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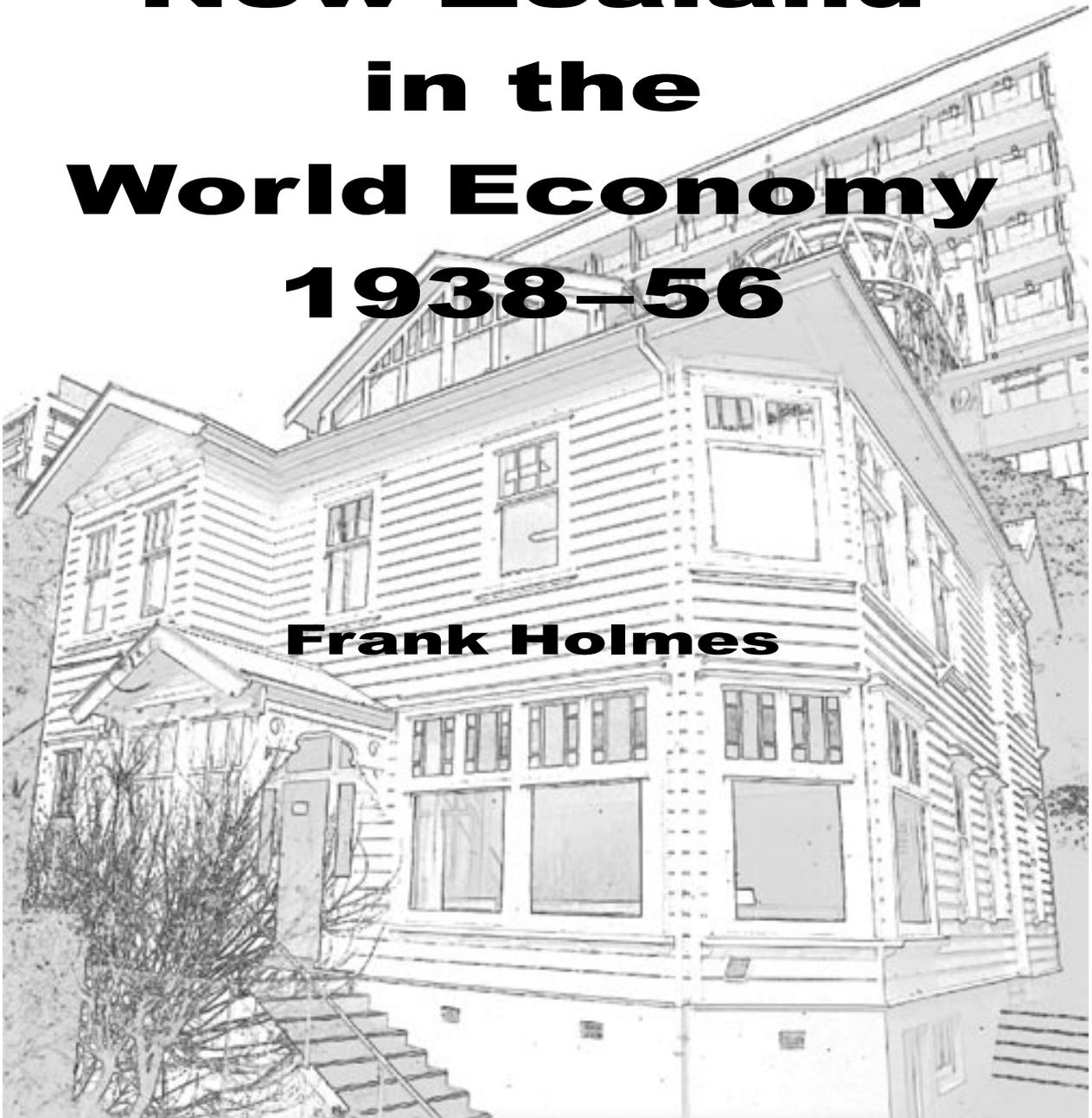
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# **New Zealand in the World Economy 1938–56**

**Frank Holmes**



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## **Institute of Policy Studies**

Victoria University of Wellington  
PO Box 600, Wellington  
New Zealand

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**Telephone (04) 463-5307**

**Fax (04) 463-5170**

*e-mail addresses:*

**Director: [andrew.ladley@vuw.ac.nz](mailto:andrew.ladley@vuw.ac.nz)**

**Design & Layout: [david\\_pearson@paradise.net.nz](mailto:david_pearson@paradise.net.nz)**

**General enquiries / Book orders: [ipos@vuw.ac.nz](mailto:ipos@vuw.ac.nz)**

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# New Zealand in the World Economy 1938–56

**Frank Holmes**  
Emeritus Professor, Institute of Policy Studies,  
Victoria University of Wellington

## Introduction

While sorting through some old papers recently, I came across a paper that I had completed, probably early in 1957, on ‘New Zealand in the World Economy 1938–56’. This had been intended to be a contribution to a book on ‘Contemporary New Zealand’, on which a group of us at Victoria University College were collaborating – Ken Scott, Kingston Braybrooke, Winston Monk and myself being the main contributors. Tragically, Winston was killed in an aircraft crash at Singapore early in 1954. I became involved in assisting a Royal Commission in 1955. The other contributors also became involved with tasks of higher priority. Accordingly, the project was never completed, and my paper was never published.

Economic historians to whom I showed the paper have encouraged me to publish it now, with a brief introduction and minor modifications to avoid misunderstandings about the timing of events. Thinking back to the period during which this piece was written, one of them recalled how little independent research and informed commentary on important domestic and external economic issues were going on in New Zealand at the time. The first of the Economic Surveys produced by the Treasury did not appear until 1951. The sections on the history of the financial system that Albert McGregor and I prepared for the report of the Monetary Commission, presented early in 1956, were a significant semi-official contribution.

The dearth of economic research in the mid-1950s was noted by the Commission. Thanks to the efforts of Professor Horace Belshaw and some farsighted business people and officials, the New Zealand Institute of Economic Research was established in 1958. The relative lack of informed independent comment on economic issues through the New Zealand media and academic community was reflected in the decision by the National Government to set up the Monetary and Economic Council in 1961 as an independent ‘economic watchdog’. Thus the following analysis, produced in the mid-1950s, is of some intrinsic interest for its scarcity value. My qualifications for writing it had been enhanced by my having been the lesser half of the Economic Division of the External Affairs Department, under Lloyd White, from 1949 until 1952.

## A Dependent Economy

Despite the development of domestic manufacturing over the previous two decades, New Zealand remained a highly dependent economy in 1956. It was peculiarly sensitive to change in conditions in the markets for its products overseas. A large proportion of real income continued to be derived from imports; it still relied almost entirely upon the sale of a small number of pastoral products, subject in the past to wide fluctuations of price, to earn the foreign exchange necessary to maintain the flow of those imports; and between two-thirds and three-quarters of exports were normally sold in a single market, the United Kingdom.

The proportion of export trade going to the United Kingdom dropped after the war to about 67% in 1954–55, compared with over 80% in 1938–39. This was due primarily to the sharp increases which had taken place in the price, and therefore the relative importance in the export trade, of wool. Wool was sold by auction to a large number of countries. Well over 90% of meat and dairy produce was still normally sent to the British market.

## Factors Underlying New Zealand’s Export Policy in Respect of Meat and Dairy Produce

Given the relative importance of dairy produce and meat in export trade, it was to a large extent inevitable that New Zealand must put a great proportion of its ‘eggs’ in the United Kingdom basket. Britain still remained

the world's best customer for these products. The concentration of exports there during the period was not due solely to the pull of the British market, but also in some measure to the policy of the New Zealand Government. This policy was based partly on a desire for security and partly, especially during and immediately after the war, on a desire to ease the burden borne by the people of the United Kingdom.

### **The Desire for Security**

The Labour Government promised the people of New Zealand security against the "poverty, unexampled unemployment, farm bankruptcy and general stagnation" of the depression years. To this end, it placed its faith internally in a policy of guaranteed prices and minimum wages; social security; promotion and protection of domestic industries; easy credit for farmers, manufacturers and home builders; and the expansion of public works and state housing. Externally, the Government advocated "negotiations with the United Kingdom and other countries with the main view of expanding markets for our primary products on a reciprocal trade basis". In the years before the war, the sole reciprocal trade agreement reached was one with Germany in 1937. Shortly after the outbreak of war, however, the British Government undertook to purchase specified quantities of meat, butter and cheese at agreed prices for the 1939-40 season. Similar arrangements were made between the two governments in subsequent seasons on an annual basis for these and other minor export products.

1944 saw the conclusion of long-term contracts for the bulk-purchase of exportable surpluses of meat, cheese, butter and certain milk products until the 1947-48 season. Prices were fixed for the first two seasons but subject to review thereafter, no limits being fixed. In 1946, the period of the contracts for meat, butter and cheese was extended until July 1950. In 1948, the contracts were further extended until the 1954-55 season. This time, a limitation of 7.5% was placed on the extent to which prices could be varied in any one year.

Thus, the Labour Government could claim that it had assured the country of a market for all its meat and dairy produce, and after 1948, of a reasonable degree of stability in their prices. This was not the reciprocal trade agreement which it had originally envisaged; nor

were the provisions of the contracts exactly what the Government had wished. Mr Nash's suggestion earlier in the war that meat and dairy prices should be linked to the prices of British goods imported into New Zealand was rejected by the British Government.

Nevertheless, at the time, the negotiation of the agreements was generally regarded as a satisfactory achievement. Towards the close of the war and in the early post-war years, it was widely believed that New Zealand would, within a relatively short time, be faced once again with the problem of surpluses of farm products in world markets. Surpluses could arise either as a result of increased agricultural efficiency and the possibility of declining populations in food-importing countries, or a slump in the major industrial nations of the west like that which followed the First World War. There was therefore little objection to an agreement which limited the annual upward movement of prices to 7.5% when it provided an assurance that prices could not fall in any one year by more than the same percentage.

### **Sentiment**

The desire for security was not the only motive behind the Government's participation in the bulk-purchase contracts. Despite the existence of premia in other markets, the New Zealand negotiators, up till 1950, were willing to commit themselves to send to the United Kingdom virtually all the exportable surplus of meat and a minimum of 97% of the exportable surplus of dairy produce.

An indication of the general feeling in political circles on this matter can be gauged from an exchange which took place in the House of Representatives in 1947. A National Member of Parliament, later a Cabinet Minister, asked the Minister of Finance to make a public announcement to allay fears which he said had arisen from a press message that, as a result of the GATT negotiations, markets for New Zealand butter might become available in the United States. Such action, he claimed, would have a seriously adverse effect on the drive for more food for Britain. He was assured that there was no intention of sending any butter, cheese or meat to any country other than Britain.

There is little doubt that considerations of sentiment were allowed to enter quite strongly into negotiations with the United Kingdom under the agreements.

An indication of the Labour Party's attitude to the question was given in the Address-in-Reply debate in the House in October 1951 when Mr Nash expressed the view that it was "dangerous to let our blood and spiritual ties with Britain slip in any way for anything that might be financially or economically advantageous" to New Zealand.

He had never been able to see why, if New Zealand could organise its economy to produce foodstuffs at reasonable cost, it should take advantage of Britain's need to ask it to pay more. It was not right to sell butter to Ireland for a higher price than Britain paid, while Ireland used its land to raise beef to sell to America for dollars and Britain had to cut its rations. He implied also that selling food to Britain at relatively low prices was one way of fulfilling "our duty to carry our share of the excessive load of defence expenditure formerly borne by Britain".

These views were not confined to the Labour Party; there was a widespread feeling that New Zealand should do something along these lines to ease the burdens of the British people. The gift of £10 million sterling to Britain, the continuation of butter rationing until 1950 to release supplies for export, the large number of food parcels sent privately to the United

Kingdom are further indications of the sentiment prevailing immediately after the war. This desire to help was mainly altruistic, but not entirely so. It was vital for New Zealand that the United Kingdom should regain its prosperity – as Mr Nash put it, "we must help Britain to be our best customer" – and it was hoped that New Zealand's actions might set an example for others to follow suit. Moreover, many felt that the help offered might build up a store of goodwill for New Zealand in the United Kingdom which would be useful in future negotiations.

## Effects of the Contracts and Later Developments

As time went on, concern increased, especially among the farming community, at the fact that the prices obtained by New Zealand under the contracts were considerably below the prices paid to other suppliers of the United Kingdom. Moreover, despite annual increases obtained under the agreements, it was not until the outbreak of the Korean war brought exceptionally high wool prices that the terms of trade – i.e., the quantity of imports obtainable for a unit of exports – were as favourable to New Zealand as they had been in the three years before the war, as the following table shows.

**Table 1. Terms of Trade (Base:1954=100)**

Year or Quarter	Import Prices	Export Prices	Terms of Trade (1)
1936	35	29	83
1937	37	34	92
1938	37	32	85
1939	37	31	84
1940	43	36	83
1941	48	36	76
1942	52	37	72
1943	58	39	67
1944	61	41	67
1945	62	44	71
1946	69	48	70
1947	82	61	74
1948	84	68	80
1949	77	65	85
1950	84	92	110
1951	98	108	111
1952	107	87	81
1953	101	97	96
1954	100	100	100
1955	101	101	100

This had been a period when the rate of exchange between foodstuffs and manufactured goods in the world as a whole had moved strongly in favour of the former. Some compensation for the adverse movement in the terms of trade during the war had been received when, in 1944, the United Kingdom agreed to make to the New Zealand Government a lump-sum payment of £12m, with further amounts of £4m per annum for the next four years, to cover steep increases in import prices.

But the continuation of the adverse position of the terms of trade made it obvious that it was possible to pay too high a premium for future security when stabilisation measures were confined to a major buyer and a major seller of only one or two commodities, and the prices of other commodities, or the prices of the same commodities in other markets, were rising rapidly. Farmers also began to ask why the cost of helping Britain should not be spread over the whole community rather than concentrated on the meat and dairy industries. Pressure built up for greater exploitation of opportunities in other markets and for a relaxation of the limits on price increases under the agreements.

The new High Commissioner in London was swimming against the tide in 1951 when he remarked in a press interview that New Zealand had been very happy indeed to sell meat to Britain at a cheaper rate than it paid other countries. This was evident from the storm of protest from the farming industry and the embarrassment of Ministers which followed the publication of his remarks.

In the event, changes were negotiated in the terms of the contracts from the 1950-51 season. In the case of dairy produce, the 7.5% price limit was maintained, but greater sales to other markets were permitted.<sup>1</sup> New Zealand continued to commit almost all its exportable surplus of meat to the United Kingdom, but the 1951-52 season prices were increased beyond the 7.5% limit – in fact, by an average of about 15% – following the granting by the United Kingdom of substantial increases to other suppliers. In 1952-53, the legal price limit was extended to 10%. Provision was made for even this limitation to be waived if proved costs of production in New Zealand moved by more than 10% in any one year. For the 1952-53 season, an overall average price increase of about 12.5% was obtained.

Another development of some importance was the assurance given by the Ministry of Food in 1952 that the

United Kingdom would take New Zealand's exportable surplus of meat for the next 15 years. For that period, therefore, New Zealand was freed from the fear of the possible imposition of quotas on meat to the United Kingdom, which caused such anxiety in the 1930s.

In 1951, the Australians obtained not only a long-term agreement similar to New Zealand's in respect of meat, but also a minimum price guarantee until 1967. In exchange for this, they agreed to limit the amount of meat which they sold outside the United Kingdom and that prices during the first three years of the agreement would be increased only to the extent that increased costs of production could be proved. The New Zealand producers did not want such limitations. They did not press for a minimum price guarantee at that time. The possibility of such a guarantee was raised by New Zealand at negotiations in 1953, but by then the British Government was not prepared to consider the suggestion.

The Ministry of Food was not willing to extend to dairy produce the provisions of the long-term undertaking on meat. When he was approached by the New Zealand Government early in 1953, Major Lloyd George indicated that he was sympathetic to the request, but that the time was "not yet opportune" for such an undertaking – probably because the market for dairy products was showing signs of weakness. A year previously he had said that Britain wanted all the butter and cheese New Zealand could send, then and for as far ahead as it was possible to see.

New Zealand was spared the necessity of debating the pros and cons of further extending the bulk-purchase contracts because the Conservative Government in the United Kingdom decided in 1953 that rationing and price control of meat and dairy products would end in 1954. Their import would be restored to private trade, subject to suitable arrangements being made with regard to existing contracts for the remainder of their term.

Both the Meat Producers' Board and the Dairy Products Marketing Commission in fact decided to accept the invitation of the Ministry of Food to terminate the contracts in 1954, one year before their expiry date. The Dairy Commission, however, managed to secure the agreement of the Ministry to certain conditions designed to safeguard producers as far as possible against the possibilities of excessive purchases by the United Kingdom of surplus butter from the United States; of better terms being offered to other suppliers than the

fairly substantial price reductions stipulated by the Ministry for continuing the New Zealand contract; and of indiscriminate disposals of stocks of butter and cheese held by the Ministry.

The Dairy Commission prepared itself for the return to freer trading by purchasing Empire Dairies Ltd in the United Kingdom for the sale of butter and cheese. It also established there the nucleus of a new milk power marketing organisation and set up a patting plant of its own. With an eye on the menace of margarine, it also stepped up its advertising and publicity in the United Kingdom, in conjunction with other dairy-producing countries.

The market for meat remained buoyant after the contracts were terminated. Cheese prices fell considerably in the first year of decontrol, but receipts were well sustained through 1956. The market was, however, showing signs of weakness in the early months of 1957, due to heavy increases in cheese production in the United Kingdom. Receipts from butter were satisfactory for the first two seasons after decontrol, but prices then fell seriously, their level in February 1957 being about 30% lower than in February 1956.

This development, the possibility of increasing exports of beef from the Argentine, the effects of subsidisation of agriculture in the United Kingdom, the United States and Europe and the accompanying trade restrictions in the latter countries caused concern among dairy and meat producers. At their request, a trade mission led by the Deputy Prime Minister was to arrive in London shortly after this essay was completed early in 1957.

The purpose of their visit had not then been precisely stated, but the leader of the mission had been quoted as saying that an adjustment in the balance of advantage in trade between New Zealand and the United Kingdom was necessary; that the Ottawa agreement had placed trade on a mutually advantageous basis; but that changing circumstances had disturbed the balance adversely to New Zealand. It appeared, then, since primary emphasis was being placed on the critical situation facing butter producers and on the possibility of substantially increased supplies of beef from the Argentine, that New Zealand would be asking for increased protection, probably in the form of quotas, against exports from other countries. Given the British Government's policy, their commitments under GATT and their reaction to

representations from Australia the previous year, it seemed unlikely that the request would be conceded.

## **Alternative Markets in the Dollar Area**

It should not be assumed from the remarks made above concerning the long-term contracts that, during the period covered, New Zealand had foregone boundless opportunities of profit from the sale of meat and dairy produce in markets outside the United Kingdom. The most important alternative markets lay in the dollar area.

The small tolerance for export of dairy produce to other markets prior to 1950 undoubtedly led to the loss of some opportunities for profitable sales of cheese and minor dairy products there. But throughout the period there was a complete embargo in the United States on the import of butter (which of course, completely nullified the value of the tariff concessions on that commodity granted by the Americans under the General Agreement on Tariffs and Trade).

Also, shortly after New Zealand obtained freedom to sell greater quantities of cheese in other markets, the United States placed quota restrictions on its importation under the Defense Production Act. Since the quotas were based on imports during the period 1948-50, when New Zealand had done little to increase cheese exports to America, they bore heavily on this country. Later efforts to increase sales of dried milk powders there were stifled by the imposition of further quota restrictions in December 1952 and of a complete embargo in April 1953.

These restrictions had been sustained until the time of writing in 1957. The surpluses built up as a result of the United States price support programme had been a constant source of concern to New Zealand producers and the Government. Frequent representations had been made to the United States Government urging them to consider the interests of a small country heavily dependent on dairy produce exports when deciding where and how to dispose of these surpluses. Fortunately, the stocks had up till 1957 been largely liquidated without the serious adverse effects which were from time to time forecast.

Similar difficulties prevented New Zealand from taking advantage of the high prices for dairy products ruling in Canada. No overt restrictions had been imposed, but on several occasions New Zealand withheld intended shipments of butter or cheese at the request of the

Canadian Government. This cooperation not only saved the Canadian Government some embarrassment with its farmers and its price support programme, but also the discomfort of putting the tongue too far into the cheek when lecturing the Americans on the iniquity of restrictions on imports of dairy produce.

The greatest opportunities lost were probably those offered by the market for meat in the United States. The price of meat there, although it remained considerably higher than New Zealand's contract prices, was not bolstered up by any government support programme. There were no restrictions on importation apart from a relatively low tariff. Fairly strict rules about hygiene were imposed. But it was not until 1951 that New Zealand sent its first relatively small experimental shipment of meat to the United States. It received prices for lamb more than three times, and for boneless beef about six times, higher than the British contract prices. Subsequently, however, only one direct shipment of meat had been made to the United States. This had to be diverted to London because it failed to meet American hygiene requirements.

In addition, a fairly large quantity of New Zealand beef was diverted to the United States in 1952-3 on a 'meat-switch' arrangement with the United Kingdom and Canada, whose meat had been denied entry to the United States until an outbreak of foot-and-mouth disease in Saskatchewan had been completely eradicated. The marketing of this meat appears to have been badly handled by the Canadians, in that the low prices charged and the areas chosen provoked opposition among the meat interests in the United States.

For a time, it appeared likely that restrictions might be placed on the importation of meat. Fortunately, no action was taken but the experience made it clear that, if New Zealand wanted to enter the American meat market in any strength, it would have to be careful in the selection of its marketing agents in order to ensure that its produce was sold in a way that would provoke a minimum of resistance from United States producers. Despite the attractive financial rewards offering in the United States, the Meat Producers' Board appears to have been deterred from attempting any significant expansion of exports there. The main factors were probably the cost of bringing New Zealand meat up to American standards of processing, packing and hygiene, and fear of the instability of America's import policy.

## **Alternative Markets Elsewhere**

The premia obtainable in Western European markets for meat and dairy produce during the period of the long-term contracts would seem to have been for marginal quantities only. Most of these countries had been applying quota restrictions in order to protect their domestic producers. After the contracts expired, New Zealand sent very little dairy produce there, except to Western Germany in 1954-55. Exports of meat were also small until 1954. Between then and 1957, a significant proportion of the expanding exports of beef was sold to Western Germany and Italy. The countries of Western Europe were seen as most important potential markets for meat and dairy produce, but it was recognised that New Zealand's ability to exploit them would depend largely on their future agricultural support and trade policies. The form of the proposals for a Common Market in Europe then being considered held out little hope of more liberal treatment of New Zealand produce than it had received in the past.

Sales of milk products, averaging about £250,000 had been made both in India and in Malaya in the last three or four years. A survey of several other countries in South and South East Asia by one of New Zealand's Trade Commissioners in 1951 indicated that, except perhaps in Japan, there were only limited possibilities for the sale of animal foodstuffs there. New Zealand would in any case be hampered by the absence of a direct shipping service to the countries concerned and the lack of direct trade representation in the area. The two latter defects were partially remedied by the opening of a New Zealand diplomatic and trade office in Singapore in 1955, and by the institution of more frequent, though irregular, shipping services to Japan. But the quantities of meat and dairy produce sold in the area remained very small.

Political considerations clouded the issue of trade with Communist countries but, in 1953 – at a time when there was a marked tendency to weakness in the market – 7,000 tons of dairy produce were sold to Poland at good prices. No further sales of any great importance had since then been made there or in any other part of the Soviet bloc.

Overall, the picture was one of continued heavy dependence on the United Kingdom to take the bulk of New Zealand's exportable surpluses of meat and dairy

produce. This explains the deep concern of producers about the agricultural support and trade policies adopted by British governments.

## Wool and the Joint Organisation

The United Kingdom also remained by far the best customer for New Zealand's wool. In 1954, for example, of total wool exports of £88 million, the United Kingdom took £42 million worth. Significant markets existed elsewhere, such as France (£14 million in 1954); Germany (£6 million); the United States (£6 million); Italy (£3 million); Belgium (£3 million); USSR (£3 million); and the Netherlands and Poland (£2 million).

During the war, New Zealand's exportable surplus of wool was sent to the United Kingdom under a bulk-purchase agreement, with provision for half the profits obtained on the subsequent sale of wool outside the United Kingdom to accrue to the New Zealand producers. At the end of the war, the United Kingdom was holding stocks of wool, accumulated under the bulk-purchase agreements with New Zealand, Australia and South Africa, equivalent to more than two years' normal exports from these three countries. It was estimated that if serious dislocation of the market was to be avoided, it would take 13 years to dispose of these stocks at auction alongside the new clips becoming available. Agreement was reached between the three Commonwealth exporting countries and the United Kingdom to set up a Joint Organisation to effect their gradual disposal.

Minimum or reserve prices were fixed at the beginning of each season by agreement between the four governments. The Organisation was required to buy in wool if no other buyer would bid the reserve price or better. In fact, wool prices remained buoyant after the war and it was possible to dispose of all the accumulated stocks at a good profit by 1952.

The success of the Joint Organisation made the New Zealand Government and woolgrowers anxious to have a similar reserve price scheme to replace it when it expired. A scheme negotiated by the four governments in 1950-51 failed to receive the approval of a referendum of Australian woolgrowers and was consequently abandoned. The New Zealand wool industry then decided to institute a domestic reserve price scheme, for which New Zealand's share of profits of the Joint Organisation had provided useful financial backing. No recourse had been necessary by early 1957 to the reserves backing the

scheme. There was a marked slump in receipts after the exceptional windfall of 1950-51 associated with the Korean War, but after 1952-53, prices were sustained at remarkably high levels, giving total receipts of over £90 million in the three years ending 1956.

## Import Policy

### *The Administration of Import Control*

New Zealand's import policy was coloured by the desire for security and the attachment to Britain which influenced its export policy. The system of import and exchange control instituted in 1938 was regarded by the Labour Government as an integral part of its policy to insulate New Zealand as far as possible from external fluctuations. This system, involving as it did selection of imports by classes of goods and by country of origin, was bound to have adverse effects on certain overseas interests. When it was first introduced, it provoked many violent protests, especially among British and French manufacturers.<sup>2</sup> France was affected by the restrictions imposed on such imports as fashionable apparel and fancy goods. In 1939, the French woolbuyers operating in New Zealand, apparently acting on instructions from the French Government, threatened to boycott New Zealand wool sales and turn their attention to the Argentine, unless the Government was prepared to relax its restrictions on French goods. Before any action had been taken, however, the war intervened.

British manufacturers' representatives in New Zealand and the Federation of British Industries claimed that the restrictions imposed in the interests of New Zealand industries were inconsistent with Articles 7 and 8 of the Ottawa Agreement. In these Articles, New Zealand had undertaken to give protection by tariffs against British products only to those industries which were "reasonably assured of sound opportunities of success" and to give the British producers "full opportunity of reasonable competition on the basis of relative costs of economical and efficient production".

Threats were made that the Federation would press the British Government to abrogate the Ottawa Agreement. Shortly afterwards discussions were held between Hon. Walter Nash and United Kingdom Ministers in London, and a memorandum was issued by Mr Nash and Mr Oliver Stanley on 12 July 1939, summarising the results. The United Kingdom Government recognised that some action was necessary

to reduce imports and did not object in principle to the method adopted, but was apprehensive of the permanent effects on British export trade of a policy designed to meet temporary difficulties in New Zealand.

Mr Nash, for the New Zealand Government, said that the policy would be administered as favourably as possible in relation to British interests; that, as circumstances permitted, the restrictions would be relaxed to ensure the maximum expansion of trade between Britain and New Zealand, consistent with the maintenance of sound economic conditions in New Zealand and the Government's obligations to existing industries; that the Government did not want to prevent the United Kingdom producer from having full opportunity of reasonable competition, but had already encouraged the establishment of some industries which it felt needed some protection to operate efficiently. He undertook to investigate the position and not to extend protection to other industries until his investigations were completed.

Mr Nash agreed that licensing was not to be used to foster uneconomic industries. The Government would invite the views of British industries concerned when considering what goods could be economically produced in New Zealand. In addition, where the manufacture of particular goods in New Zealand was to be restricted by licence, British interests would be given the opportunity to put forward proposals to undertake such manufacture.

It has been suggested that pressure for the relaxation of restrictions was also exerted by the British authorities in the financial sphere. The London Press generally agreed that the onerous terms of the conversion issue which the Government had to make in London in respect of a sterling loan falling due in January 1940 were meant as a warning to New Zealand to adjust its domestic policy so as to enable it to meet its commitments without controls.

Whether the Labour Government was influenced by these developments or not cannot be assessed; but it administered the import control system in such a way as to give most effective preference to the United Kingdom in particular and to a lesser extent to other countries of the Commonwealth and Empire. Throughout, the policy was to maximise trade with Britain. If, as a result of the war or of shortages in the early post-war period, it was impossible to obtain imports from that source, preference was given, as far as possible, to some other British

country. The United Kingdom was also singled out for special treatment in 1949 when provision was made for token imports from that source of certain articles for which no allocation had been made in the licensing schedule. It was not until the Labour Government's last import licensing schedule was issued in October 1949 that licences for the import of goods from all British countries were made interchangeable.

In 1951, the National Government abolished this preferential system of licensing by making all licences interchangeable among soft currency countries. The Labour Government's policy must have been at least partly responsible for the marked increase over the pre-war level of the share of New Zealand's import trade given to the United Kingdom from 1948-50 after British industry had recovered to some extent from the dislocations of the war. In the five years before the war, the share of the United Kingdom in New Zealand's import trade averaged about 49%. This fell away to about 39% during the war and then gradually increased. Between 1950 and 1956, the United Kingdom's share fluctuated around 55% of New Zealand's import trade.

Although some of the British firms making finished consumers' goods were adversely affected by import control, their loss was more than compensated for by the gains accruing to British exporters of producers' materials and equipment. In addition, several of the firms adversely affected by import control were able to set up subsidiaries in New Zealand to produce their goods here. It is not surprising in the circumstances that the United Kingdom Government was willing, in 1948, to allow the undertakings given in the Nash-Stanley memorandum of 1939 to lapse.

The Labour Government's policy was not as beneficial to other Commonwealth countries as might have been expected. India increased in importance as a source of supply, especially of bags, sacks and woolpacks, but Australia and Ceylon merely maintained their relative positions. In the mid-1950s, Australia was beginning to claim an increasing share of the market with its expanded production of manufactured goods.

## **Tariff Preferences**

In addition to the preference accorded under import licensing for the majority of our period, the old tariff preference system also remained relatively unscathed. Reductions were made in margins of preference on some

articles as a result of negotiations under the General Agreement on Tariffs and Trade, but the preferential structure of the New Zealand tariff was not significantly altered. For example, in the original negotiations at Geneva, at which nearly all the concessions in respect of preferences were made, 63% of the field of trade in which preferences were accorded by New Zealand to the United Kingdom remained unaffected, while only 2% were completely eliminated. The majority of the concessions made were relatively small reductions of preference margins.

From New Zealand's point of view, the preferences accorded in Commonwealth markets had been of little significance in the bulk of the period under review. There had been none of the marketing difficulties which made so valuable the tariff preferences and the agreement to refrain from imposing quotas on meat offered by Britain at Ottawa in 1932 in exchange for preferential concessions in Dominion markets. While meat and dairy produce were sold to the United Kingdom Ministry of Food under bulk-purchase contract, preferential duties were of no assistance. In fact, New Zealand was, if anything, at a disadvantage in comparison with other suppliers.

There was a tendency in political circles, both Labour and National, to treat the Imperial Preference system as being of such inestimable benefit to New Zealand that its value should not be questioned. In fact, a balanced study of the value of the preference system to New Zealand might show that, in the changed circumstances of the post-war world, its advantages in bolstering up the position of our main market, and giving us a potential advantage over our competitors should conditions of food surplus return in the future, were outweighed by the disadvantages involved.

For example, the use of relatively highly-priced British goods made costs higher than they needed to be throughout the economy. There had been evidence that British exporters had taken advantage of the shelter afforded by the preferences to charge higher prices for their goods in New Zealand than they did in more competitive markets. There could also be some adverse effect of the system on the economies of other countries with which New Zealand traded and their reactions to it had to be taken into account. The reduction or removal of preferences could well be a highly useful bargaining instrument in negotiations to secure more favourable

conditions of entry for New Zealand produce into markets outside the United Kingdom.

## **Sources of Supply Outside the United Kingdom**

Despite the discrimination which existed in favour of the United Kingdom and Commonwealth countries, the post-war share of Belgium and France in New Zealand's import trade increased to some extent in comparison with the five years before the war. After 1952, however, their share of the market tended to decline, to about the pre-war levels. For the bulk of the period, Germany and Japan, their economies disrupted as a result of the war, provided only a small proportion of our requirements. After 1951, Germany, as a member of the European Payments Union, was treated as a soft currency country. It increased its exports significantly, surpassing its pre-war share of the market in 1954.

Japan, on the other hand, had been regarded as a 'scheduled country' since the war. Judging by statements made in the debates on the Japanese Peace Treaty and by the negative attitude taken to Japan's application to accede to GATT, the Government was anxious to avoid any commitment to grant most-favoured-nation treatment to Japan or to abstain from controlling imports from that source by import licensing. As a consequence, Japan's share of New Zealand's import trade remained below the pre-war level in 1956.

## **New Zealand and the Dollar Problem**

Reliance upon the United States for imports was greatly increased during the war, with the disruption of supplies from the United Kingdom and European countries. In 1943, nearly 37% of New Zealand's imported supplies came from that source, as compared with just over 34% from the United Kingdom. A large proportion of the imports from America between 1942 and 1945 were, of course, lend-lease supplies.<sup>3</sup> New Zealand in turn made large quantities of foodstuffs and equipment available without charge to the United States forces in the Pacific in accordance with the Mutual Aid agreement concluded between the two countries in September 1942. Canada also became somewhat more important as a source of supply in the latter years of the war. In 1943, Canada supplied 12%

of New Zealand's imports. In 1944, its share fell to 6%, but after the conclusion of a Mutual Aid Agreement with New Zealand in June 1944, it rose again to 9% in 1945.

With the termination of hostilities and of mutual aid, the United States and Canada became of less importance in New Zealand's import trade, but their shares were greater than they had been prior to the war. In 1947, the United States supplied 18% and Canada 9% of New Zealand's imports as compared with 12% and 8% respectively in the period 1934-39. However, after the failure of the attempt to restore convertibility of sterling in 1947, the New Zealand Government, in common with other sterling area governments, had to impose severe restrictions on dollar transactions in order to play its part, firstly, in preventing the exhaustion of the central reserves and, secondly, in attempting to build them up to a level which would enable the sterling area to escape the perpetual atmosphere of crisis which characterised its trade relations with the dollar area after the war.

In response to an appeal from the British Government towards the end of 1947 to confine its imports from scarce currency countries strictly to essentials, the Labour Government secured a reduction of imports, in the case of the United States from £23m in 1947 to £14m in 1948 and £11.5m in 1949, and, in the case of Canada from £12m in 1947 to £7m in 1948 and £5m in 1949. Again, in July 1949, the Government agreed, in the light of the recommendations of a Commonwealth Finance Ministers' Conference, to attempt to limit dollar imports in 1950 to 75% of the value of imports in 1948. In fact, this objective was exceeded, imports in 1950 being almost one-third below the 1948 level.

At the Finance Ministers' Conference in January 1952, the National Government agreed to aim at a surplus with the non-sterling area at an annual rate of £25 million by the end of June 1953, provided that wool and other export prices remained at the levels prevailing in January 1952. Again, the objective was exceeded by about £5m. As a result of the continuation of import licensing of dollar goods, and despite some relaxation in the period 1954 to 1956, the share of Canada and United States in our import trade remained significantly below pre-war levels.

New Zealand governments were therefore conscientious, even in years when the country achieved a dollar surplus, in carrying out the obligations which

they assumed in the name of New Zealand as a member of the sterling area. They were right to do so for two main reasons.

Firstly, New Zealand itself derived considerable advantages from the existence of the sterling area system. Inter alia, it enabled us to enjoy the facility of unrestricted trading with a large number of other countries without concern as to New Zealand's balance of payments with each of them individually. It spared us the necessity of setting up an elaborate network of banking services to deal with the financing of New Zealand's trade and the painful process of building up its own reserves of gold and dollars. Also, even if the dollar earnings fell off for some reason, New Zealand was able to maintain its essential dollar purchases, provided that reserves were adequate and other members continued to pay surpluses into the pool. In fact, between 1947 and 1956 New Zealand's deficits with the dollar area outweighed its surpluses there by a net amount of about £50 million. Against this, it should be mentioned that New Zealand achieved regular and substantial surpluses with other non-sterling countries, which reduced the necessity for the United Kingdom to pay them gold and dollars under the mechanism of the European Payments Union and other agreements.

Secondly, the maintenance of the sterling area system was vital to New Zealand's main market at the time. As the United Kingdom Economic Survey for 1952 pointed out, if the central gold and dollar reserves were permitted to run out, the people of the United Kingdom "would soon find themselves unable to buy the imports of food and raw materials upon which their livelihood depends and there would be widespread want and unemployment". The preservation of the sterling area system was therefore seen as a primary objective of New Zealand's foreign policy.

However, the necessity for sterling area countries to restrict imports from the dollar area had most undesirable effects on their economies. The alternative sources of supply to which they had to turn usually offered less suitable goods or less efficient machines, or involved New Zealand importers paying much higher prices or waiting much longer for delivery. As a result, costs and prices were raised above the level which would have prevailed if goods could have been imported freely from the dollar area. The general standard of living and the overall balance of payments position were thus worsened.

For these reasons, it was in the interests of New Zealand and other sterling area countries to follow policies designed to increase their ability to improve their competitive capacity in relation to the dollar area and enable sterling to be made freely convertible once again into dollars. However, the experience of attempting to restore convertibility in 1947 had provided a warning that it was easy to sacrifice the good in attempting to achieve the perfect. New Zealand governments had rightly felt that the balance of payments of the sterling area and the level of the gold and dollar reserves would need to be in a considerably stronger position than they had been up to 1957 to enable complete freedom of payments to the dollar area. Nevertheless, it had been recognised as a goal well worth trying to achieve in the longer run.

### **Overseas Borrowing**

Unlike the governments of the United Kingdom, India and Australia, the New Zealand Government had not borrowed extensively for development purposes in the dollar area. Here again the desire for security was a factor bearing on policy. In 1931-32 when export receipts had fallen to their lowest ebb, interest payments on New Zealand's external debt had been equivalent to almost 26% of the country's export income. With the object of removing such a millstone from the country's neck before any further depression arrived, the Labour Government announced in its first Budget that its policy would be "not only to refrain from further borrowing abroad apart from conversion operations designed to lighten the interest burden on the existing debt, but to endeavour to reduce steadily the amount of overseas indebtedness".

The Government was able to do little to implement this policy before the war because of pressure on the exchange reserves. After the war, not only did it not borrow overseas from any source, but also it paid off about £60m stg. of external debt, gave the United Kingdom £10m stg., and lent £6m to France and Czechoslovakia to help them purchase New Zealand wool. As a result of this policy and of greatly increased export receipts, interest payments on the overseas debt fell to about 1% of export income in the early 1950s.

Faced with a rapidly rising population, adding to the existing need for investment, the continuation of inflationary pressure, a shortage of loanable funds, the

likelihood of continued pressure on the balance of payments and the dollar problem still unsolved, the National Government in 1953 took the rational decision to resort once more to overseas borrowing for development purposes. The amounts borrowed were at first relatively small, partly because the Government was unwilling to have undue recourse to external loans, and partly because the amounts available from London, the traditional source of finance had been limited and, in the mid-1950s, relatively expensive.

About £25 million was raised in the United Kingdom from 1953 to 1956 and \$13 million of a \$16 million loan from the Export-Import Bank of the United States was uplifted in 1956. The object of the latter was to finance the dollar expenditure involved in the Muripara pulp and paper project. The decision to attempt to raise a loan from the United States was a significant step. Both major New Zealand political parties had previously been influenced to a considerable extent by opposition expressed by certain groups, both on the left and the right, to borrowing from there. The reasons ranged from fear of domination by American financial interests to concern as to New Zealand's ability to service any loan in the light of America's unstable agricultural import policy.

### **New Zealand's Attitude in the Negotiation of International Economic Agreements**

This is another factor, in addition to those already reviewed, which helps to explain New Zealand's attitude to the international economic agreements which had been negotiated during the period which we must now discuss.

Dependent as it was on international trade, New Zealand had been most severely affected by the disruption of trade relationships which took place in the years between the wars. The Labour Government was acutely aware of the interdependence of national economies in the modern world. It soon showed its determination to play a full and active part in the discussions which began among the Allied powers in the closing years of the war, with the object of designing a system of international economic co-operation to replace the topsy-turvy system of unilateral action and retaliation characteristic of the thirties. It soon showed too that it was to be no pawn of the British or American governments.

It had independent views on the matters of economic policy under consideration.

From the start, New Zealand delegations stressed the importance of economic and social problems in the preservation of peace. They were in the vanguard of those who advocated, successfully, that the original draft of the United Nations Charter should be amended to make an Economic and Social Council one of the principal organs of the United Nations.

Throughout the negotiations leading up to the United Nations and Havana Charters and the Articles of Agreement of the Fund and Bank, New Zealand laid primary emphasis on the maintenance of full employment. The Government's attitude was expressed by Mr Nash in a statement to a plenary meeting of the Conference on Trade and Employment in November 1947. He maintained that, if all countries maintained full employment, "so-called trade restrictions, which are symptomatic of deeper disorders, would to a large extent be unnecessary".

At the United Nations Conference on International Organisation in 1945, against opposition from the United States, New Zealand pressed successfully for the United Nations Charter to include a pledge by all members to co-operate and to take separate action to promote full employment. (The opposition of the United States was apparently based on the fear that a pledge to take separate action might be construed as authorising the United Nations to intervene in domestic affairs.) Again, in the negotiations of the Havana Charter, New Zealand and Australia were active in securing greater emphasis on employment policy and economic development than had appeared in the original proposals, of which the rules of commercial policy had been the core.

New Zealand was also determined to preserve the right, under the trade and financial agreements, to maintain its system of import and exchange control. In the discussions on exchange restrictions during the negotiations leading up to the Fund agreement, the New Zealand delegation secured an assurance that its system of exchange control, operated in conjunction with import licensing, was not contrary to Article XIX of the Agreement. The Article was merely to prevent members from imposing exchange restrictions on payments due for current international transactions. It left them entirely free to determine, by methods other

than exchange restrictions, what transactions their citizens might legally undertake.

In the commercial policy sections of the Havana Charter and of GATT, New Zealand was among those which successfully defended the propositions that quantitative restrictions on imports should be permitted to protect the balance of payments, and that members should not be required to modify their domestic policies of full employment or economic development on the grounds that modification would render the restrictions unnecessary. The Government's attitude seems to have been that, if New Zealand maintained its policies of full employment and social security, balance of payments difficulties were inevitable, and that therefore the maintenance of import control could be continuously justified. New Zealand, as might have been expected, also upheld the right of underdeveloped countries to use import controls as a means of protecting their infant industries.

## **The Fund and Bank**

Judging by the reports of the delegations to the conferences and by statements by the Minister of Finance, the Government was reasonably satisfied with the final drafts of the Fund Agreement and the Havana Charter. For example, of the former, Mr Nash said to the Economic Society in Wellington in November 1944, "I do not think there is anything yet inside international discussion that is more potent for good than the proposals of the conference at Bretton Woods". He expressed the hope that the agreement would come before Parliament before the 1944 session was over. However, a small group within the Labour Party, fearful of potential United States control over New Zealand's exchange practices through its dominant voice in the Fund, was able as a result of the Government's slender majority at the time and the declared opposition of the Leader of the National Party to the Agreement to prevent the Government from bringing it to a vote.

The National Party was also divided on the merits of the Fund. In 1957, New Zealand, a country with everything to gain from the promotion of consultation and co-operation in matters of international finance, quite apart from the assistance which it might derive from the International Bank, remained, with the Soviet bloc and one or two others, outside the Bretton Woods institutions.

## **GATT**

Mr Nash was able to carry his party with him on the issue of giving provisional application to the General Agreement on Tariffs and Trade, although there were obvious misgivings by one or two of those on the left wing of the party. The National Party, except for one member who later became Minister of External Affairs, voted against the Bill on various grounds, including the short period given for consideration of the Agreement, the alleged threat to the system of Imperial Preference and the fact that the Special Exchange Agreement required represented a “back door to Bretton Woods”.

Statements by Ministers in 1956 indicated that the party had changed its views on the Agreement. It recognised the benefit of the existence of a code of behaviour in international trade and a useful exchange of tariff concessions.

New Zealand had, however, found it impossible to accept the terms of the Special Exchange Agreement that members were required to sign if they were not members of the Fund, probably because the Agreement would carry most of the obligations (and few of the benefits) of Fund membership. The Contracting Parties had been willing to turn a blind eye to this breach of the Agreement and grant the necessary waivers. Likewise, there had apparently been no criticism of New Zealand’s actions in maintaining quantitative restrictions on imports purely for the purpose of protecting domestic industry, in contravention of the Agreement.

New Zealand had not failed to co-operate in GATT. On the contrary, its record bore favourable comparison with that of most other countries. If its actions had adversely affected the interests of others, they would no doubt have complained. Unfortunately, the willingness of the Contracting Parties to make concessions to the New Zealand Government had also been extended to other members. For example, the waivers granted to the United States to protect its agricultural price support programmes by restrictions on imports had helped to perpetuate a situation unfavourable to New Zealand. The effectiveness of New Zealand’s complaints about such restrictions was inevitably reduced by the knowledge of members of the policies New Zealand’s governments had adopted.

## **ECOSOC and the Specialised Agencies**

The Economic and Social Council and its Specialised Agencies were regarded as of primary importance by the Labour Government. New Zealand delegations exercised an influence quite out of proportion to the size of the country in the work of the Council, of which it was elected a member in 1946, and of its sub-commissions (particularly in respect of the initiation of annual reports on world economic conditions and of the study of international action on full employment and economic stability). Mr James Thorn of New Zealand was elected president of ECOSOC in 1949 and New Zealand officials were elected to executive office from time to time in most of the Specialized Agencies.

## **Commodity Problems**

As things turned out, the major problems of the post-war period were problems of scarcity rather than those of unemployment expected by many when the above agreements were drafted. The problem of scarcity of raw materials became particularly acute with the acceleration of rearmament programmes in the United States and other Western countries in 1950.

Early in 1951, on the initiative of the United States, the United Kingdom and France, an International Materials Conference was set up to consider what steps should be taken to expand the supply and ensure the most effective distribution of certain raw materials which were in particularly short supply. New Zealand was invited to participate in the work of the Wool and Sulphur Committees of this Conference and agreed to do so.

As a major exporter of wool, New Zealand was not unhappy about the high prices to which wool had climbed. On the other hand, the major importers of wool were concerned that the price of wool, together with the prices of other commodities, should be held down to reasonable levels in order to prevent serious increases in the costs of their rearmament programme and upward pressures on prices generally. European countries especially wanted supplies to be allocated so as to prevent unemployment from arising due to material shortages.

Prior to the inception of IMC, the United States had approached the governments of the main Commonwealth wool exporting countries with a proposal that they might permit the United States to buy its defence requirements

at agreed prices before the main auctions were held. The wool exporters apparently opposed this idea. In November 1950, after a meeting between United States and Commonwealth representatives in Australia, it was announced that it had been agreed that a pre-emptive system of wool purchases could not be usefully introduced at that time. In the prevailing circumstances, the essential military needs of the United States could be met without interfering with traditional marketing methods.

However, as wool prices continued to rise rapidly at the end of 1950 and early in 1951, the Americans pressed strongly in the Wool Committee of IMC, when it first met in April 1951, for an international allocation scheme for wool. This would reduce competitive bidding by importing countries for the available supplies. The exporting countries, however, drew attention to the practical difficulties involved in implementing an allocation scheme for a commodity such as wool, with its wide variety of types and grades. They claimed that the American proposal would be impracticable. Whether these objections were valid or merely special pleading is impossible to determine in the absence of knowledge of the exact nature of the American proposals. However, wool was a much more complex commodity than the others considered by IMC. The auction system was considered to be the most efficient way of distributing it in normal times. It was argued that very special circumstances would have to exist to justify the abandonment of the auction system for the complexities and anomalies which were bound to arise under any alternative.

In any case, by the third quarter of 1951, when the United States proposals were still under discussion, it was becoming apparent that the wool boom had passed its peak. The United States Government had reduced its purchases for military use and for stockpiling. It had imposed price ceilings on wool in the United States. With the easing of conditions in the wool market, buyers in other countries also reduced their purchases in anticipation of a further fall in prices.

Faced with these conditions, and with the fact that their import prices were still rising rapidly, the attitude of the wool exporters, including New Zealand, hardened considerably. Negotiations broke down on 26 August 1951. The Wool Committee was officially retained in existence for a year to keep the supply and demand

situation under review. On 30 September 1952, with wool prices at less than one-third of the peak level reached in March 1951, its member governments agreed that it should be dissolved.

In the Sulphur Committee, the positions of the United States and New Zealand were reversed. The United States was by far the most important exporter of this commodity; New Zealand was vitally dependent on adequate supplies for fertilizer manufacture. The Sulphur Committee, fortunately, did not encounter the difficulties experienced in the Wool Committee in agreeing upon an allocation system. Although New Zealand was unable to obtain as large an allocation as it wished, it would seem that it had no grounds for complaint that it had been inequitably treated in the scheme that was devised. In comparison with imports of 74,000 tons of sulphur in 1950, it was allocated 66,000 tons and 72,700 tons in 1951 and 1952 respectively by the Sulphur Committee.

New Zealand participated in the International Wheat Agreement from its inception; it is unlikely that this has had any noticeable effect, favourable or adverse, on New Zealand's trade in wheat.

## **Economic Development**

In conclusion, we must consider the attitude which New Zealand took during this period to the major international problem of the economic development of less developed countries. The general impression gained from a study of the statements of politicians and representatives of New Zealand at international conferences and of the action taken by New Zealand in this field is that, while there was an awareness of the political, economic and social importance of raising living standards in the less fortunate areas of the world, the problem was not yet regarded as of sufficient urgency to justify New Zealand's making any very substantial sacrifice towards its solution.

The Labour Government was not really put to the test on this question. It was, indeed, comparatively generous in its contributions to international agencies for reconstruction and relief in the early post-war period. It took the side of the underdeveloped countries on trade and investment policy in the negotiation of the Havana Charter. It supported the granting of technical assistance to underdeveloped countries in the United Nations and in the Specialised Agencies to which it belonged. But it could not induce its party to join the International Bank,

the most important international source of finance for reconstruction and development and a source of technical aid in the preparation of development plans.

The first really substantial test of New Zealand's attitude came in 1950 after the Labour Government's defeat when, on the initiative of Australia and Ceylon, it was decided at a meeting of Commonwealth Foreign Ministers at Colombo to take positive action to foster economic development in South and South-East Asia. On the basis of the development programmes drawn up by India, Pakistan and Ceylon and the United Kingdom's dependent territories in the area, it was estimated at a meeting in London in September 1950 that these countries would require external finance, over the six year period of their plans, amounting to more than £1,000m. The New Zealand Government was at the time engaged in a drive for economy in public expenditure. It was only after some hesitation that it decided to make a contribution amounting to £3 million over the first three years of the Plan. Such a sum could not be regarded as over-generous in the light of the buoyancy of the external trade position at the time.

A sum of £1 million was appropriated for capital assistance under the Plan in each subsequent financial year. This was applied in various directions in several countries. For instance, by 1957, New Zealand had helped to finance the establishment of a cement factory, the purchase of equipment for irrigation projects, and a livestock and research farm in Pakistan; a medical research institute and equipment for the dairy industry in India; a dry farming research station, technical and trade training schools, and a dental nursing training scheme in Ceylon; a trade training school in Indonesia; a railway apprentices school in Cambodia; and a milk collecting centre in Nepal.

In addition, over 300 trainees in a wide range of trades and professions had come to New Zealand and about 60 New Zealand experts had gone to Asia under the Technical Co-operation Scheme under the Colombo Plan. Up to March 1956, the Government had spent £400,000 for this purpose, and would have been willing to spend more if demand had been as great as was originally expected.

New Zealand had also contributed in reasonable measure to the United Nations Expanded Programme of Technical Assistance and had provided facilities for training and supplied experts for service overseas in

connection with the technical assistance activities of the Specialised Agencies.

New Zealand had, therefore, comparatively speaking, made a substantial contribution in the field of technical assistance. It had been unwilling, however, unduly to expand its capital assistance to underdeveloped countries. As indicated above, it had limited its appropriations under the Colombo Plan to £1 million per annum and had joined the majority of the more developed countries in the United Nations in resisting the introduction of a Special United Nations Fund for Economic Development. Some compared these capital assistance expenditures with New Zealand's defence expenditures of over £24 million per annum during the last few years, and questioned whether adequate weight was being given to the political, strategic and economic importance of an adequate rate of development in its northern neighbours.

It remains to consider New Zealand's attitude to the regional economic commissions which were set up to facilitate development in various areas after the war. New Zealand was not particularly concerned with the activities of the Economic Commissions for Europe and Latin America, but it maintained an active interest in the operations of the Organisation for European Economic Co-operation, the European Payments Union and the Schuman Plan. In general, New Zealand's attitude was one of support for all these institutions provided that their operations did not threaten to affect its own interests adversely.

For example, the movement towards trade liberalisation in OEEC was welcomed. However, pressure was exerted on those countries which had not done so to extend their relaxations of import control to New Zealand. Again, the request of the Schuman Plan countries for a waiver of their GATT obligations in respect of coal and steel was supported. But New Zealand pressed for safeguards to protect the interests of other countries and to make it clear that this did not provide a precedent for similar action in respect of other goods – especially the 'Green Pool' for agricultural products which had been mooted from time to time.

At the time of writing, the Government was showing some concern at the agricultural provisions of the Common Market Treaty being negotiated by Western Germany, France, Italy and the Benelux countries. These seemed likely to result in a more restrictive policy

towards imports of foodstuffs from countries outside Europe. When the United Kingdom consulted the Commonwealth about the possibility of the United Kingdom's associating itself with other OEEC countries in an Industrial Free Trade Area, New Zealand appears to have approved the proposal. But this was on the understanding that agricultural products would be excluded, so that existing Commonwealth preferences could be preserved. Whether the United Kingdom could succeed in inducing its European partners to agree to such a provision was only one of the many difficult problems which remained to be solved in the months ahead in 1957.

New Zealand's main direct contacts with regional economic activity, however, had been in Asia and the Pacific. It was a member of ECAFE almost since its inception. The Government's interest did not appear to have been great. New Zealand was not represented at all at the Conference held in Indonesia in February 1953. It had not yet found it possible to invite the Commission to meet in New Zealand. It had played a much more active and constructive part in the South Pacific Commission, whose activities were to be considered elsewhere in the book of which this essay was to have been part.

## **Afterword**

It is interesting to look back on what I wrote in the mid-1950s with the benefit of hindsight. New Zealand's attitudes to its role in external affairs were dominated by two interrelated considerations. The first was the extent to which the economy had become dependent on the British market for a few pastoral products. The second was the priority given in domestic policy to the objectives of security, full employment and negotiated 'fair shares'. These objectives were first emphasised by the Labour governments of 1935 to 1949, but they were also followed, with somewhat less enthusiasm, by their National Party successors. The negotiated contracts for dairy products and meat with the United Kingdom Government, and guaranteed free access to Britain as part of the preferential arrangements, were seen as vital underpinnings for successful pursuit of those domestic objectives.

Cooperation in sustaining the sterling area was seen as an important aspect of the key relationship with Britain. I was not alone in failing to foresee how quickly the post-war dollar shortage would be

overcome. But the limitations of the British market for New Zealand's major exports were already becoming apparent by 1956.

At the end of our period, the bulk purchase contracts had been terminated. A downward trend in the proportion of exports that could be sold in Britain had already begun. This seemed certain to continue, whether or not Britain became more protectionist in agriculture.

It was gradually becoming more widely appreciated that New Zealand's future prosperity would increasingly depend on its success in diversifying the products and markets through which overseas exchange was earned. There was less acceptance that this would require important changes in policy to improve the international competitiveness of all aspects of the New Zealand economy. There would continue to be political resistance to making the changes in the policies that had provided such security against competition for so many New Zealand producers.

The importance of making changes was accentuated when British governments became increasingly interested, from 1961, in finding means of joining the newly negotiated European Economic Community. The foregoing analysis was rightly sceptical about the possibility of persuading the six continental countries establishing the original EEC to accept an Industrial Free Trade Area that would permit Britain to sustain its preferential system without joining their Common Agricultural Policy. My analysis was also correct in anticipating how protectionist the CAP would be.

The extent of New Zealand's dependence and the strong sentimental support it had accorded to Britain in war and in the early post-war period undoubtedly helped New Zealand's Trade Minister John Marshall and his successors to negotiate special arrangements for New Zealand butter, cheese and lamb when Britain eventually did join the Community. But such arrangements could only partially slow the inexorable trend towards a situation where less than 6% of New Zealand exports were going to Britain later in the century.

Brian Talboys acknowledged the change in progress in 1980 in a Massey Memorial Lecture entitled 'Dependence and Security: Independence and Opportunity'. From that vantage point, he suggested that we could see more clearly that New Zealand had

“often unwillingly, and at times unwittingly, been walking the road to economic maturity”. The road was probably longer and rockier than he had anticipated. But important changes were just ahead with the negotiation of CER with Australia in 1983 and the radical changes in policy introduced by the Labour Government in 1984.

## Endnotes

- <sup>1</sup> The tolerances over the last few years of the contracts were:  
1947-48 1,500 tons of butter and 1,000 tons of cheese food;  
1948-49-50 Sales to UK to be not less than 97% of exportable surplus of butter and cheese;  
1950-51 Sales to UK to be not less than 90% of exportable surplus of butter, with maximum export of 12,000 tons of cheese elsewhere;  
1951-52 Sales to UK to be not less than 85% of exportable surplus of butter and cheese;  
1952-53 Sales to UK to be not less than 87% of butter and 90% of cheese;  
1953-54 Sales to UK to be not less than 90% of butter and 92 1/2% of cheese.
- <sup>2</sup> The writer is indebted to Professor H Belshaw’s unpublished manuscript on Trade Regulation and Commercial Policy in New Zealand (1939-40) for information on overseas reactions to the imposition of control.
- <sup>3</sup> Cf. NZOYB, pp. 825-828, where it is estimated that the United States provided lend-lease aid worth £105m and New Zealand reciprocated with aid worth £81m in the March years 1943-46. The foodstuffs provided by New Zealand were valued at the relatively low prices then prevailing in New Zealand.

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