the Federation had previously had with government.<sup>186</sup>

The export incentives system had not tended to attract political attention in the way import licensing did. Cullen and Wooding presented export incentive structures as having worked to reduce the 'bias against imports' that the import licensing structures had created.<sup>187</sup> In 1979 Chairman of the Planning Council Economic Monitoring Group Don Brash argued that export incentives were at least more palatable than import controls because they tended to 'encourage production in areas where New Zealand has a natural comparative advantage', but he also expressed his concern that they were being directed to some industries that were contributing in only a minor way to the balance of payments.<sup>188</sup>

National's strategies also extended to aiding the export operations of the primary sector. In the 1978 Budget Muldoon announced a range of extended measures to support the primary producers, which would add to the Livestock Incentive and Dairy Beef Market Guarantee Schemes that had been introduced in 1976. The new Supplementary Minimum Prices (SMP) scheme was designed as a supplement to these and stabilisation measures already operated by producer boards. He explained that the SMP scheme would set prices two years ahead, so that they would 'provide for farmers' reasonable requirements for living expenses, farm operating expenditure, and new development more adequately than would the minimum prices likely to be set under the existing arrangements.' This, he said, would 'give farmers an assured and realistic base in forward planning'.<sup>189</sup>

The push to develop an 'export-led economy', and the government's approaches in consulting with industry to formulate them, seemed to also influence thinking about

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<sup>185</sup> R.D.Muldoon, 'Financial Statement', *AJHR*, B.6, 1979, pp.15-17.

<sup>186</sup> 'A Budget for Exporters', *Manpress*, Issue 79/10, 6 July 1979, p.2.

<sup>187</sup> Cullen and Wooding, *Export Incentives in New Zealand 1962-1977*, p.19.

<sup>188</sup> Donald T. Brash, 'New Zealand's Position in a Changing World Economy', *Canterbury Economic Bulletin*, No. 628, 1/79, 1979. Don Brash was at that time also General Manager of Broadbank Corporation.

<sup>189</sup> R.D.Muldoon, 'Financial Statement', *AJHR*, B.6, 1978, p.16.

production amongst manufacturers. Coffey noted a shift in focus within the Federation towards exporting:

The policy attention of the Manufacturers' Federation has shifted markedly over the last decade from a preoccupation with protection and import substitution towards a healthy obsession with exporting. For many manufacturers a contracting domestic market, limited scope to capture a greater share of that market from imports and difficulties in squeezing out competitors has meant that exporting represents the only alternative for real growth.<sup>190</sup>

The pressure felt by manufacturers to adapt their production to exporting was evident in an article in *Manpress* in September 1979 where it was noted that 'exporters have definitely become the glamour boys of the nation. ... (W)itness recent budgets; manufacturers catering solely for the domestic market have received virtually nothing on budget night ... exporters (are) the easy winners'.<sup>191</sup> This understanding led the Federation make a 'major shift of resources into exporting' in 1979.<sup>192</sup> They conducted a major piece of research, the Manufacturers' Export Research Programme (MERP), exploring the expansion possibilities of manufactured exports. The MERP report determined that this would be possible, but only if sectors worked together on growing exporting. It concluded that 'if manufacturers' expectations are realised, by 1984 there will be a 60 percent increase in the proportion of manufactured exports' which would halve unemployment and increase living standards in New Zealand.<sup>193</sup> The development of the NAFTA relationship would be a close consideration for the NZMF in this.

## RETHINKING NAFTA

NAFTA continued to be the key vehicle for New Zealand's manufactured exports, with a substantial proportion of them directed to Australia over the 1970s. The NAFTA relationship had, however, passed through a lull over the middle years of that decade. In September 1976 agreement was made to extend NAFTA for another ten years,<sup>194</sup> but little progress in trade liberalisation was made between the two

<sup>190</sup> Coffey, 'Export Year 1978-1979', pp.24-25.

<sup>191</sup> 'Overseas Trade', *Manpress*, September 1979, pp.36-39.

<sup>192</sup> 'A Better Future Possible for New Zealand but Sectors Must Work Together', *Manpress*, Issue 79/21, 7 December 1979, p.1.

<sup>193</sup> 'A Better Future Possible for New Zealand but Sectors Must Work Together', pp.1-2.

<sup>194</sup> L.R.Adams-Schneider, *NZPD*, Vol.415, 28 October 1977, p.4038.

countries. Reviews of the agreement in 1975 and 1976 had produced piecemeal additions to the trading schedules, but there were none at all from then until 1978.<sup>195</sup> In their review of Australia and New Zealand's economic relations published in 1978, Alan and Robin Burnett identified three key areas which challenged the NAFTA agreement. They noted that Schedule A had essentially reached its full potential in including non-contentious trading items, the expectations that the use of Article 3:7 to help expand it had not been met, and the addition of the subsequent schedules had largely been ineffective. From their perspective, the blame for this could be placed with manufacturers:

Whatever the original intention of officials or governments, manufacturers who have successfully negotiated Article 3:7 reciprocal trade schemes are primarily concerned thereafter to protect the advantage they may have gained over other competitors and are not interested in throwing open the market by having the items placed either in Schedules A or B. Up to the end of 1976, the only items originally included in Article 3:7 reciprocal trade schemes which had been moved to Schedule A were darts, dart flights, decramastic tiles and paint colourant dispensing machines.<sup>196</sup>

More obvious enthusiasm for extending the NAFTA relationship was evident within the National Government from 1977. Minister of Foreign Affairs and of Overseas Trade Brian Talboys was particularly motivated to do so, as was his Cabinet colleague Hugh Templeton.<sup>197</sup> In 1977 Talboys embarked on an extensive tour of Australia. He visited all of the Australian state capitals with the objective of establishing widespread political understanding of the importance of New Zealand's relationship with Australia. He built on this in early 1978 with another visit there. During his talks with Australian Prime Minister Malcolm Fraser at Nareen, Canberra, there were expressions of agreement of the importance of the relationship and the 'desirability

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<sup>195</sup> Sir Frank Holmes, 'Australia-New Zealand: Integrated or Separate Development', in Ralph Hayburn (ed.) *Foreign Policy School 1978: Australia and New Zealand Relations*, Dunedin: Department of University Extension, 1978, pp.4-5.

<sup>196</sup> By January 1978, no items had actually been included in Schedules C and D. Alan and Robin Burnett, *The Australia-New Zealand Nexus*, Canberra: Australian Institute of International Affairs, 1978, p.133.

<sup>197</sup> Templeton, *All Honourable Men*, p.116.

of opening bilateral trade as conditions permit'.<sup>198</sup> The last three words implied that there would be some caution in progressing this, however.

These diplomatic developments contributed to what the 1978 Trade and Industry review called two 'major new phases' in the NAFTA relationship. The first of these involved a tariff agreement made between Talboys and his Australian counterpart Doug Anthony, agreeing that when major changes to the tariff were made in either New Zealand or Australia, a margin of preference would be given to the other.<sup>199</sup> An organisation to promote the relationship between the two countries was also established. The Australia-New Zealand Foundation was to be a council of business people which in New Zealand came under the umbrella of the Ministry of Foreign Affairs. Its activities included cultural exchanges, research sponsorship and visitor exchanges between the two countries.<sup>200</sup> This was an active sponsor of a number of social, cultural and academic exchanges between Australia and New Zealand over the following years.<sup>201</sup>

### **INTERNATIONAL UNCERTAINTY AND INSTABILITY**

While the developments in New Zealand's administration of trade policy and the NAFTA agreement were taking place, the international economic context continued to deteriorate in the late 1970s. The second oil shocks in 1979 again sent international oil prices skyrocketing. New Zealand's import price index for oil almost doubled from 1979 to 1980, which pushed oil prices to a point where they were over ten times greater than they had been in 1971.<sup>202</sup> The longer term effects of the 1970s crises were now at a point where the major economies were also obviously struggling. Across the OECD countries inflation and unemployment had put economies under sustained pressure throughout the decade.<sup>203</sup> In the 1980 Budget, Muldoon noted that output in the US was 'falling quickly', and the United Kingdom

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<sup>198</sup> 'Nareen Statement', in Pamela Andre, Stephen Payton and John Mills (eds.), *The Negotiation of the Australia New Zealand Closer Economic Relations Trade Agreement 1983*, Canberra: WHH Publishing, 2003, p.3.

<sup>199</sup> 'Report of the Department of Trade and Industry', *AJHR*, G.14, 1978, p.43.

<sup>200</sup> 'Report of the Ministry of Foreign Affairs', *AJHR*, A.1, 1979, p.14.

<sup>201</sup> See, for example, 'Report of the Ministry of Foreign Affairs', *AJHR*, A.1, 1981, p.15.

<sup>202</sup> *NZOYB*, 1982, p.638

<sup>203</sup> Black, *Learning from Adversity*, p.5.

was also in recession. He noted that even though some major economies still had some strength, the overall international economic situation was gloomy:

Notwithstanding, all signs on the international front suggest that continuing oil price increases have turned a slowdown in global economic activity into a standstill likely to last longer and be more difficult than previously estimated.<sup>204</sup>

The consequence for New Zealand was that export activities and development opportunities were severely constrained, and the National Government's focus on the economy and trade became increasingly urgent.

It also meant that economic issues were now forced to take on a more central importance in foreign policy activities. In introducing the 1979 report of the Ministry of Foreign Affairs, Talboys stated that 'present circumstances demand that our efforts in the international field should concentrate on (economic) issues',<sup>205</sup> and that this was crucial for New Zealand's national interests:

At present, there can be no question but that the Government's international activities must centre on ways and means of ameliorating, and indeed overcoming, our pressing economic difficulties. For let there be no mistake: New Zealand is fighting for its economic life. Unless we can rapidly increase our exports in the next few years, we shall neither be able to maintain the standard of living of our citizens at home nor to fulfil the role we should be capable of playing in regional and world affairs.<sup>206</sup>

The international uncertainty at the end of the 1970s was not just confined to economic issues. Politically the international context beyond the Pacific – but nevertheless relevant to New Zealand and Australia – was viewed as increasingly volatile. Over the late 1970s Foreign Affairs reports had expressed increasing concern over international security issues, and by the end of the decade many issues reached a critical point. In the 1980 Foreign Affairs report Talboys outlined a number of international developments 'dramatic in the suddenness and speed with which they have unfolded', including the overthrow of the Shah of Iran, the Soviet invasion of Afghanistan, the seizure of American hostages in Iran, continued Vietnamese

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<sup>204</sup> R.D.Muldoon, 'Financial Statement', *AJHR*, B.6, 1980, p.2.

<sup>205</sup> Brian Talboys, 'Report of the Ministry of Foreign Affairs', *AJHR*, A.1, 1979, p.6.

<sup>206</sup> Brian Talboys, 'Report of the Ministry of Foreign Affairs', *AJHR*, A.1, 1979, p.3.

occupation of Kampuchea, the unresolved Middle East dispute, and the rapid escalation of oil prices.<sup>207</sup>

The activities in Iran and of the Soviet Union were particularly challenging for New Zealand given that there were international calls for trade sanctions against these countries. Talboys stated that to follow the policy of their allies in this respect would be too detrimental for the New Zealand economy, so while diplomatic representations had been made to express New Zealand's concern at the actions of Iran and the Soviet Union, it would not impose trade sanctions.<sup>208</sup> This was held to despite diplomatic representations from the US to New Zealand that year.<sup>209</sup> New Zealand representatives argued that if their traditional political allies continued to maintain barriers to its exports through agricultural protectionism, New Zealand had no alternative but to continue its trade with these less politically favourable partners, and that 'they must accept our right to trade freely elsewhere.'<sup>210</sup>

Trade increasingly became the main focus in foreign policy as New Zealand sought to balance its international relationships in an increasingly politically unstable environment. Muldoon was particularly responsible for bringing this into the public consciousness. In 1977 he had described trade as being the largest focus of New Zealand's foreign service, but refuted the suggestion that it was the 'centre piece' of foreign policy.<sup>211</sup> By 1980 – and in line with the increasingly uncertain international environment – his ideas were more obviously focused. In an interview that year, he stated '(O)ur foreign policy is trade' and that trade was the key Cabinet interest as far as foreign affairs were concerned.<sup>212</sup>

This heightened awareness of trade's centrality in New Zealand's foreign policy was also reflected in academic writing at that time. The 1980 publication *Beyond New Zealand: The Foreign Policy of a Small State*, for example, included a section on trade in which the challenges for New Zealand as a small state operating in the

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<sup>207</sup> Brian Talboys, 'Report of the Ministry of Foreign Affairs', *AJHR*, A.1, 1980, p.3.

<sup>208</sup> Brian Talboys, 'Report of the Ministry of Foreign Affairs', *AJHR*, A.1, 1980, pp.3-4.

<sup>209</sup> 'Report of the Ministry of Foreign Affairs', *AJHR*, A.1, 1981, p.15.

<sup>210</sup> Brian Talboys, 'Report of the Ministry of Foreign Affairs', *AJHR*, A.1, 1980, p.4.

<sup>211</sup> 'An Exclusive Interview with the Prime Minister', *New Zealand International Review*, May/June 1977, p.7.

<sup>212</sup> "Our Foreign Policy is Trade", *New Zealand International Review*, January/February 1980, p.3.

international economy were explored. The section's six short chapters reflected a range of concerns that had developed through New Zealand's more independent and diversified activities within the international economic environment over the previous decade. The Planning Council noted that market access problems for exports had 'considerably increased'.<sup>213</sup> Richard Kennaway concluded that New Zealand was still highly vulnerable to the trading and political whims of larger economies, especially in their efforts for European and British market access. Likewise, the new large markets of the Soviet Union and Iran were evaluated by Barry Gustafson and Max Bradford to have not necessarily made New Zealand's trading activity either more stable or secure. All of these authors acknowledged that New Zealand politicians and representatives were now compelled to conduct more complex political and diplomatic activity than ever in a rapidly changing world trading environment.<sup>214</sup>

#### **EFFORTS TO ADVANCE NAFTA**

In this unstable context a political willingness for New Zealand to develop its relationship with Australia was more apparent. Hugh Templeton noted especially that the 'fall of the Shah (of Iran) created the imperative' for the two countries to advance trade negotiations.<sup>215</sup> This was not unlike the 1960s when both countries became more focused on developing relations with each other after Britain's application to the EEC had limited their trade development prospects. The unspectacular end to the GATT Tokyo Round also proved that the multilateral environment was not going to provide any significant benefit to New Zealand. O'Brien noted that this would mean that in the near future trade access opportunities would have to be pursued on a bilateral basis.<sup>216</sup> It was within these contexts that in 1979 specific moves were made by both Australian and New Zealand Government ministers to take the NAFTA relationship beyond the minor developmental steps that had occurred over the previous 14 years.

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<sup>213</sup> New Zealand Planning Council, 'The Problems of a Dependent Economy', in John Henderson et.al. (eds.) *Beyond New Zealand: The Foreign Policy of a Small State*, Auckland: Methuen, 1980, pp.74-75.

<sup>214</sup> Barry Gustafson, 'New Zealand Trade with the Soviet Union'; Max Bradford, 'New Zealand and the Middle East Oil Crises'; Richard Kennaway, 'New Zealand and the European Economic Community' (all in) , in John Henderson et.al. (eds.) *Beyond New Zealand: The Foreign Policy of a Small State*, Auckland: Methuen, 1980.

<sup>215</sup> Templeton, *All Honourable Men*, p.129.

<sup>216</sup> O'Brien, 'Economic Strategies and Foreign Policy', p.34.

Work had been taking place behind the political scenes to consider how the NAFTA relationship might advance. Over the previous two years New Zealand officials and their counterparts in Australia had developed a number of discussion papers where various issues relating to the possibilities for expansion of the economic relationship were identified and analysed. A Foreign Affairs discussion paper in 1977 analysing the NAFTA relationship concluded that it had developed only slowly because it had operated on a 'micro rather than a macro basis'. It also noted that a 'major stumbling block' to the Australians in developing the relationship further was New Zealand's import licensing system, and that the Australians were also wary of the export incentives system. They nevertheless recommended a work programme towards considering the possibilities of a wider economic relationship.<sup>217</sup>

Trade and Industry were more reticent about expanding NAFTA. In a discussion paper produced in 1978 they noted that the Australian market was showing 'signs of obvious limitations', and further, that any removal of import licensing with the Australians would present New Zealand industries with 'immediate shock'. It was also noted that the NZMF 'did not support any major initiatives being suggested to Australia'. They did not rule out the idea of developing the relationship, however, but instead recommended that NAFTA meetings be approached with 'an open mind', and one that would weigh up the advantages to New Zealand to be gained alongside the 'price to be paid'.<sup>218</sup> By this they were implying that the cost could be to New Zealand industry.

These mixed attitudes undoubtedly contributed to the hesitancy towards the NAFTA relationship through 1978, but political leaders sought to increase the momentum of change in 1979. In NAFTA talks in April, Australian Overseas Trade Minister Doug Anthony expressed his impatience with the relationship as it stood:

... on NAFTA we have reached a plateau. Is it good enough for us just to nibble away at making progress? Are we facing up to the facts? I get worried when it seems that we might be grinding to a halt. Where do we

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<sup>217</sup> Document 9, Andre et.al., *Negotiation of the Australia New Zealand Closer Economic Relations Trade Agreement*, pp.15-19.

<sup>218</sup> Document 14, Andre et.al., *Negotiation of the Australia New Zealand Closer Economic Relations Trade Agreement*, pp.29-31.

go from here? If Australia and New Zealand can't move together what hope is there? If the Europeans can do so, why can't we?<sup>219</sup>

Muldoon responded positively to this, and agreed that a study could be undertaken to consider the possibilities for expanding the NAFTA relationship.<sup>220</sup> Templeton was one in the Muldoon Cabinet who wished to push developments at a faster pace. In July that year he sought to push the issue more into the public consciousness through a speech in Wellington in which he argued for closer economic relations with Australia.<sup>221</sup> This and other developments indeed stirred up debate about the implications of closer economic relations. The NZMF let Treasury know that 'talk of completely opening barriers to trade with Australia' that had become part of media speculation was 'upsetting' manufacturers.<sup>222</sup>

The NZMF sought to ensure their interests were considered in any NAFTA developments. In an article in *Manpress* in August 1979, president Ian Douglas assured members:

... the Federation is going to play a key role in any changes made to the existing NAFTA agreement. ... Everyone accepts there have been real problems in developing NAFTA but we are not going to be stampeded into making hasty moves which we might later regret.<sup>223</sup>

Meetings in August and October in 1979 between the NZMF, their Australian counterparts and officials highlighted different opinions from either country. The Australians argued for a customs union between New Zealand and Australia, but the New Zealanders were more reticent, arguing to 'streamline NAFTA now, and consider broader options like a customs union later.'<sup>224</sup> They finally agreed, however, to jointly express support for '(T)he creation of a larger and more effective economic unit through an extension of the principles of NAFTA.'<sup>225</sup>

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<sup>219</sup> 'NAFTA Ministerial Meeting: The Future Economic Relationship', Document 15, Andre et.al., *Negotiation of the Australia New Zealand Closer Economic Relations Trade Agreement*, p.34.

<sup>220</sup> Document 20, Andre et.al., *Negotiation of the Australia New Zealand Closer Economic Relations Trade Agreement*, p.43, note 4.

<sup>221</sup> Templeton, *All Honourable Men*, pp.128-129.

<sup>222</sup> 'Notes of a Meeting Between the Prime Minister, Mr F.Turnovsky and Mr I.Douglas, NZMF', 22 August 1979, NA file AALR 873, W5427/961, 61/1/25, part 2, New Zealand Manufacturers' Federation, General, 1979-1987.

<sup>223</sup> 'Close Examination of Aust-NZ Relations', *Manpress*, 79/14, 24 August 1979, p.1.

<sup>224</sup> 'NAFTA – New Trade Options are Going to be Examined', *Manpress*, 79/18, 19 October 1979, p.1.

<sup>225</sup> 'Final Agreed Statement', *Manpress*, 79/18, 19 October 1979, p.1.

## THE NOTION OF RESTRUCTURING

One of the key issues being considered in the NAFTA context was the notion of economic restructuring. Leaders in both countries had identified this as an important objective for their domestic economies, especially given the fraught international economic situation. There still tended to be different interpretations of what this meant, but at this stage the main focus was on developing the country's export capacity. In 1979 Brash argued that at present, New Zealand had an economic structure where it was 'not possible to have full employment and balanced international accounts at the same time'. To his mind, these would only be able to be achieved

... if we shift more resources of people and capital into the production of goods and services for export, or for the replacement of imports. In short, we will return to full employment and balance of payments equilibrium only if we restructure the economy. We have no alternative.<sup>226</sup>

The NZMF agreed in principle with the notion of restructuring, emphasising the need for 'export-led growth'. *Manpress* in October 1979 argued for the need for 'getting the economy on a sustainable growth path', which would require 'large increases in exports' to 'overcome the balance of payments' constraint'.<sup>227</sup> The Australians were also noted as having achieved some success in restructuring their economy in this way. New Zealand's Ministry of Foreign Affairs in 1977 noted that Australia had achieved a substantial rise in mineral exports.<sup>228</sup>

Within New Zealand restructuring was mostly pursued through the IDC studies. The National Government's brief for the IDC showed that they considered that restructuring not only included developing exporting capacity, but also the ability of New Zealand industries to operate without protection. In 1979 the government gave the IDC's role more impetus, charging it with undertaking 'a comprehensive series of industry studies' which would evaluate 'the potential of specific sectors to contribute to New Zealand's economic growth, and the degree of support, whether by

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<sup>226</sup> Donald T. Brash, 'New Zealand's Position in a Changing World Economy', *Canterbury Economic Bulletin*, No.628, 1/79.

<sup>227</sup> 'Looking Ahead: The Need for Economic Restructuring', *Manufacturer*, October 1979, p.13.

<sup>228</sup> Document 9, Andre et.al., *Negotiation of the Australia New Zealand Closer Economic Relations Trade Agreement*, p.15.

protection or otherwise, required to realise that potential.<sup>229</sup> The studies involved a consultative process, including discussions with the industries involved and public hearings.<sup>230</sup> From these it was intended that plans for specific industry development would be created.<sup>231</sup>

Whereas in 1950 R.F.Wilson had found that establishing what was an 'uneconomic industry' would be difficult for administrators of import licensing— and that determining an industry as such would be complicated by earlier granting of import licenses to that establishment – the IDC demonstrated a much clearer understanding of the idea in its industry studies.<sup>232</sup> The key issues considered in developing the industry plans were the international competitiveness of the industry and its export potential, and by implication, its ability to function once protective structures were dismantled.

Despite the defensiveness of the manufacturing sector about any changes, it was not all bad news. Some of the manufacturing sector was recognized as making an important contribution to the New Zealand economy, even by those who thought protection had gone on too long. Treasury's Henry Lang, for example, assessed in 1976 that 'we have over the last 30 years developed a modern industrial sector, parts of which have become outward looking and internationally competitive and are now contributing significantly to foreign exchange earnings.'<sup>233</sup> The IDC report on New Zealand's electronic industry conveyed its assessment that this was one which had 'excellent growth and export potential.'<sup>234</sup> The tyre industry report, on the other hand, concluded that the industry had 'considerable excessive productive capacity

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<sup>229</sup> R.D.Muldoon, 'Financial Statement', *AJHR*, B.6, 1979, p.19.

<sup>230</sup> Gould, *The Rake's Progress?* p.154. Rayner and Lattimore, 'New Zealand', p.79.

<sup>231</sup> Rayner and Lattimore, 'New Zealand', p.79.

<sup>232</sup> Wilson, 'Import Control in New Zealand', p.66.

<sup>233</sup> Henry Lang cited in Jim McAloon, 'Long Slow Boom? Manufacturing Industry in New Zealand 1945-70', *Australian Economic History Review*, Vol.46, No.1, 2006, p.24; Chairman, Officials Economic Committee to Chairman, Cabinet Economic Committee, 3 December 1976, NA file AALR, W5427, 917, 61/1/8, pt.30, Cabinet Economic Committee Minutes etc., 1976-1977.

<sup>234</sup> *Report of the Industries Development Commission, 20: The New Zealand Electronics Industry Development Plan to 1992*, Wellington: Industries Development Commission, 1982, p.vii.

and a fairly static market' which was 'unlikely to be more fully utilized in the foreseeable future.'<sup>235</sup>

Within the reports the emphasis was on encouraging industry competitiveness, and protection needs were given secondary consideration. The expectation that protection would be dismantled was evident in most reviews, with recommendations frequently including the establishment of a programme to decrease import licensing for the industry and replace it with tariffs. Despite this, a commitment to continue some protection for industry, even if in a moderated form, was still evident. Trade and Industry's 1981 report described its administration of the import licensing system as 'designed primarily to ensure maximum use of domestic resources and at the same time give adequate protection to New Zealand industry', and 'administered in such a way as to enhance export competitiveness and encourage the transfer of resources into export activities.'<sup>236</sup>

Muldoon's introduction of a tendering system for import licensing appeared to be an attempt to bridge the divide between applying protection and encouraging competitiveness. Muldoon noted in his 1981 budget that the import licensing system had been 'administered with greater flexibility', a move which he considered had 'improved the competitive position of firms' through easier access to imported goods and more competitive prices for New Zealand-produced goods.<sup>237</sup> Tendering had been introduced in 1980 with the view to providing import flexibility and enhancing export competitiveness in New Zealand industry. The idea was that additional licences would be made available for consumer goods which might compete with domestically manufactured goods, with the view to introducing limited competition for manufacturers. There was also the hint that this might lead to greater liberalisation. Trade and Industry noted that the new system would also provide information 'likely to be useful in assessing the effectiveness of the tariff as a protective mechanism.'<sup>238</sup>

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<sup>235</sup> *Report of the Industries Development Commission, 17: The New Zealand Tyre, Tube and Retreading Industry Development Plan to 1992*, Wellington: Industries Development Commission, 1983, p.iii.

<sup>236</sup> 'Report of the Department of Trade and Industry', *AJHR*, G.14, 1981, p.5.

<sup>237</sup> R.D.Muldoon, 'Financial Statement', *AJHR*, B.6, 1981, p.3.

<sup>238</sup> 'Report of the Department of Trade and Industry', *AJHR*, G.14, 1981, p.8.

Muldoon also sought to make the exchange rate system more flexible in order to limit the disruptive effects of changes that had occurred in the past. He argued that the system as it stood tended to erode exporters' profitability by increasing local inflation, so the new system would 'remove uncertainty about major exchange rate movements by enabling smaller, more frequent changes to be made.' It was expected that this would 'avoid dislocation to trade and commerce' in the long run.<sup>239</sup>

The influence of the IMF was evident in this. A report from an IMF mission that had visited New Zealand in March 1979 had advocated that future adjustments to the exchange rate should be smaller and more frequent.<sup>240</sup> The following year Muldoon argued that the changed exchange rate regime had already had positive effects for agricultural producers. He claimed that the new system had provided for a 'considerable difference to farm gate returns', and that '(P)rimarily producers, and exporters generally, are now protected against the effects of domestic inflation.'<sup>241</sup>

Muldoon felt that his policies to expand export trade through industry studies, the revamped export incentive programmes, and producer supports, had worked. In the 1981 Budget he noted 'clearly discernible' signs that New Zealand's medium-term policies had succeeded which were evident in a higher rate of export volumes. He argued that this was more than the effects of good weather on agricultural production:

Even after allowing for the effect of favourable weather on pastoral production, there are clear indications that the Government's export encouragement policies have resulted in expanding exports across the board, from agriculture, forestry and fishing to manufacturing and service industries. The Government is firmly committed to policies which will maintain this momentum.<sup>242</sup>

The work of the IDC especially was viewed by Muldoon as providing the platform by which New Zealand industry could restructure and contribute more successfully to the economy:

The work of the IDC through the late 70s and 80s restructured a considerable number of industries with great long-term benefit to the economy, while contemporaneously exports of manufactured

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<sup>239</sup> R.D.Muldoon, 'Financial Statement', *AJHR*, B.6, 1979, p.11.

<sup>240</sup> Gustafson, *His Way*, p.268.

<sup>241</sup> R.D.Muldoon, 'Financial Statement', *AJHR*, B.6, 1980, p.11.

<sup>242</sup> R.D.Muldoon, 'Financial Statement', *AJHR*, B.6, 1981, p.6.

goods increased eight-fold in money terms, a most spectacular achievement.<sup>243</sup>

Not all were so enamoured with the IDC or the idea of restructuring, however. Bryan Philpott argued in 1982 that restructuring was a futile exercise for New Zealand at that stage of its development. He claimed that the IDC process was too fixed on imposing free market ideals on particular industries, while not considering the wider economic context. In his view the New Zealand economy was 'static' so trying to restructure it was 'hopeless task' that would only lead to 'more unemployment, more unused resources and more waste', unless economic momentum was first restored. Industry planning, he said, should consider 'the best distribution of resources between main industrial sectors of the economy that will provide the highest standard of living and the highest level of employment.'<sup>244</sup>

Muldoon's policies were not, however, easily discernible as following one path or another. McAloon's suggestion that his approach was 'erratic' is valid, especially in the example of the 'Think Big' strategy.<sup>245</sup> This developed as an attempt to restructure the New Zealand economy towards a series of energy policies which would culminate in a substantial growth strategy for heavy industry. Import substitution was a driving objective. From the late 1970s Muldoon announced incremental developments to National's energy policy which he said was 'directed ultimately at reducing the claim made by imported sources on energy on New Zealand's available foreign exchange'.<sup>246</sup> In late 1980 this was stepped up by the announcement that the energy plan would be accelerated through a substantial public works programme. Up to \$70 million would be invested by the government and directed towards the Huntly, Upper Waitaki, Clyde and Tongariro power projects.<sup>247</sup> These plans, along with others to expand Glenbrook steel mill and the Aramoana aluminium smelter, were dubbed collectively as 'Think Big'.<sup>248</sup>

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<sup>243</sup> R.D.Muldoon, *The New Zealand Economy*, Auckland: Endeavour Press, 1985, p.106.

<sup>244</sup> Bryan Philpott, 'Where are We Going?', *Canterbury Economic Bulletin*, No.675, 4/83.

<sup>245</sup> McAloon, 'State and Economic Development in Australia and New Zealand', p.17.

<sup>246</sup> R.D.Muldoon, 'Financial Statement', *AJHR*, B.6, 1979, p.22.

<sup>247</sup> R.D.Muldoon, 'Statement', *AJHR*, B.6A, 25 November 1980, p.7.

<sup>248</sup> Gustafson, *His Way*, pp.284-286.

## CLOSER ECONOMIC RELATIONS NEGOTIATIONS

The IDC process and the developments in the NAFTA relationship progressed alongside each other and tended to be complementary. Australia was often mentioned in the IDC reviews, in terms of its role as a market, an industrial competitor and a policy partner for the New Zealand Government. This meant that the dismantling of import licensing protection for industry became a more likely scenario in the outcomes of both. The NZMF expressed its acceptance that manufacturers would have to adapt to such changes, saying in 1979:

Whatever is agreed with Australia, it's clear that New Zealand industry is going to be faced with greater competition and that the pressure to rationalise and become internationally competitive will continue.<sup>249</sup>

The progression of the NAFTA talks ensured that issues of industry development were brought more centrally into the discussions. When the negotiations towards a closer economic relations framework (CER) were formally set in train by joint Prime Ministerial agreement in March 1980, a key objective was identified as obtaining 'the freest possible movement of goods between the two countries.' This included the idea of the 'progressive liberalisation of import restrictions' against each other.<sup>250</sup>

Work towards the development of CER over 1980 was directed towards the development of studies by both countries to establish how a possible agreement, with the objective of 'progressive liberalisation' of trade might be shaped. In December that year the findings were presented in a joint report to both countries' Prime Ministers. One of the key conclusions in this report was that there was scope for the creation of a 'full free trade area' between Australia and New Zealand under a completely new agreement. They further concluded that this would:

... result in significant new trading opportunities, enhance economies of scale, assist in a move towards the more efficient use of resources of both countries and contribute to the improvement of long term growth prospects and hence employment opportunities in New Zealand and Australia.<sup>251</sup>

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<sup>249</sup> 'The Crossroad – Which Way Now?' *Manufacturer*, November 1979, pp.30-34.

<sup>250</sup> 'Study Framework for Closer Ties Approved', *Manufacturer*, 7 April 1980, p.3.

<sup>251</sup> Document 139, Andre et.al., *Negotiation of the Australia New Zealand Closer Economic Relations Trade Agreement*, pp.411-429.

The enthusiasm was apparent amongst officials, but political processes still had some way to go. There was, nevertheless, a general expectation that this outcome would come to fruition as the CER negotiations progressed over the following two years.

The issues arising from the ongoing negotiations towards CER inevitably became intertwined with other economic and political developments within New Zealand. The domestic context had faced difficult times; the 'Think Big' growth strategy was under fire, and the Springbok rugby tour of 1981 had brought to a head tensions that had been welling up for some time both domestically and internationally about New Zealand's continued sporting relations with apartheid South Africa. National had been voted back into government in 1981 on only the slimmest of margins – a one seat majority – and dissatisfaction with their leadership continued to be fuelled by the perceived vulnerability of the economy. Hugh Templeton reflected that he felt at this time Muldoon should have passed on the finance portfolio to someone else to deal with the detail required:

The long decline in New Zealand's terms of trade lay on Muldoon like the load on the pilgrim Christian's shoulders, proving too much for an increasingly tired old warrior. Increasing joblessness was becoming a nightmare to him. By 1982 registered unemployment had risen to 48,000; with another 30,000 in government-created jobs, Muldoon's magic wand was losing its glitter.<sup>252</sup>

Muldoon's reactions to the economic problems were not supported by all in his government, as individuals were developing ideas of their own about economic management. Templeton, for example, had pushed for a change to the Commerce Act which would help the New Zealand economy create a domestic environment with more competition. This he considered was 'an essential ingredient' for the type of free-trade arrangement he envisaged under CER.<sup>253</sup> The move was rejected by Muldoon, however, who continued to put faith in his imposed wage and price freezes which focused on suppressing inflation.<sup>254</sup>

The fact that Templeton was New Zealand's leading negotiator in CER ensured that developments in that context tended to be directed towards developing the

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<sup>252</sup> Templeton, *All Honourable Men*, p.184.

<sup>253</sup> Templeton, *All Honourable Men*, p.191.

<sup>254</sup> Templeton recalls his growing concern over that time at what he perceived as Muldoon's disconnection with the 'realities' of the economic situation. Templeton, *All Honourable Men*, ch.19-22.

competitive context he thought was so important for the domestic economy. Templeton was highly committed to concluding the CER negotiations. He established a close working relationship with Doug Anthony throughout the negotiations, and worked hard to 'sell' the idea to political and private actors on both sides of the Tasman. New Zealand manufacturers were probably his toughest customers. In discussing the concept with manufacturers in 1982, he stressed the importance of CER to the national interest, equating the development of CER with New Zealand's programme for pursuing 'national prosperity'.<sup>255</sup>

The perceived importance of CER to developing New Zealand's manufacturing base, but also its potential to threaten it, was reflected in the NZMF's concern with the negotiation process. The Federation watched developments closely, calling CER the 'single most important issue facing manufacturers' at that time.<sup>256</sup> While they were supportive of the agreement in principle, they asserted their need to be kept abreast of the developments. They still needed assurances about certain issues and would remain nervous about the CER package until some fine print was produced that they could view before the agreement was signed. The Federation also struggled to work with its Australian counterparts effectively as well. In 1982 a NAFTA-CER working party met to discuss issues of import control and export incentives. The NZMF annual report noted, however, that although they had hoped to be able to reach their own agreement on these issues, 'it was found not to be possible', and the matters were referred back to their respective governments.<sup>257</sup> Despite the notable resistance from manufacturing quarters until the end, Templeton nevertheless pressed on with negotiations and eventually gained support for CER.

As the New Zealand and Australian governments continued the CER negotiations, Muldoon publicly expressed support for the finalisation of the agreement despite being considered, as Templeton has argued, to have been ambivalent about it. Philippa Mein Smith has explored criticisms like those of Templeton and others and

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<sup>255</sup> 'CER: The Most Important Issue', *Manufacturer*, 24 February 1982, p.1.

<sup>256</sup> 'CER: The Most Important Issue', *Manufacturer*, 24 February 1982, p.1; 'President States Reservations', *Manufacturer*, 24 February 1982, p.1; 'Fine Print Needed to Allay CER Nerves', *Manufacturer*, 14 April 1982, p.7.

<sup>257</sup> 'NAFTA-CER Working Party', 1982 NZMF Annual Report, NA file AALR 873, W5427/961, 61/1/25, part 2, New Zealand Manufacturers' Federation, General, 1979-1987.

argued that in fact any hesitancy Muldoon exhibited about the development of the agreement was more based on his concern to make the developments politically acceptable to the electorate – especially manufacturers – than a lack of faith on his part in its broader objectives.<sup>258</sup> This is supported by Muldoon’s public statements. In May 1982 he argued the importance of CER, noting that something had to be done beyond NAFTA as it ‘had reached the stage where it was unlikely to develop further.’ He expressed his expectation that CER would ‘over the next decade or so’ create a single ‘domestic market’ for the 18 million combined populations of New Zealand and Australia.<sup>259</sup>

After the long process of studies and negotiations, the Australia New Zealand Closer Economic Relations Trade Agreement (ANZCERTA, or CER) was finalised after a ‘flurry of negotiation’ in October 1982.<sup>260</sup> Hoadley has observed that this agreement went a long way further than its predecessor, by adopting a principle of free trade and stipulating a timetable by which this would be achieved.<sup>261</sup> This was indeed much different to NAFTA, which had operated under strictly managed trading conditions.

### **THE COMMITMENT TO LIBERALISE**

Jane Kelsey has noted (with some cynicism) that ‘CER provided a valuable tool for supporters of internal deregulation’ in both New Zealand and Australia.<sup>262</sup> This was true for those who had been pushing for the dismantling of New Zealand’s protectionist structures. One of the most important aspects of the CER agreement for New Zealand was the commitment to dismantle import licensing and export incentives. Article 5 of the agreement stipulated that no quantitative import restrictions or tariff quotas on goods could be intensified between Australia and New Zealand, and that they would be ‘progressively liberalised and dismantled’.<sup>263</sup> In his

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<sup>258</sup> Philippa Mein Smith, ‘Did Muldoon Really ‘Go Too Slowly’ With CER? *New Zealand Journal of History*, Vol.41, No.2, 2007.

<sup>259</sup> R.D.Muldoon, ‘The Pacific Community’, *Canterbury Economic Bulletin*, No.665, 5/82.

<sup>260</sup> But Australian politics caused the agreement’s final signing to be delayed into 1983, after their elections. Stephen Hoadley, ‘Trans Tasman Relations’, in Bruce Brown (ed.), *New Zealand in World Affairs III: 1972-1990*, Wellington: Victoria University Press, 1999, p.188.

<sup>261</sup> Hoadley, ‘Trans Tasman Relations’, p.187.

<sup>262</sup> Jane Kelsey, *The New Zealand Experiment: A World Model for Structural Adjustment?* Auckland: Auckland University Press, 1995, p.101.

<sup>263</sup> Text of the ANZCERTA agreement, retrieved 10 November 2008 from: [http://www.dfat.gov.au/geo/new\\_zealand/anz\\_cer/anzcerta1.pdf](http://www.dfat.gov.au/geo/new_zealand/anz_cer/anzcerta1.pdf)

financial statement in 1982, Muldoon had also sought to pacify any concerns about the programme of liberalisation. Emphasising the government's acceptance of the 'logic' of 'exposing sheltered sectors of the economy to competition from imports', he noted that import licensing would be dismantled by 1995, and at a pace which would give protected industries a chance to adapt to 'more open trading conditions'.<sup>264</sup> Performance-based export incentives, likewise, would be eliminated by 1987. He noted also the GATT influence on this commitment. In becoming party to the GATT Code on Subsidies and Countervailing Duties which resulted from the Tokyo Round, New Zealand had also committed to 'bring our export incentives into conformity with the Code within a reasonable period of time'.<sup>265</sup>

New Zealand's commitment to the GATT Code on Subsidies and Countervailing Duties was the result of pressure from the US through its trading relationship with New Zealand. In 1981 the US essentially forced New Zealand's hand when the US International Trade Commission (ITC) conducted 'injury tests' on imports of plastic eartags, meat and casein from New Zealand, essentially stalling the trade. They justified this by arguing that New Zealand was exporting these products unfairly due to its support of industries through export subsidies, and these were therefore potential threats to US industries.<sup>266</sup> The outcome of this – and political manoeuvring behind the scenes – was that in September 1981 New Zealand signed the GATT Code on Subsidies and Countervailing Duties, and entered into an exchange of letters with the US. In these they agreed that New Zealand's export incentives would be phased out over a period of time.<sup>267</sup> A further commitment to liberalising New Zealand's import policies had been made.

New Zealand's trade policy was clearly entering a new phase. Solid commitments were in place to dismantle the structures which had existed and been built upon for nearly half a century. In 1982 Muldoon reflected on the effect the international context had had on changing New Zealand's production and trade strategies. No

<sup>264</sup> R.D.Muldoon, 'Financial Statement', *AJHR*, B.6, 1982, p.11.

<sup>265</sup> R.D.Muldoon, 'Financial Statement', *AJHR*, B.6, 1982, p.10.

<sup>266</sup> 'Exports of Plastic Ear Tags to U.S.', *New Zealand Foreign Affairs Review*, January-March 1981, p.27; 'Moves to Restrict Casein Imports into U.S. Defeated', *New Zealand Foreign Affairs Review*, January-March 1981, pp.27-28.

<sup>267</sup> 'GATT Code on Subsidies and Countervailing Duties', *New Zealand Foreign Affairs Review*, July-September 1981, p.68.

longer could New Zealand base its economic success on producing cheap foodstuffs for Britain, or 'living off the sheep's back' as it was colloquially called.<sup>268</sup> New Zealand now had to focus on developing its trade more widely and developing a 'more efficient and flexible' trading economy.<sup>269</sup>

These developments prior to the election of the Fourth Labour Government in 1984 are important to highlight. Many writers tend to forget or neglect the role that the Muldoon government played in starting the ball rolling with trade liberalisation, in favour of focusing their attention on the changes Labour made after their election in 1984. Jane Kelsey's writing is one example. In *Reclaiming the Future: New Zealand and the Global Economy*, she describes a heavily controlled New Zealand economy in 1984:

In 1984 almost every part of the economy was heavily regulated. A complex system of trade protections – mainly tariffs, import licensing and export incentives and subsidies – had been built up over the years in response to various balance of payments, revenue, employment and industry needs.<sup>270</sup>

Kelsey is in fact correct. The systems were still in place, but she implies that nothing had been done to change that. The important point to remember is that policy had already moved some way towards liberalisation, especially through the commitments made in CER and in GATT. Ralph Lattimore and Paul Wooding express a more convincing view, noting that seeds of economic reform, particularly in the trade policy field were evident prior to 1984 and were part of a longer, slower process:

Trade policy change has been a dynamic process and changes have not been monotonic. In contrast to some other areas of post-1984 reforms, trade policy was changed slowly in many ways.<sup>271</sup>

The commitments National had made were reflective of the growth in support within New Zealand bureaucracy for liberalisation that had occurred through the early 1980s. Those that held strong views about liberalisation had gained some solidarity, and were interacting more readily with a wider audience. McKinnon notes the development of a

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<sup>268</sup> R.D. Muldoon, 'A New Zealand View of the International Economy and Some Foreign Policy Issues', *New Zealand Foreign Affairs Review*, July-September 1982, pp.6-13.

<sup>269</sup> R.D. Muldoon, 'Financial Statement', *AJHR*, B.6, 1982, p.8.

<sup>270</sup> Jane Kelsey, *The New Zealand Experiment: A World Model for Structural Adjustment?* Auckland: Auckland University Press, 1995, p.86.

<sup>271</sup> Lattimore and Wooding, 'International Trade', p.315.

unit within Treasury called 'Economics II' which was charged with developing 'alternative strategies for improving New Zealand's economic performance.' The group were strongly influenced by developments overseas and their advice was formulated around one idea, liberalisation, not only of border policies, but of 'everything'.<sup>272</sup> Some politicians were adopting similar ideas. In opposition, Labour MP Roger Douglas was formulating his own ideas about how the New Zealand economy should be managed which were very different to Muldoon's. He was over that time interacting with Treasury officers seconded to Labour's office in Parliament, and especially after he became shadow spokesman for Finance, he had many discussions with them that shaped his ideas about economic policy.<sup>273</sup> In 1980 he produced an 'Alternative Budget' to Muldoon's, which argued for saving government expenditure, including through the removal of agricultural and industrial subsidies and export incentives.<sup>274</sup>

Even more general writing on New Zealand's economy in the early 1980s argued in favour of economic change. Gary Hawke's economic history of New Zealand published in 1985, *The Making of New Zealand*, observed a long debate over the efficacy of import licensing policies over the post-war period. He made it quite clear that he felt import licensing had now run its course, and argued that tariff measures would have had a less distorting effect on the market.<sup>275</sup> His ideas reflected a similar perspective to Franklin's from the mid-1970s. This was not the view across all academia, however. John Gould was clearly responding to rising criticisms of New Zealand's economic performance in his book *The Rake's Progress* published in 1982. He presented a more moderate evaluation of New Zealand's economic development, arguing that New Zealand had followed similar policy patterns to other countries but had been 'surprisingly light-handed' compared, for example, to Britain.<sup>276</sup>

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<sup>272</sup> McKinnon, *Treasury*, pp.285-286.

<sup>273</sup> Douglas, *Towards Prosperity*, pp.22, 29-30.

<sup>274</sup> Roger Douglas, *Towards Prosperity: People and Politics in the 1980s, A Personal View*, Auckland: David Bateman, 1987, p.15.

<sup>275</sup> Hawke, *The Making of New Zealand*, pp.261-2.

<sup>276</sup> Gould, *The Rakes Progress?* p.15.

Gould was supportive of New Zealand's import licensing policies from the perspective of the 'infant industry' argument, and sought to evaluate the longer-lasting benefits of industrial development. He mused that:

It seems likely that future historians, looking back on the post-1945 years, will not judge the possibly over-protective industrialisation of the post-war years solely on the narrow grounds of immediate 'welfare loss'. As well as the intangible gain from a sense of growing nationhood, which most non-industrial nations in the post-war years have seen some industrial diversification and reduction on their dependence on primary exports as helping to foster, there is a more tangible gain in being able to offer new entrants to the workforce a greater variety of occupations and the opportunity to develop a wider range of engineering and management skills.<sup>277</sup>

McAloon's writing has responded to Gould's call for a revision of the effects of those policies. He has argued against the common understanding of New Zealand's industrial sector as being insulated and suffering from 'sclerosis' by the 1970s. Rather, he argues that a number of New Zealand businesses had successfully developed in the post-war decades with 'considerable openness to technological and managerial innovation', and in many cases, exporting success.<sup>278</sup>

Scholars such as Gould and McAloon engage somewhat with Sutch's ideas of the 1960s, where he argued that New Zealand through industrial development and the emerging (at the time of his writing) plans to liberalise industry protection had developed the ingredients to mature from 'colony to nation'.<sup>279</sup> Richard Willis also revisited Sutch's 'colony or nation' thesis in 1981, and rejected the continued labelling of New Zealand as a colony. He based his argument on what he described as significant diversification of New Zealand's trade, especially through the increased importance of Australia, the United States of America, and the Soviet Union to New Zealand exporters. He noted, however, that New Zealand's efforts to seek markets outside of its traditional political relationships had led to 'some strange bedfellows'.<sup>280</sup>

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<sup>277</sup> Gould, *The Rake's Progress?* p.231.

<sup>278</sup> McAloon, 'Long Slow Boom?', p.67.

<sup>279</sup> Gould, *The Rake's Progress?* p.231.

<sup>280</sup> Willis, "'Colony or Nation' Revisited", p.22.

#### FOURTH LABOUR GOVERNMENT

Any defence of New Zealand's traditional trade policy structures was losing ground and this was especially clear from the election of the Fourth Labour Government in 1984. From their early days in power, monetarist ideas were evident in the new government's approach to economic management and its trading activities. They staged an Economic Summit, promoted as a means to 'seek consensus on the way to improve this country's economic performance'.<sup>281</sup> This was held for three days in September 1984 with 217 participants from a range of business, industry, trade union and community interest groups. The background document prepared for the Summit was quite instructive, and conveyed the influence of Treasury and Douglas' ideas. It emphasized the weakness of the New Zealand economy and its 'poor and deteriorating' performance over the previous twenty years.<sup>282</sup> It presented four measures for evaluating this performance, and under each of those – economic growth rates, unemployment levels, inflation rates and balance of payments – emphasized the negative trends evident. It noted that some change had taken place, using the example of the previous government and the NZMF having 'agreed on a formula which will gently move domestic industry towards tariff protection'.<sup>283</sup> This type of development they intended to build on, and called for a 'co-operative community approach (which) would improve our economic performance and enable us to achieve our social aims'.<sup>284</sup> It was clear that change was expected to come from decisions in the conference.

Finance Minister Douglas' statements at the Summit were even more instructive. He identified a number of economic measures – which the previous government had implemented or maintained - including Supplementary Minimum Prices, import licensing, export incentives, and government participation in energy projects, which he said had 'artificially stimulated production', created a 'web of subsidies' which had caused an 'upward spiral of assistance' with little real return. He argued for 'untying the tangled knot of interconnected subsidies' to enable 'the profitability of activities

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<sup>281</sup> *View from the Summit: A Look at the '84 Economic Summit Conference*, Wellington: New Zealand Government, 1984, p.v.

<sup>282</sup> *A Briefing on the New Zealand Economy*, Wellington: Economic Summit Conference, 1984, pp.1,3.

<sup>283</sup> *A Briefing on the New Zealand Economy*, p.12.

<sup>284</sup> *A Briefing on the New Zealand Economy*, p.55.

to bear a “more sensible relationship to economic reality”<sup>285</sup>. Like so many before and after him, Douglas argued that the best hope for New Zealand’s economic future lay in trade development. His approach to this was to improve New Zealand’s trading performance by creating the ‘right economic climate’ for New Zealand industries. It was clear that to his mind this would mean paring back government assistance to industries.<sup>286</sup>

This time, the manufacturers had little influence over, or ability to resist, the policy changes. Douglas clearly had little sympathy for those in the business, farming and manufacturing sectors which he believed had had too much political influence in the past, and had cruised at the cost of the New Zealand taxpayer.<sup>287</sup> He later expressed satisfaction that they were not allowed to influence the Summit in the same way:

I believe the lasting achievement of the Summit has been a change in the nature of lobbying. Lobbying used to be a full-time activity for businesses in New Zealand. It was directly related to how politicians saw their jobs – as keeping people happy...Earl Richardson, former president of Manfed, said to one of my staff at lunch during the 1985 Manufacturers’ Federation conference, “You know, before conferences like this, we always used to wind up the old lobbying...and get what we wanted. Now, my God, you go and talk to these guys and they don’t even listen.”<sup>288</sup>

The ‘strong tradition of participation in policy-making, where major interest groups were formally and informally incorporated into the process’ that Shaun Goldfinch identified as characteristic before 1984, was now essentially gone.<sup>289</sup> Policy-making was being led by ideology which was committed to retracting the role of the state as much as possible from the economy. Essentially, the Labour Government was going to take the liberalisation policy ‘ball’ that National had been batting around for a few years and was now going to run with it. One of the earliest demonstrations of this was the floating of the New Zealand dollar in March 1985.<sup>290</sup> This effectively ended the era of using the exchange rate as a trade policy tool.

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<sup>285</sup> *View from the Summit*, p.12.

<sup>286</sup> *View from the Summit*, p.12.

<sup>287</sup> Douglas, *Towards Prosperity*, p.14.

<sup>288</sup> Douglas, *Toward Prosperity*, p.79.

<sup>289</sup> Shaun Goldfinch, *Remaking New Zealand and Australian Economic Policy : Ideas, Institutions and Policy Communities*, Wellington: Victoria University Press, 2000, pp.59-61.

<sup>290</sup> McKinnon, *Treasury*, p.325.

The effects of the change of government were obvious in the reports of the Department of Trade and Industry, with David Caygill as Minister. For some years, the report opened with a description of its key functions; 'to promote and encourage the improvement and development of industry and commerce and to promote and encourage the export trade of New Zealand'.<sup>291</sup> In 1985 this was preceded and followed by statements that suggested the department was under significant pressures to change. These noted that the department was 'subject to the same influences as the business community it serves, and must change accordingly', and acknowledged that it operated in 'a dynamic and at times volatile setting'.<sup>292</sup> It was noted that the department need to change its working 'culture' from one of a 'largely reactive role to one which involves a greater anticipation of changing needs.' This not only meant that the department was being remodelled 'within a business of "corporate" planning framework', but that its approach to industrial development had substantially changed. The descriptions of the import licensing system illustrated the substantial relaxation of controls and of work towards the government's policy of phasing out licensing altogether through increased licence tendering and systems of licence transfer.<sup>293</sup>

The department would in any case be completely restructured in the following years. In separating Trade and Industry into commerce and trade policy divisions, industrial development policies were essentially sidelined. Douglas described the changed nature of dealing with industrial development in his commentary accompanying the 1986 budget, by describing his programme of 'protection reform'; '(T)he removal of protection, the phase out of subsidies and other deregulatory moves will expose producers to stronger and internal competition'. He noted that this was causing many firms to 'undergo a fundamental rethink of what activities they should be involved in', but argued that the export sector would be benefitting from this programme through reduced input costs, increased productivity and the removal of regulatory barriers.<sup>294</sup>

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<sup>291</sup> 'Report of the Department of Trade and Industry', *AJHR*, G.14, 1983, p.6.

<sup>292</sup> 'Report of the Department of Trade and Industry', *AJHR*, G.14, 1985, p.4.

<sup>293</sup> 'Report of the Department of Trade and Industry', *AJHR*, G.14, 1985, pp.5-9.

<sup>294</sup> Roger Douglas, '1986 Budget Part II: Economic Commentary and Budget Tables', *AJHR*, B.6A, 1986, pp.17,27.

The reforms of the state sector and emphasis on business models implemented by Labour were very evident in the reports of the Ministry of Foreign Affairs and the Department of Trade and Industry by 1988. Each of the reports started with corporate statements and objectives statements. The mission statement of Trade and Industry made clear the commitment to liberalized trading economy:

To promote in accordance with Government's policies an environment within New Zealand and overseas that encourages the growth of internationally competitive, efficient and market oriented business that will contribute to New Zealand's economic development and the welfare of its people.<sup>295</sup>

Trade and Industry's work had also substantially changed. The report indicated the substantial decline in its role as import licensing administrator. As it noted, on 1<sup>st</sup> July that year 'all goods not covered by industry plans will be exempted' from import licensing.<sup>296</sup> Of those industries under plans, several were being prepared for the elimination of import licensing in the near future. The affected industries were wide-ranging, including canned fruit, woollen carpets, electronics, motor vehicles and their components, plastics, tyres and tubes, margarine, glassware, general rubber goods, tobacco, starch and related products, some textiles, and writing instruments. Wine was noted as having tariff quotas progressively increased, and footwear, textiles and apparel and ceramics were still having programmes reviewed. Tariffs were also being reduced. The report noted that tariffs on goods not subject to industry plans would be progressively reduced by approximately 50 percent over four years from 1988 to 1992, and that other reviews would proceed accordingly. Complete trade liberalization – at a much speedier pace than before – was well and truly underway.<sup>297</sup>

### **CHANGES IN TRADE POLICY ADMINISTRATION**

New Zealand's trade policy in the past had blurred the lines between trade promotion and gaining market access through political channels. This would now change. The Market Development Board was established in March 1986 with the brief of 'fostering New Zealand's foreign exchange earnings and working alongside sector

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<sup>295</sup> 'Report of the Department of Trade and Industry 1988', *AJHR*, G.14, 1987-90, p.3.

<sup>296</sup> 'Report of the Department of Trade and Industry 1988', p.21.

<sup>297</sup> 'Report of the Department of Trade and Industry 1988', pp.20-27.

groups in achieving that objective'.<sup>298</sup> It had been developed through the work of a Steering Committee formed in September 1984 by Mike Moore, the Minister of Overseas Trade and Marketing (the title itself telling of an increased emphasis on the marketing of exporting). The Steering Committee sought to address what they viewed as the problem of unsatisfactory export performance by instilling 'market-led planning' through a new organisation.<sup>299</sup> A Market Development Board, they argued, would bring a 'new approach' to supporting New Zealand exporters and marketing New Zealand exports that would be 'a greater resource base for market and trade development than is presently available under the role of the Department of Trade and Industry'.<sup>300</sup> The Market Development Board that was consequently established had some 'guiding principles' for its work that reflected market-driven, user-pays approaches:

... that the future of exports is in marketing rather than trading, and in differentiated products to increasingly affluent populations; that innovation is a key to successful overseas marketing; that there is a need for New Zealand exporters to share the costs of non-proprietary information and functions.<sup>301</sup>

Formal trade policy work was essentially redefined by this move as it was shifted more explicitly into confronting the political aspects of market access. It was now one step removed from the business of selling export goods to markets.

After decades of operating trade diplomacy and political diplomacy separately – and sometimes in tension with each other – the decision was made to bring external trade under the umbrella of the Ministry of Foreign Affairs. This change was generally accepted as logical, and broad consensus was apparent in the passage of the External Relations and Trade Development Bills to enact it in Parliament in November 1988.<sup>302</sup> In introducing the second reading of the Bill, Mike Moore stated

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<sup>298</sup> 'Report of the New Zealand Market Development Board for the year ended 31 March 1988', *AJHR*, G.40, 1987-90, p.2.

<sup>299</sup> *Report of the Steering Committee of the New Zealand Market Development Board*, Wellington: Department of Trade and Industry, 1984, p.6.

<sup>300</sup> *Report of the Steering Committee of the New Zealand Market Development Board*, pp.12, 23.

<sup>301</sup> 'Report of the New Zealand Market Development Board for the year ended 31 March 1988', *AJHR*, G.40, 1987-90, p.2.

<sup>302</sup> 'External Relations and Trade Development Bill: Report of Foreign Affairs and Defence Committee', *NZPD*, Vol.494, 23 November 1988, pp.8258-8259.

that 'the logic of the reform is overwhelming.'<sup>303</sup> Bringing together trade policy with foreign policy was accepted almost without question, especially given its separation from explicitly promotional activities that the Trade Development Board would handle. Moore referred to what he saw as a paradox of the role of trade commissioners in the past, which the changes Labour had brought in would address:

...for too long in New Zealand we have had a system in which skilled, highly motivated, and talented people went overseas to work for their country, and felt good about themselves. When they returned they were locked into a reactionary protectionist regime in which they were emotionally and intellectually destroyed.<sup>304</sup>

He cynically added that 'the greatest contributions in the old protectionist system of the Department of Trade and Industry' was the addition of trade commissioner talent to large New Zealand companies and producer boards.<sup>305</sup>

Regardless of any lingering attitudes or tensions between Trade and Industry and Foreign Affairs, these changes were something that Merwyn Norrish reflected had, at least for Foreign Affairs officials, been a long time coming. He argued that Foreign Affairs had for a long time seen the parallel systems of trade commissioners and diplomats as 'wasteful of talent', and that this would enable New Zealand's representation overseas to work more effectively, and:

... resolved the problem that had faced the Foreign Ministry for so long in having to battle against odds for the view that trade is foreign policy at least as much as foreign policy is trade. There was at last one voice to speak for the combined interest.<sup>306</sup>

The other important consequence of this bureaucratic rearrangement was the division of the Department of Trade and Industry into three new entities. Besides the trade policy functions being absorbed into the new Ministry of External Relations and Trade, a new Ministry of Commerce would now cover 'activities in respect of

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<sup>303</sup> Mike Moore, 'External Relations and Trade Development Bill: Second Reading', *NZPD*, Vol.494, 23 November 1988, p.8265.

<sup>304</sup> Mike Moore, 'External Relations Bill, New Zealand Trade Development Board Bill: Third Readings', *NZPD*, Vol.494, 23 November 1988, p.8269.

<sup>305</sup> Mike Moore, 'External Relations Bill, New Zealand Trade Development Board Bill: Third Readings', *NZPD*, 23 November 1988, Vol.494, p.8269.

<sup>306</sup> Norrish, 'Changes in the Focus of the Ministry', pp. 152-153,155.

domestic business.<sup>307</sup> Trade promotion activities would come under the responsibility of the newly-formed Trade Development Board which absorbed Tradecom and the Market Development Board. An important point to make here is that industrial development as it had traditionally been known seemed to melt away from the bureaucratic profiles, after decades of being a priority – and in fact the main focus – in its predecessor departments. Industrial development was now couched in terms of developing efficiency and international competitiveness; industries would be largely left to themselves to ‘readjust’ accordingly.

### **RESPONSES AND CONSEQUENCES FROM THE REFORMS**

Responses to the reforms were wide-ranging, and many were fearful of the consequences. Geoff Datson who had been deputy secretary of Trade and Industry through the 1970s argued in 1987 that ‘inexperienced theorists ... at the helm of economic policy’ had taken the reforms ‘too far and fast’, and he estimated that up to 40 percent of New Zealand’s manufacturing was now under threat of being lost.<sup>308</sup> The NZMF reiterated this nervousness, arguing in 1989 that the Ministry of Commerce’s work was too ‘broad’ to have a ‘sufficient focus on the importance of manufacturing for New Zealand’.<sup>309</sup> Their fears were to a large extent played out, as industrial employment reduced from 330,000 in 1986 to 240,000 as industries scaled down and even disappeared. The NZIER noted in 1993 that the consumer electronics and ceramics sectors had ‘disappear(ed) altogether’.<sup>310</sup>

The NZMF argued in 1989 that ‘(T)he philosophy let the market decide fails for want of pragmatism and objectivity’.<sup>311</sup> They recommended ‘long term objectives’ be pursued under a new Ministry of Industry which could administer industry development policies and monitor industrial development. This, they said, would not

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<sup>307</sup> ‘Report of the Department of Trade and Industry 1 April 1988-30 November 1988 and of the Residual Management Unit of the Department of Trade and Industry 1 December 1988-30 June 1989’, *AJHR*, G.14, 1987-90, p.3.

<sup>308</sup> ‘An Excess of Economic Reform, Datson Warns’, *Manufacturer*, 23 November 1987, p.3.

<sup>309</sup> New Zealand Manufacturers’ Federation, *The Importance of Manufacturing: A Strategy for Manufacturing Growth*, Wellington: New Zealand Manufacturers’ Federation, 1989, p.7.

<sup>310</sup> Alan Bollard, *The Political Economy of Liberalisation*, Wellington: New Zealand Institute of Economic Research, Working Paper 93/2, 1993, p.13.

<sup>311</sup> New Zealand Manufacturers’ Federation, *The Importance of Manufacturing*, p.3.

be 'meddling in the marketplace', but 'investing for growth'.<sup>312</sup> For the time being, however, this would remain in the background of official policy focus. The Ministry of Commerce directed its energies more towards monitoring and encouraging quality and productivity in New Zealand manufacturing.<sup>313</sup>

As New Zealand's domestic economy was liberalised the foreign policy aspects of New Zealand's trade policy also changed in nature. A key aspect of economic diplomacy – defence of New Zealand's import licensing policies – melted away. This also removed much of New Zealand's traditional bargaining leverage in the multilateral trading environment. Strategies now altered to focus on arguing that New Zealand was a leading example of economic liberalization that should receive like consideration from trading partners, rather than the traditional 'give and take' of licensing and tariff concessions that had dominated previous negotiations. This was particularly useful in those international economic and financial forums where liberalization continued to be argued for as the international panacea. In the OECD forums, for example, New Zealand's tactics to pressure other countries for 'structural adjustment policies and agricultural trade reform' included being involved in technical and policy committees and Roger Douglas also spoke at one meeting on structural issues.<sup>314</sup>

Trade policy now became focused more on the multilateral environment, especially within the Cairns Group and through GATT. New Zealand representatives had shaped a new negotiating position for themselves as leaders of the Cairns Group, a group of 14 countries identifying themselves as 'fair traders in agriculture'.<sup>315</sup> This group had formed through a meeting in Cairns in 1986 with the view to 'broaden(ing) the constituency for liberalization in world agricultural trade'.<sup>316</sup> New Zealand's tactics in being part of such a group were a reflection of the understanding Talboys had demonstrated earlier that decade, that to accumulate real bargaining power in the

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<sup>312</sup> New Zealand Manufacturers' Federation, *The Importance of Manufacturing*, p.7.

<sup>313</sup> NZOYB, 1990, p.511.

<sup>314</sup> 'Report of the Ministry of External Relations and Trade for the year ended 31 March 1989', *AJHR*, A.1, 1987-90, p.29.

<sup>315</sup> 'Report of the Ministry of External Relations and Trade 1989', p.28.

<sup>316</sup> 'Report of the Ministry of Foreign Affairs for the year ended 31 March 1987', *AJHR*, A.1, 1987, p.17.

international economic arena, New Zealand needed to align itself with other like-minded countries.<sup>317</sup>

As part of the Cairns Group, New Zealand representatives were actively involved in negotiating the agenda for the GATT Uruguay Round and were finally successful in having agricultural trade liberalization included.<sup>318</sup> This was understandably described a 'major achievement' for New Zealand considering its consistent lobbying towards this for over three decades. This would have contributed to the confidence expressed by David Lange in New Zealand's independent foreign policy abilities – especially after the assertion of independence in establishing anti-nuclear policies – which he said contributed to New Zealand's international image as 'a unique country, in charge of its own destiny, with much to give and to gain in international cooperation'.<sup>319</sup>

Over the following years New Zealand's work through the Cairns Group and in the GATT Uruguay Round negotiations would become intertwined with its pursuit of agricultural interests bilaterally as well. These new strategies in the multilateral arena would seek to complement the extensive diplomatic work that sought to retain 'traditional' access to Britain and Europe, and would significantly pay off with increased access to Europe at the conclusion of the Uruguay Round in the 1990s.<sup>320</sup>

### **REFLECTIONS ON CONTEMPORARY TRADE POLICY**

The decision of the New Zealand Government to develop a highly liberalised trade policy since the 1980s has attracted a wide range of writing on the topic. By the end of the 1980s, New Zealand was considered one of the most liberal trading countries in the world, a far cry from how it was viewed half a century earlier. Some ideas have consequently formed as 'accepted knowledge' over this time. Most obvious was that the reforms had been very sudden and extreme. In the case of import policies, however, this was not the case. The ideas behind dismantling the import licensing system had been developing for decades, slowly gaining ground as different actors

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<sup>317</sup> Brian Talboys, 'Report of the Ministry of Foreign Affairs for the year ended 31 March 1981, *AJHR*, A.1, 1981, p.5.

<sup>318</sup> 'Report of the Ministry of External Relations and Trade 1989', p.28.

<sup>319</sup> David Lange, 'Report of the Ministry of Foreign Affairs for the year ended 31 March 1986, *AJHR*, A.1, 1986, p.5.

<sup>320</sup> The outcomes from the GATT Uruguay Round and the effect on the relationship with Britain and Europe are covered in my Masters Thesis. Davenport (Neill), 'Trading in Traditions'.

gained influence in New Zealand policy making. Decisions had also been made by the National Government in the early 1980s to commit to this through international agreements. Mein Smith has gone some way to remedying this accepted wisdom in the *Concise History of New Zealand*, where she notes that the economic restructuring process was in place well before the 1980s, but was not 'incorporated into national types and myths' until the liberalisation process was well under way.<sup>321</sup>

An idea which gained ground in international writing on trade policy over the 1990s, and which was applied to New Zealand trade policy, was the notion of unilateralism. This was presented as one of the four tracks of New Zealand's trade policy published in a Foreign Affairs and Trade policy document in 1993.<sup>322</sup> Unilateralism has been broadly defined as independent domestically-developed policy. Government decisions are determined to be unilateralist if they are made independently of external factors and influences. Such decisions are seen as an exercise of the political and economic sovereignty of the nation. New Zealand's economic liberalisation efforts from 1984 onwards have been celebrated by writers such as Martin Richardson as exemplary unilateralism at work.<sup>323</sup>

If unilateralism is interpreted simply as decisions made independently (that is, only by New Zealand policy makers), it may be justified to describe the New Zealand policy context. If it is used as it is often presented, however, that is as unencumbered decisions made without pressure or influence from outside forces, it is problematic. This is too simplistic a way to describe New Zealand's liberalisation process because several external influences ultimately forced the change. Even Richardson agrees that New Zealand's trade policy reforms were essentially inevitable, because the decision to do so was based on 'a realisation of economists' reasoning about trade policy for small countries', but also 'the fact that trade reforms were nested in a broader web of

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<sup>321</sup> Philippa Mein Smith, *A Concise History of New Zealand*, Cambridge: Cambridge University Press, 2005, p.203.

<sup>322</sup> Ministry of Foreign Affairs and Trade, *New Zealand Trade Policy, Implementation and Directions: A Multi-track Approach*, Wellington: Ministry of Foreign Affairs and Trade, 1993.

<sup>323</sup> See, for example, Martin Richardson, *Unilateral Liberalisation in a Multilateral World*, Dunedin: University of Otago Department of Economics, 2001; Peter Lloyd, 'Unilateral and Regional Trade Policies of the CER Countries', in J.Piggott and A.Woodland (eds.), *International Trade Policy and the Pacific Rim*, London: Macmillan Press, 1999.

policy reforms.<sup>324</sup> Rather than the government now regulating trade and industrial development, he said, the 'openness to competition' in the international marketplace would be the means of regulation.<sup>325</sup>

As much as Richardson focuses on unilateralism, he too concedes that there was some external influence in New Zealand's decisions to liberalise. The relationship with Australia has been recognised as key to this by some who have taken a longer view of New Zealand's trading history. Falconer, Hawke and Brown all credited CER with creating a framework from which New Zealand could break up its protective structures in the post-1984 moves toward economic liberalisation.<sup>326</sup> Richardson also notes that this provided a 'demonstration effect' in that as small steps in liberalisation of trade between Australia and New Zealand took place and did not lead to the collapse New Zealand's manufacturing sector, policy makers were 'emboldened' to take more radical steps in reducing trade barriers.<sup>327</sup>

The ultimate goal of diversification of New Zealand's trade interests that had under laid New Zealand trade policy since the 1950s was by the 1990s considered to have been achieved. Richardson demonstrated in a 1998 review of New Zealand's trade policy that trade diversification had accelerated since the reforms, especially in manufactured exports.<sup>328</sup> Lattimore and Wooding, on the other hand, differ in their analysis. The conclusion they draw after measuring New Zealand's trade performance since the reforms is that the overall nature of trade did not change substantially after reforms (that is, proportions of manufactured imports and exports remained similar), but that within those broader categories there were quite significant changes, as some industries waned while others grew under a deregulated environment.<sup>329</sup>

By the late 1990s trade policy had gained a stability that had not been evident in earlier decades. It had become mainly focused on developing external relations and negotiating mainly through the multilateral WTO to gain opportunities for New

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<sup>324</sup> Martin Richardson, *Unilateral Liberalisation in a Multilateral World*, Dunedin: Dept. of Economics, University of Otago, 2001, p.12.

<sup>325</sup> Richardson, *Unilateral Liberalisation in a Multilateral World*, p.13.

<sup>326</sup> Falconer, 2004; Hawke, 'New Zealand', p.37,. Brown, 'New Zealand in the World Economy', p.35.

<sup>327</sup> Richardson, *Unilateral Liberalisation in a Multilateral World*, p.5.

<sup>328</sup> Martin Richardson, 'New Zealand Trade Policy and the 1996 WTO Review', *World Economy*, Vol.21, No.4, June 1998, pp.530, 541-542.

<sup>329</sup> Wooding and Lattimore, 'International Trade'.

Zealand exports. Within this, the fight against agricultural protectionism would also continue. This remains a concern that negotiators continually have to contend with.

Brown reflected in 1999 that 'whatever their social impact', New Zealand's economic reforms had helped New Zealand's multilateral negotiating stance and 'made New Zealand exporters more innovative and more competitive.' He expressed the concern, nevertheless, that such a change had not achieved a reprieve from the perennial problem of balancing payments. He argued that opening the economy to importing so widely had 'encouraged the longstanding New Zealand habit of importing more than we can afford', which in turn caused 'a serious balance of payments problem'.<sup>330</sup> The irony of this should not be lost. After decades of tinkering, planning, stalling, rushing and even completely turning around trade policy, this continued as much of a challenge to the New Zealand economy as it had over six decades earlier.

## **CONCLUSION**

New Zealand entered the 1970s with officials expressing confidence in New Zealand's more 'Pacific' position in the world in foreign policy terms, and in the clear plans and targets for developing New Zealand's future economy that had come out of the NDC process. These plans also signalled change for the economy which at that stage appeared to be fairly generally accepted. The external context, however, would deliver some blows that would considerably affect that confidence and consensus. Ironically, this caused both more 'inward-looking' and 'outward-looking' responses that illustrate the greatly increased complexity of New Zealand's trade policy work.

Within New Zealand, domestic acceptance of policies to change the protective import licensing structures dissolved in some quarters. Manufacturers became particularly concerned with the security of their operating environment and looked to government to help re-establish some confidence for their sector. On the other hand, the ideas of those that had been pushing for relaxing import controls developed considerably and they pushed more for a more 'outward-looking' approach to trade policy. The divisions between these groups are a key part of the story of trade policy

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<sup>330</sup> Brown, 'New Zealand in the World Economy', pp.22,55.

change over the 1970s. In the end, it would appear that the 'free traders' ideas won out, but the delay in those decisions coming to fruition was perhaps a victory for the 'protectionists' as well.

Over the 1970s and 1980s, both political parties – probably more during periods of opposition – were developing their own ideas about the ideal role of government in the economy and external trade. Much of what they did once in power, however, can be seen as formulated by a mixture of those ideas and the lessons they learnt from observing the previous government's actions. This led to policies that were often based more on short-term objectives and appeasing political disquiet.

To a large extent this is understandable. After all, the international context was providing new, uncertain ground for New Zealand governments. The traditional basis on which the country had based its trade policies for so long was only there as a temporary platform which might be taken away if the EEC so determined it. The new trading relationships that were being built were based on less certain platforms. They were new relationships in not only economic, but political, cultural and social senses, unlike those with Britain and the Commonwealth that New Zealand had known. These new trading partners were also dealing with extra political issues of their own that New Zealand was not directly involved in nor could have any say in. Meanwhile, international commodity prices were providing more than enough of a challenge for balancing overseas payments.

By the beginning of the 1980s, ideas about 'restructuring' had grown to the point where it appeared to be a generally accepted objective. The ideas about what restructuring meant also evolved. Initially focused on developing New Zealand's industrial sector, then 'export-led' industrialisation, by the early 1980s economic liberalisation was also part of its understanding. The development of this understanding was negotiated through external engagement, especially through GATT and the CER negotiations. These secured commitments to liberalise New Zealand's trade policy structures. The issue more at stake then was the pace at which this would occur. For Muldoon's government this would be incremental. The Fourth Labour Government, however, was committed to an ideological vision and ensured that the pace of change was greatly increased.

The changes that took place in government bureaucracy were significant in changing the nature of New Zealand's trade policy base. The fusion of trade diplomacy with Foreign Affairs was relatively straightforward, given the parallel work that had been conducted between the two departments for some time. Separating trade promotion work to a semi-independent marketing board was also in keeping with the 'more-market' focus that had developed. The significant difference was that of the change of emphasis for industrial development. New Zealand's traditional understanding of this concept was replaced by the notion of 'business development' with the emphasis on efficiency and competing independently in a highly internationalised environment. Farmers, too, had a number of new expectations directed towards them. It was 'sink or swim' time for all New Zealand producers as the supportive structures by which they had developed were removed from around them.

With all of these changes, trade policy adopted a very different nature. To a large extent this meant that its work would mainly be externally based. The 'national interest' that trade diplomats would now base their work on was focused mainly pursuing opportunities for New Zealand exporters, because importing had lost its political contentiousness. New Zealand also had a new string to its bow in trade negotiations. Representatives could argue the good example the country was setting in liberalising its economy so extensively. This was especially useful in the negotiations for the GATT Uruguay Round, and set the basis of strategies that have endured since.

## Conclusion

The development of New Zealand's trade policy over most of the twentieth century has involved multi-dimensional change. There is, however, a constant, the importance of external trade to the New Zealand economy and its society. Prime Minister John Key's recent remark about New Zealand needing to 'trade its way' out of the current economic crisis indicates that this remains the case. The almost constant tinkering with policy connected to trade is testament to that continual recognition of trade's importance to New Zealand. Governments have always sought to shape New Zealand's trade activities in the best ways they considered possible, and usually in response to external challenges beyond the country's control. The strategies created, however, have also tended to be conditioned by the acceptance that the outcomes will be more likely influenced by factors in the external context than from within New Zealand.

### INTERNATIONAL INFLUENCES IN TRADE POLICY DEVELOPMENT PHASES

In the 1930s the New Zealand government sought to secure the traditional trade platform in response to the growing realisation that the security of the relationship with Britain would not endure under a laissez-faire system. The development of the Ottawa Agreement was a means by which this was to be achieved. The establishment of the import controls system was likewise driven by external considerations. It was initially an immediate response to an exchange crisis, but it was also an effort to insulate and stabilise the New Zealand economy against an international system that had often proved to threaten economic stability, especially through commodity price fluctuations. These responses also reflected the influence of international thinking on economic development around the welfare state and full employment. They were, also, indications that the traditional reliance on trade with Britain was understood to be too narrow to sustain New Zealand's future development. The context produced by World War Two, however, ensured that little would be done about this for at least another fifteen years, as the bulk purchasing arrangements centred production and trade activity back on the traditional relationship.

The war period reoriented New Zealand's trade policies towards Britain, and stability – especially in relation to international inflationary factors – was the main challenge for the domestic economy in the war context. Changes in the dynamics of New Zealand's external relations throughout the war, however, introduced political influences into New Zealand that would become important factors in future trade policy development. The rise of the USA as the leader in the international economy introduced new dynamics that New Zealand would have to contend with over the following decades. The development of closer bilateral relations with the USA and Australia during the war, and New Zealand's active participation in the new multilateral organisations at the war's end, were also to ensure broader influences. Pressures exerted from these new relationships on New Zealand's existing trade policies forced a clearer articulation by the New Zealand government of domestic economic priorities in relation to trade, especially in terms of the ideological commitment to full employment. These new influences, however, also provided a context in which those policies could be challenged. Under Holland's National Government especially, the import licensing system became a political instrument by which trade would be balanced between domestic demand and international price variations.

Changes in the international context in the 1950s and 1960s resurrected the perception of New Zealand's economic vulnerability that had been masked by the war context. The rise of agricultural protectionism necessitated increased diplomatic activity to argue against such developments. The establishment of the EEC also threatened New Zealand's traditional trade patterns, especially when Britain applied to join. New Zealand's responses to the anticipated loss of the British market brought the notion of diversification to the fore in trade policy, and further broadened the scope of diplomatic activity. The consultative strategies that were developed by the government, domestically through the development conferences and internationally with external organisations like the World Bank, introduced a range of new actors into trade policy conversations. This would ensure that a more complex mixture of influences would be exerted on policy development over the following decade.

By the beginning of the 1970s, even though there was little to show in terms of change in trade activity, thinking within New Zealand about its place in the world and the future of its trade had clearly shifted away from the traditional platforms. Moves towards being a more 'Pacific' international participant, following a specific plan for economic development and restructuring, and trade diversification policies appeared to hold the promise of future economic prosperity. The challenges presented by wildly fluctuating international economy, however, ensured that any decisions that would invoke significant change would be delayed. At that stage, the greater mix of actors involved in trade policy appeared to stall any clear-cut policy development as divisions in thinking about the best long-term options for New Zealand trade were apparent. Pragmatic, short-term responses tended to take precedence over the development of any strategic long-term decisions. A long debate over the pros and cons of liberalisation is a feature of that decade. The eventual commitment to liberalise New Zealand's import system was, again, ultimately the consequence of external agreements rather than an achievement of consensus within New Zealand. The more dramatic decisions to speed up this process and dismantle the platform of economic supports were also based more on an ideological vision that had international origins.

#### **FACTORS IN POLICY CHANGE**

This overview shows that it has been the external context that has more than anything influenced changes in New Zealand's trade policies. Thinking towards new ideas and strategies would generate for some time within the domestic context, but it would be triggers from the external environment that would usually provide the catalyst for action. The initial effect from the international context would be felt through price mechanisms. This gives weight to the arguments of Condliffe, Hawke and Easton who have highlighted the influence of commodity price changes over New Zealand's historical economic development, but only to a point. The price factor has acted more as a catalyst in instigating reaction that could lead to policy change. Political attention to trade activity has always increased when export prices have dropped. As this thesis has shown, however, a range of other political and social

influences – both domestic and external – have ultimately shaped policy and determined the decisions for change.

The price factor has under laid New Zealand's 'balance of payments constraint', something that was an enduring feature of the New Zealand economy through the post-war period. The challenge of balancing payments was never far from the government's attention, and was especially focused on in short term strategies to alleviate fiscal pressure in response to export price drops. The import licensing structure worked effectively for some time to enable those short term responses through annual changes in the import licensing schedule. This was evident, for example, in Labour's response to the 1957 wool price slump. Ongoing 'tinkering' with the schedule by the government ensured that this was an almost continual policy activity through to the 1970s. As import licensing became less politically acceptable as a tool, however, the government's options for addressing trade imbalances became more complicated.

This issue was often treated as the main trade problem for New Zealand, but increasingly it was recognised as a symptom of broader challenges. The objective of changing New Zealand's economic structure to lessen its vulnerability informed longer term strategies. Pressure and enthusiasm for such change tended to waver, however, according to how New Zealand was faring in the marketplace. When commodity prices enjoyed periods of high returns, change took a back seat in trade policy agendas. The bounce-back of wool prices over the late 1960s, for example, dulled the urgency to address export diversification, and made the early development initiatives from the NDC appear more successful than they actually were. As prices dropped down again, attention refocused on the need for change.

Changes to New Zealand's trade policy both in the international and domestic context have been driven principally by the objective of lessening the country's vulnerability in the international marketplace. Some of New Zealand's participation in the multilateral environment has been driven by the objective of achieving longer term stability of prices. This was the case as early as the international conferences of the 1930s, but through the 1950s an even more onerous challenge was presented to New Zealand. The rise of agricultural protectionism threatened New Zealand's trade not

only through the price mechanism but also by limiting access to markets for its agricultural goods. This affected traditional trade and potential new markets. Trade policy expanded to involve New Zealand's diplomatic fight against protectionism in the international arena. Since the mid-1950s, this has been a key objective in New Zealand's trade diplomacy, one which has continued as an issue New Zealand politicians and representatives must confront even to today.

The price instability and the agricultural protectionism issues have been long-standing challenges for New Zealand, and have highlighted its economic and political vulnerability in the international trading context. The susceptibility to commodity price fluctuations has been connected to the perception of New Zealand as a 'price taker' internationally, because of the relatively low value of its commodity exports. New Zealand's heavy reliance on the export of primary products has also made it highly vulnerable to the effects of agricultural protectionism in the international marketplace. The need for change to the traditional trade platform, and more generally to New Zealand's economic structure, has under laid the substantial changes in New Zealand's trade policy from the start to end of this period of study.

### **PURSUING ECONOMIC CHANGE THROUGH TRADE POLICY**

Recognition of the need to change New Zealand's traditional trade and economic structure was present in the 1930s and the 1980s, but the ideas about how this should be done were almost opposite. The differences in ideas were reflective of the dominant international influences at the respective times. The approaches to trade policy at the start of the period were almost opposite to those pursued by the end of the period, but both were very much ideologically based. In the 1930s the influence of Keynesianism was obvious in the development of full employment-focused protectionist policies. The dismantling of those structures in the 1980s was clearly influenced by monetarist policies.

The process of change from one ideologically-based approach to another was not, however, straightforward. In the decades between, policy decisions tended to be based more on pragmatic responses and short-term decision-making strategies than by adhering to an ideological agenda. The range of influences on those decisions was broad and reflected the interplay of various domestic and international forces.

Over most of the period, change in New Zealand's economic structure was mainly pursued through industrial development policies. This was based on the idea of making it truly 'industrialised', like most of the western countries New Zealand traditionally identified with, and engaged with in post-war multilateral organisations like the OECD. Industrial development was initially pursued to create an economy which was less dependent on importing. This was complicated, however, by trade development strategies in the foreign policy context, where tactics focused on engaging widely to develop new trading relations. To develop exporting opportunities New Zealand also had to be as open as possible to importing. This created tensions when industrial protection policies were questioned in the international context. Even with changes in domestic strategies this remained difficult. Over the 1960s as industrial development objectives slowly changed in emphasis towards manufacturing for exporting, policies to protect industries so that they could develop at their own pace were increasingly challenged in the multilateral context.

The trade policy process was also complicated by the mixture of domestic actors involved. Over the period a range of government departments dealt with trade matters, and the number of other actors with an interest in – and influence over – policy decision making tended to grow. The 1960s development conferences especially appear to have contributed to this. The regular consultation amongst private and public actors created a dialogue about policy that was less obvious previously. It especially developed close working relationships between the Department of Industries and Commerce and manufacturers. Over the same time, the policy environment within government institutions like Treasury, and in interaction with international institutions, facilitated the development of more theoretical thinking on economic development and trade. Again, it was the clash of the pragmatic approach to economic development with the more ideological that was a feature of the economic debates – and variations in political behaviour over economic decisions – that were a feature of the 1970s. Eventually, ideology held more sway, but mainly because external influences had pushed New Zealand's political leaders to commit at that point.

Expressions of 'economic success' for New Zealand over the twentieth century were usually based on emphasising that New Zealand no longer lived off the back of the products of sheep and cows and had a greatly diversified productive base. To be sure, there were a number of industries which developed in New Zealand and which sustained export success. It would perhaps have surprised policy makers and writers of the 1930s, however, to see how much importance agricultural trade still held for New Zealand's economy, and within trade policy, at the end of the century.

### **NEW ZEALAND IN THE INTERNATIONAL NEGOTIATING ARENA**

The continued importance of agriculture to New Zealand's external trade has necessitated ongoing diplomatic engagement to protect and extend export opportunities. This is especially so because of the political contentiousness of agricultural trade in the international arena. It is also a reflection of the recognition that New Zealand, as a small economy with limited political power, could not set any international agenda in the trade negotiation environment, but has had to pursue its own interests within a structure set by larger, more powerful actors. The way strategies have been developed, however, also reflect choices to try to make that structure work as best it can for New Zealand. This has been illustrated in the strategies to seek export opportunities wherever they are detected, and by developing friendly bilateral diplomatic and trading relations with a very wide range of countries. It has also been reflected in almost constant participation and engagement by New Zealand representatives in international political and economic forums, where information gathering and network building have been important parts of building longer term trade policy strategies.

As New Zealand developed those strategies more independently from Britain over the period under study, expressions of increased political independence and maturity became common. This did not, however, necessarily equate with independence in trade policy. Nixon and Yeabsley have argued that New Zealand remains a 'policy taker' in the international trading environment, and this thesis supports that point. New Zealand's successes in the international negotiating arena have mainly been based on working within the structures set by others rather than seeking to change them. This flexibility is a characteristic of New Zealand's trade policy that Nixon and

Yeabsley relate to Habeeb's notion of 'situational power'.<sup>1</sup> This is the power to adapt the broader agenda to meet New Zealand's particular trade policy objectives, and is an appropriate summary of their activities in many cases. In Britain's negotiations to join the EEC, the prolific and constant engagement by New Zealand representatives with the Europeans ensured that the New Zealand case was kept and supported in the agenda. In the mid 1980s, the relationship New Zealand had built up with Australia and other agricultural producers culminated in the development of the Cairns Group which as a single entity would have substantial negotiating power in the GATT Uruguay Round.

Trade diplomacy has also been informed using perceptions of the 'national interest' to shape key objectives for New Zealand's trade. Evidence presented in this thesis has reinforced Merwyn Norrish's reflection that identifying the national interest was a 'thorny issue' for New Zealand's foreign affairs officials.<sup>2</sup> It may also be characterised by the need for New Zealand representatives to constantly juggle several issues and objectives at once. The tensions between domestic trade priorities and diplomatic priorities over the early post-war period especially created difficulties for representatives. The national interest as defined in terms of full employment priorities had to be juggled with the need to engage internationally and export as much as possible. The tensions between political and economic relations with trading partners were just as challenging. This was evident in New Zealand's development of trade relations with the Soviet Union while still being an US ally during the Cold War, and especially when New Zealand had to separate trade priorities from political responses to actions in Iran and of the Soviet Union in the late 1970s.

Often also at issue were the tensions between trade relations with trading partners and their trade policies. New Zealand sought to build cooperative, friendly trade relations with the USA and Europe as much as possible with the objective of achieving as much access to their markets as possible. On the other hand, it also almost constantly campaigned against the protectionist barriers that they erected for agriculture, which were viewed as distorting the international trading environment. It

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<sup>1</sup> Nixon and Yeabsley, *New Zealand's Trade Policy Odyssey*, p.209.

<sup>2</sup> Norrish, 'Changes in the Focus of the Ministry', p.148.

could be considered that New Zealand achieved more in the first objective than the second. This further supports the idea that while New Zealand has achieved some 'situational power' in the international trade arena, it has wielded very little real power to influence the overarching agenda.

The decisions to ultimately dismantle New Zealand's protectionist trade policy structures were ideologically based, but changes in that direction had also been pushed by influences from the international negotiating arena. The negotiations with Australia towards CER, and the USA's pressure on New Zealand to uphold its GATT commitments to liberalise import structures, can be seen as steering trade policy towards liberalisation. Regardless of the mixture of effects this had for domestic industries, in the international negotiating arena it provided New Zealand with the opportunity to reinvigorate its diplomatic strategies. With less of a need to explain and defend domestic economic policy, New Zealand negotiators positioned the country as a leader in trade liberalisation and example for the rest of the trading world to follow.

#### **PLACING TRADE POLICY IN THE BROADER NEW ZEALAND CONTEXT**

The enduring importance of trade to New Zealand's economy has meant that the story of changes in New Zealand's trade policy from the 1930s to the 1980s is also one of changing priorities in economic and social development. To a large extent this also fits with shifts in the ideological basis by which the role of government in society is understood. It further fits broader New Zealand historiographical stories, especially in relation to the notion of change from the 'welfare state' to the deregulated society over the post-war period. A key factor in the development of New Zealand's welfare state was the objective of developing a society in which the traditional family unit was paramount, and where welfare needs would be met by full employment. The strategies for securing external trade and developing industry were very much focused on meeting those objectives at least into the 1960s. They were also built on the assumption that building up export trade and developing industrially would lead to making New Zealand's economy less vulnerable to the vagaries of the international economy.

Over the 1960s and 1970s, changes both within and outside of New Zealand increasingly proved that the formulae by which those early objectives were formed were insufficient. As New Zealand society grew and diversified the welfare state was subject to increasing pressure to meet full employment objectives. Shocks transmitted from the international economy also proved that New Zealand was still as vulnerable to the external context as ever.

The contests in thinking over New Zealand's future trade policy directions through the 1970s and 1980s can be viewed on the one hand as a fight between those who wanted to maintain traditions against those who wanted to carve a new path for New Zealand's economy and society. On the other hand, it was a reflection of wider societal and international changes that were occurring at that time. New Zealand's society was greatly diversified, and a generation of citizens who could not remember the experiences of the Depression or war were emerging as leaders in policy development. They were more internationally focused, and less committed to maintaining traditions in either their thinking or action. It was this sort of attitude which was behind the will of the Fourth Labour Government to take the small steps towards liberalisation that Muldoon had taken before them and run with them, reshaping New Zealand's international trading image quite dramatically along the way.

Much of the story of New Zealand's external trade policy activities over the period can be understood in terms of expressions of New Zealand's 'place in the world' by political leaders. This changed substantially over the period, with a theme of increasing separation from Britain. Intense notions of sentimentality and loyalty to Britain and New Zealand's colonial past were evident in the 1930s and were especially embodied in Savage's declaration regarding New Zealand's participation in the war in 1939. The war period was an important one of change in terms of perceptions of New Zealand's place in the world, however. Increased defence links with the USA and Australia, and somewhat independent participation in the United Nations and GATT influenced significant reorientation of those perceptions. The growing awareness of New Zealand's 'Pacific reality' through the 1960s especially further separated New Zealand's identity from that of its colonial past. By the 1980s, especially with the

development of distinctively 'New Zealand' foreign policies like the nuclear-free ones, this cemented a quite independent view of New Zealand's position in the world.

This thesis has considered the developments in New Zealand's trade policy which contributed to the construction in the 1930s of a highly regulated, narrowly-focused trade structure, and to its almost complete dismantling half a century later. Within this have been many stories, involving many actors, but some themes have been consistent throughout. The first is that external trade has remained essential for the New Zealand economy. The second is that its importance has been constantly reflected in the political attention that trade has received, from a wide range of actors. Thirdly, the pursuit of change in trade policy has always been based on lessening New Zealand's economic and political vulnerability internationally. Finally, change has been less instigated by domestic forces and more by external influences. These themes can be aligned with the gradual change in positioning of trade policy as less focused in the domestic sphere and more as part of New Zealand's foreign policy strategies. This has ensured that international engagement is more than ever economically, politically and socially important for New Zealand.



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