

'Mordacious years': socio-economic aspects and outcomes of New Zealand's experience in the Great Depression¹

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Some commentators in New Zealand and elsewhere have proposed similarities between the Great Depression of the early 1930s and the recession that began in 2007-08. To illuminate that discussion, this article provides brief international context before narrating selected economic data and socio-economic aspects of New Zealand's 1930s experience during the Great Depression, arguing that the popular perception of New Zealand's economic experience was moulded more by perceived social impact than the empirical economic data.

1 Background to the Great Depression

"In 1931 everyone was still talking about the depression [in New Zealand] as if it was a rainstorm that would blow over...After that people spoke about the depression as something more than a rainstorm, as a national calamity that had begun to affect their lives."

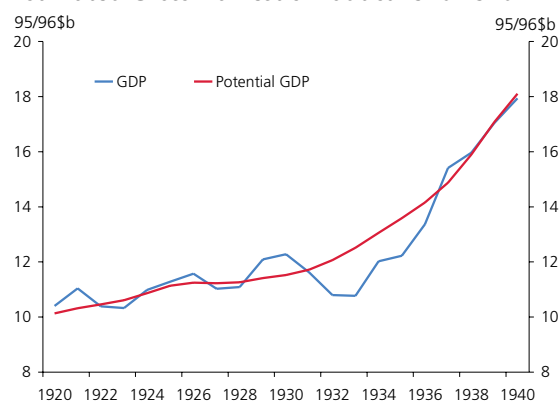
- John Mulgan, *Report on Experience*.²

The Great Depression of the early 1930s was the deepest global economic crisis of the twentieth century. It affected the whole western world, notably the British Empire, Europe and the US. Its economic legacy was significant.³ The socio-political legacy was felt worldwide, including in New Zealand, for decades afterwards – the historical debate is not whether, but how.⁴

Available annual data (figures 1 and 2) shows that New Zealand, which had been through several downturns in the 1920s, experienced the economic effects of the Great Depression most severely during 1931-33. It has been estimated that at its peak in 1933, up to 30 percent of the

Figure 1

Estimated Gross Domestic Product 1920-1940⁵



Sources: SNZ, RBNZ data

potential workforce were unemployed.⁶ But in an economic sense the Depression was relatively brief. There was a sharp recovery in 1934-36. Although there were mild downturns in 1937-38, and New Zealand experienced a foreign reserves crisis in 1939 – in part a consequence of fiscal policies introduced in response to the Depression⁷ – these were not integral with the earlier events. These post-Depression issues arguably were not resolved until the Second World War. The rapidity of economic recovery in 1934-36 was explicit, and as early as April 1936 a study based on 1935 data was able to report 'satisfactory evidence of recovery'.⁸

¹ I am grateful to Tim Ng and Chris Hunt (RBNZ), and John Singleton (Victoria University of Wellington) for their comments on drafts. I also thank the Reserve Bank Knowledge Centre, Statistics unit; and John Singleton for his research into the Bank of England archive.

² John Mulgan (1947), *Report On Experience*, Oxford University Press, Oxford, p. 9.

³ For example, John Maynard Keynes published his *General Theory* in 1936; see also Clarence E. Ayres (1946), 'The impact of the Great Depression on economic thinking' *The American Economic Review*, 36 (2), May, especially pp. 115-116.

⁴ Jim McAloon (2008), 'Unsettling recolonisation: Labourism, Keynesianism and Australasia from the 1890s to the 1950s', *Thesis Eleven*, 92, pp. 50-68.

⁵ From Keith Rankin (1992), 'New Zealand's Gross National Product: 1859-1939', *Review of Income and Wealth*, 38, (1), March, p. 61.

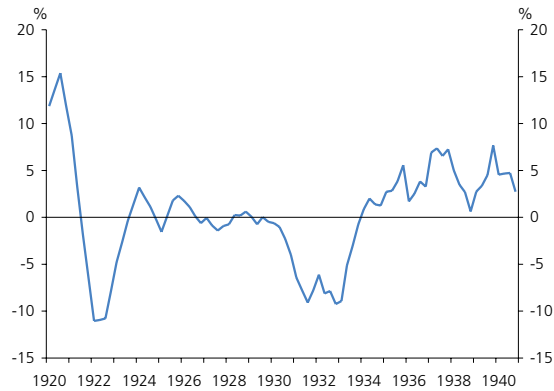
⁶ Keith Rankin, (1995), 'Unemployment in New Zealand at the peak of the Great Depression', University of Auckland, *Working Papers in Economics* No. 144, p. 13.

⁷ J. W. Williams (1948), 'The New Zealand Economy in War and Reconstruction', *International Secretariat, Institute of Pacific Relations*, New York, p. 25.

⁸ R. Boulter and T. G. A. Muntz, (1936) 'Report on economic and commercial conditions in New Zealand', HM Stationery Office, London, p. 6.

From a world perspective – and despite the perceived severity by New Zealand standards – the Depression did not plumb the depths experienced elsewhere, either in terms of lost GDP or other measures. By contrast with some other nations there was no banking crisis, no balance of payments crisis, and New Zealand did not default on sovereign debt.

Figure 2
Consumers Price Index 1920-1940



Source: SNZ, Reserve Bank data.

Given this circumstance, it is necessary to find an explanation for popular perceptions of the Great Depression in New Zealand as a 'bogey man'. Some analyses to date have struggled with this point because the empirical economic data does not correlate well with the observed scale and timing of the social effects, and no purely economic or social hypothesis, alone, offers a compelling explanation for the combined pattern. But we must not, however, suppose that the economic data reduces the received social memory to a populist trope; the more useful approach is to identify a consistent explanation that accounts for both aspects.

The relationship between the empirical and perceived effects of the Great Depression in New Zealand also helps illuminate questions that arose as the recession of 2007-09 unfolded, when there were suggestions that the world was heading for a second Great Depression. Some figures supported this impression; one analysis suggested that the scale of economic shock worldwide from 2007 until mid-2009, measured by world trade, industrial production and stock prices, was 'every bit as big' as that of 1929-30.⁹ In New

Zealand the 2007-09 period was, nevertheless, economically different from that of 1929-30 for a number of reasons.¹⁰ More to the point, however, was the fact that a 1930s-style social response was noticeably absent.

This article focuses on the New Zealand experience during the Great Depression of the early 1930s, and begins by briefly summarising the economic debate over the causes worldwide. The article goes on to summarise and deconstruct the economic, social and political effects on New Zealand, identifying the causalities between these factors.

Although not in the league of overseas experience, the social effects in New Zealand, it will be argued, followed a series of social shocks. These included the enduring pressure that the economic downturns of the 1920s placed on the ability of ordinary New Zealanders to realise the ideals and values that had shaped local aspirations since colonial times, most notably home ownership and security of employment. The net effect, when combined with the strictly economic pressures of the Great Depression, was a community-wide emotional experience of great personal depth and socio-cultural breadth. One outcome was that many of those who lived through it, even as children, were determined to avoid such times again at virtually any cost.

Finally, this article summarises some of the mechanisms by which New Zealand emerged from the Great Depression, before briefly evaluating the role of the Reserve Bank. It will be concluded that while some aspects of both the economic and social experience may reflect deeper human commonalities through time, the specific shape of the Great Depression was of its period.

The world's road to the Great Depression

Although popular mythology attributes the Great Depression to the Wall Street stock market crash of October 1929 – a view perpetuated by officials such as the US President of the day, Herbert Hoover¹¹ – this event, like that of the sub-prime

⁹ Barry Eichengreen and Kevin H. O'Rourke, 'A Tale of Two Depressions', second update, <http://www.voxeu.org/index.php?q=node/3421>, accessed 3 September 2009.

¹⁰ For discussion see, e.g. Alan Bollard and Tim Ng (2009), 'Coping with global financial and economic stresses', *Reserve Bank of New Zealand Bulletin*, 72 (1), March.

¹¹ Herbert Hoover, (1953), *The Memoirs of Herbert Hoover*, Hollis and Carter, London. introduction pp. vi-vii.

defaults relative to the 2007-09 recession, was a proximate cause rather than fundamental.¹² Economic debate on the deeper factors has been divided between monetarist explanations, non-monetarist explanations, and shades between.¹³ Specific arguments have flowed around the role of the gold standard and the way central banks handled it,¹⁴ and about the likelihood of the Depression being a 'credit boom gone wrong'.¹⁵ Interest-rate uncertainties have also been cited.¹⁶

Most explanations of both cause and propagation relate to the particular circumstance of the 1920s and 1930s rather than any underlying or more enduring truths of generic human behaviour, although a few economists have proposed less time-specific factors, notably positing comparisons between the wireless-driven boom of the 1920s and the 'tech wreck' of 2001, both reflecting apparently timeless gulfs between expectations and reality relative to the economic impact of new technology.¹⁷

In a direct sense, it has been shown that much flowed from the credit-driven consumer boom of the mid-to-late 1920s, coupled with the international gold standard mechanism. US Federal Reserve Chairman Ben Bernanke has argued that this explanation remains 'in most respects compelling'.¹⁸ Policy actions by the US Federal Reserve were a contributing factor; the central bank raised its rates in early 1928 and kept them high to squash what Hoover called an 'orgy of speculation'.¹⁹ This contributed to the stock market crash in

October that year, but key US indicators improved in early 1930.²⁰ The problem was that US investors then sought opportunities on currency markets, buying gold – which backed currency by value – and provoking a run on the dollar. Banks began failing as their funds ran out – more than 10,000 of them over the next year.²¹

A sharp downward price spiral was then exported to Europe, whose own situation was already difficult for reasons related to the First World War.²² The German situation certainly flowed from post-war debt and reparations.²³ Inevitably, the propagating factors have also been debated; one 2001 study suggested that declines in agricultural prices were as influential as the gold standard;²⁴ other analyses have considered uncertainties as mechanisms for spreading the downturn.²⁵ Differential experience has also attracted attention. Why the Nordic countries, for example, got away fairly lightly has been subject to a particular study. Unfortunately this analysis – concluding that the early abandonment of the gold standard by the so-called N4 group was causal – did not identify structural reasons from which we might draw lessons for the contemporaneous New Zealand experience which, itself, was milder than that elsewhere.²⁶

Though differing in lines of enquiry, proposed causalities and transmission mechanisms, however, analyses consistently identify conditions and systems in the 1920s and early 1930s that varied from those of the early 2000s.

¹² See, eg, Michael Reddell and Cath Sleeman (2008), 'Some perspectives on past recessions', Reserve Bank of New Zealand *Bulletin*, 71 (2), June, p. 5.

¹³ James S. Fackler and Randal E. Parker (1994), 'Accounting for the Great Depression: a historical decomposition', *Journal of Macroeconomics*, 16 (4), Louisiana State University Press, p. 195.

¹⁴ Summarised by, eg, Ben Bernanke and Harold James (1990), 'The gold standard, deflation, and financial crisis in the Great Depression: an international comparison', National Bureau of Economic Research, Cambridge MA pp. 1-3.

¹⁵ Barry Eichengreen and Kris Mitchener (2003), 'The Great Depression as a credit boom gone wrong', *BIS Working Papers No. 137*, Bank for International Settlements, pp. 45-47

¹⁶ J. Peter Ferderer and David A. Zaleski (1994), 'Uncertainty as a propagating force in the Great Depression', *The Journal of Economic History*, 54 (4) Cambridge University Press on behalf of the Economic History Association, esp. pp. 826-827.

¹⁷ Eichengreen and Michener (2003), pp. 42-43.

¹⁸ Bernanke and James (1990), p. 1.

¹⁹ Hoover (1953), p. 16.

²⁰ Charles P. Kindleberger (1973), *The World in Depression*, Allen Lane, London, pp. 128-129.

²¹ Hoover (1953), p. 21.

²² For summary see, eg, Kindleberger (1973), pp. 128-145.

²³ Heywood Fleisig (1976), 'War-related debts and the great depression', *The American Economic Review*, 66 (2), p. 56.

²⁴ Jakob B. Madsen (2001), 'Agricultural crises and the International Transmission of the Great Depression', *The Journal of Economic History*, 61 (2), esp. p. 327.

²⁵ Peter J. Ferderer and David A. Zaleski (1994), 'Uncertainty as a propagating force in the Great Depression', *The Journal of Economic History*, 54(4), Cambridge University Press on behalf of the Economic History Association, p. 827.

²⁶ Ola Honningdal Grytten (n.d.), 'Why was the Great Depression not so great in the Nordic countries? Economic policy and unemployment', Department of Economics, Norwegian School of Economics and Business Administration, pp. 1-2, 29-30.

Box 1

The gold standard and its failure

The gold standard was pioneered by Britain in the early eighteenth century and, during the nineteenth, adopted by major nations including the Netherlands, the US, Portugal, Germany, Japan, the Scandinavian Monetary Union, France, Austria and Russia. Each national currency was defined via a specified weight of gold, which was held to back the money in circulation.

In theory this offered controls over money supply as well as mechanisms for international exchange. In practice it meant that, among other things, money supply could grow no faster than gold supply. During the First World War, governments switched to fiat (legislative) currency – in effect, printing money. World attempts to return to the gold standard in the 1920s were fraught with problems. Britain rejoined in 1925 at a level widely regarded as too high; New Zealand, whose pound was linked to the British, effectively followed suit.²⁷

2 Economic effects on New Zealand

New Zealand's economic situation 1919-30

To understand the Great Depression in New Zealand we have to put it in economic context. It has been argued that New Zealand's entire inter-war period was depressed; the Great Depression was simply the largest in a pattern of downturns during these decades. The specifics are, however, not easy to identify because figures such as GNP and GDP have had to be estimated.²⁸ At the same time, the Great Depression was also milder in New Zealand than it was internationally. In the world context, as figure 3 shows, New Zealand's per-capita fall in GDP over the 1929-32 period was an estimated 17.8 percent. This was by no means as great as that of the US (30.8 percent), Australia (20.6 percent), Germany (25.0 percent) or Canada (34.8 percent), over similar periods.²⁹

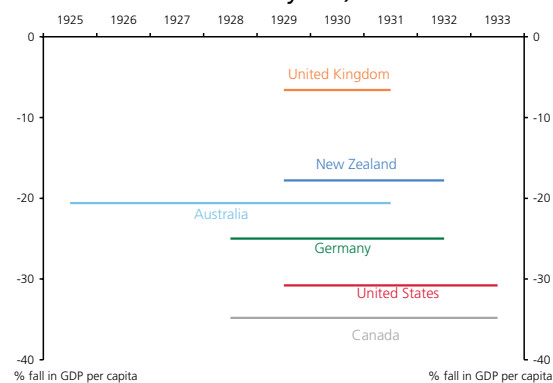
²⁷ Reddell and Sleeman (2008), p. 6.

²⁸ See, eg, Simon Chapple (1994), 'How great was the depression in New Zealand? A neglected estimate of inter-war GNP', New Zealand Institute of Economic Research (Inc), Wellington; Keith Rankin (1992).

²⁹ Grytten (n.d.), p. 6.

Figure 3

Selected national falls in GDP per capita³⁰
(Height on Y-axis shows percentage of fall,
X-axis duration of fall in years)



Source: Grytten (n.d.).

The New Zealand economy also displayed characteristics not shared by others, partly because it was agrarian and selling into a single market, partly because of social expectations stemming from its colonial past, which had become integral with New Zealand's pakeha culture. The structure of that agrarian world, principally distributed around the large numbers of small-to-medium pastoral holders who had emerged since the 1890s, meant that any pastoral downturn had a broad impact on the economy.

New Zealand entered the 1920s in a superficially good economic position, thanks in part to Britain's wartime 'commandeer'. Up to the end of the 1919-20 fiscal year, this guaranteed purchase by Britain allowed New Zealand to sell beef, mutton, lamb and other meats worth around 7 percent of total GNP,³¹ along with cheese, wool and scheelite.³² These returns masked the fact that New Zealand was, by and large, selling one product – pastoral – into a single market.

After the end of the war, the property market boomed amid speculation on land made available to returned servicemen. However, both this bubble and the 'commandeer' came to an abrupt end in 1921, a shock compounded by the fact that Europe returned to full commodity production in 1920, but the US retained the expanded productivity it had developed to make up for European losses during the war.

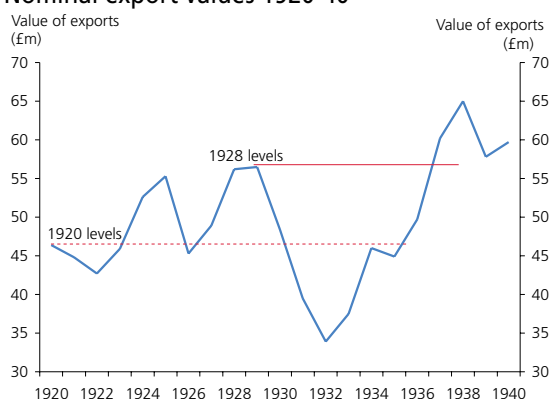
³⁰ Data from Grytten (n.d.) p. 6.

³¹ Calculated from figures in Rankin (1992), p. 61.

³² AJHR 1920 H-38 'Department of Imperial Government Supplies', pp. 1, 3-4, 7.

Figure 4

Nominal export values 1920-40



Sources: SNZ, Reserve Bank data,

The result was a glut. Returns on New Zealand exports fell dramatically; wool, for instance, plunged from £19.6 million in 1919 to just £5.2 million in 1921. Meat fell from £11.6 million in 1920 to £8.4 million in 1922.³³

New Zealand entered a decade of indifferent growth and severe downturns. It has been estimated that in 1921-22 and 1925-26, for instance, GNP fell to similar degree as in 1932-33, the period usually regarded as the worst of the Great Depression.³⁴ Unemployment became a 'normal part of life'.³⁵ Part of the problem was reliance on Britain, which took, typically, 80 percent of New Zealand's exports during the 1920s,³⁶ but whose own post-war fortunes were flagging.

Structural changes occurred in the New Zealand economy at this time; an economy built around steam and primary produce was adapting to the second industrial revolution, with brisk domestic demand as New Zealanders who could afford it eagerly adopted motor vehicles and new electrical appliances. Such demand stood at odds with the faltering economic landscape. Reform Party leader J. Gordon Coates responded with an interventionist regimen, initially as Railways Minister, later as Prime Minister,³⁷ believing the economy could be aided by spending on infrastructure. Public works spending – which had been around 21-22



J. G. Coates, MC and Bar (1878-1943), Reform Party leader and, successively, Ministers of Unemployment and Finance during the Depression years. He personally argued the toss with angry groups of unemployed on occasion. Although reviled by a generation, he was responsible for a significant range of economic, public works and race-relations initiatives, and later joined the Labour-led War Cabinet, where he died in office in 1943. (S. P. Andrew Collection, Alexander Turnbull Library, F-19049-1/1)

percent of state budgets during the First World War – climbed steadily, reaching a high of 31.4 percent in 1931.³⁸

How the Great Depression reached New Zealand

New Zealand was drawn into the Great Depression during 1930-31. Several mechanisms were at work, all external. At the time, the most crucial problem was what one contemporary report called the 'alarming extent' of the collapse in export prices,³⁹ with a consequential drop in farm incomes.⁴⁰ Although production went up, return on farm output plunged from £73.6 million in 1929-30 to just £49.2 million in 1931-32, a pattern followed by factory output.⁴¹

³³ M. F. Lloyd-Prichard (1970), *An Economic History of New Zealand to 1939*, Collins, Auckland p. 292.

³⁴ Rankin (1992) p. 61.

³⁵ W. B. Sutch (1966, 1968) *Colony or Nation?* Sydney University Press, Sydney, pp. 40-41.

³⁶ New Zealand Official Yearbook 1940, (1940) Government Printer, Wellington, p. 251.

³⁷ For background and summary biographical details see <http://www.dnz.govt.nz/dnz/>

³⁸ David Thorns and Charles Sedgwick (1997), *Understanding Aotearoa/New Zealand: historical statistics*, The Dunmore Press, Palmerston North, p. 108.

³⁹ L. A. Paish (1931), 'Economic Conditions in the Dominion of New Zealand to March 1931', HM Stationery Office, London, p. 9.

⁴⁰ G. R. Hawke, (1985), *The Making of New Zealand: an economic history*, Cambridge University Press, Cambridge, p. 137.

More fundamentally, the local economy was drawn into Australia's deeper problems via cross-contamination with Australia's balance-of-payments and sovereign debt crisis, largely because the sterling reserves of both Dominions were inter-mingled in the same London banks. This made it difficult for New Zealand banks to trade on the London money markets and make up the difference in the balance of payments when New Zealand's export returns fell below import costs.⁴²

To this was added concern relative to sovereign debt. Britain went off the gold standard in 1931, provoking fears in New Zealand that Crown loans due the following year would have to be paid rather than rolled over. The result after brisk debate in Wellington was a legislated 'exchange pool' giving government preferential access to foreign exchange earnings, so the debt could be repaid if necessary.⁴³

By 1931 the New Zealand pound had depreciated around 10 percent against the pound sterling, compared to 1928 values.⁴⁴ While this helped offset the collapse of export prices, it has been argued that the subsequent decision to defend the exchange rate in effect entrenched a 45 percent drop in export prices.⁴⁵ That was not compensated for by an increase in productivity, and was followed by reduced domestic activity.

State policy responses and economic effects

On the basis of advice from Britain, Prime Minister George Forbes responded to the downturn with cut-backs during 1931. Late that year he suggested a 'grand coalition' to meet the crisis. Labour refused to join, but Coates helped establish a centre-right United-Reform platform, which won the general election that year. They inherited rising unemployment, high public debt – some 160 percent of estimated GDP – falling income and falling prices.⁴⁶

The economic theory then in vogue called for retrenchment. Forbes also believed that state books had to be balanced,

a point which, it has been proposed, was pursued for reasons of conviction rather than economics.⁴⁷ The result was that a National Expenditure Commission took a razor to government spending. Pensions were cut 30 percent and hospitals had to cut back on the food they provided patients.⁴⁸ Public service salaries were slashed by between 5 and 12 percent.⁴⁹ Works expenditure, previously used as an economic booster, fell by around 65 percent in nominal terms between 1931 and 1933.⁵⁰ These cut-backs extended to the private sector; the government enabled the Court of Arbitration to set private-sector wage rates, provoking a 10 percent cut in nominal terms in May 1931.⁵¹ At its peak in 1932, deflation reached 12 percent.⁵²

These cuts, often pursued to petty extremes, affected a wide proportion of the population and became the public face of the Depression, reinforcing the sense of crisis and linking government with hardships. This view was even expressed by the conservative rural sector that made up a substantial proportion of the government's support. As pastoralist Herbert Guthrie-Smith remarked, 'every legislative enactment seemed to hinder not help'.⁵³ The social gloom was not helped by the Hawke's Bay earthquake of February 1931. This has been shown to have had no lasting economic impact on the district,⁵⁴ however its social effects, through the need to house refugees and via family ties, were effectively national.

⁴² Hawke, (1985), p. 134.

⁴³ *Ibid.*, pp. 134-135.

⁴⁴ G. R. Hawke (1973), *Between Governments and Banks*, Government Printer, Wellington, p. 19.

⁴⁵ Reddell and Sleeman (2008), p. 7.

⁴⁶ *Ibid.*

⁴⁷ Hawke (1985), p. 150.

⁴⁸ Tony Simpson (1974, 1997), *The Sugarbag Years*, Godwit, Auckland, pp. 13-14.

⁴⁹ Brian Easton (1997), *In Stormy Seas: the post-war New Zealand economy*, University of Otago Press, Dunedin, p. 58.

⁵⁰ Lloyd-Prichard (1970), p. 429.

⁵¹ Hawke (1985), p. 149.

⁵² Reserve Bank data, also Reddell and Sleeman (2008), p. 6.

⁵³ H. Guthrie-Smith (1940), *Tutira*, Godwit, Auckland, p. 414.

⁵⁴ Although it was a human tragedy with the loss of 258 lives, more than 400 serious injuries and several thousand hurt to a lesser extent, coupled with devastation that took years to repair, the economic effects of the Hawke's Bay earthquake of 1931 were not material, either in terms of negative impact, or positively relative to local stimulus from quake relief and reconstruction spending. Simon Chapple (1997), 'The Economic effects of the 1931 Hawke's Bay Earthquake', New Zealand Institute of Economic Research, Wellington, p. 47. However, Depression finances certainly constrained reconstruction. Whether the disaster added a layer to the social and psychological effects of the Great Depression in the district remains unclear; further study is indicated.

To this was added rising unemployment which, by New Zealand standards, was severe. Official figures indicate that by September 1932 some 73,650 New Zealanders were registered as unemployed, including 45,100 who were on relief schemes and 22,010 working with state subsidies.⁵⁵ Their numbers peaked at 79,435 in 1933.⁵⁶ These were distinct from the unoccupied potential workforce, a more meaningful number in terms of the economy; and one investigation since indicates that actual unemployment in that sense stood at 27,785 in 1926, 179,800 in 1933, and 84,763 in 1936. Put another way, the peak 1933 figure amounted to about 30 percent of the potential workforce.⁵⁷

This correlates with other measures; a 1931 estimate suggested that the unemployment rate among industrial union members had risen from 5.6 percent in November 1927 to 15.5 percent as early as November 1930.⁵⁸ The effects were stratified. One study suggested that although employment in the manufacturing sector dropped from 82,861 in 1929-30 to 68,921 in 1932-33, the smallest enterprises 'held their own'.⁵⁹ Certainly the effects of the Depression varied across that sector.⁶⁰

New Zealand's history to that point, apart from efforts by the Liberal government, was one of minimal welfarism. In part this was a function of the 'green fields' colonial context; social support systems such as existed in Britain, however poor they were by later standards, had not developed even to this extent in the colony.⁶¹ That created a legacy into the first decades of the twentieth century.

The Unemployment Act of 1930 included the so-called 'Scheme 5' for relief employment, throwing much of the administrative onus on local bodies. At its peak in 1932, some 45,100 men were under this scheme.⁶² Those with no

work received 'sustenance', miserly rates amounting to 14 shillings a week for single men, about \$71 in 2009 values.⁶³ This was graduated on a rising scale for married men with children, though even a husband expected to support a wife and three children received just £1 16s, about \$183 in 2009 figures.⁶⁴ Relief work offered only a little more.⁶⁵ It was made worse when some businesses and local authorities sacked employees and re-hired them under the relief scheme.⁶⁶ The cost to the state amounted to £4.2 million in 1933-34.⁶⁷

Unemployment and penurious relief schemes joined dwindling incomes as causes of impoverishment. Although there have been arguments that falls in wages were offset by falls in the consumers price index,⁶⁸ actual data paints a more complex picture. While wage rates were sustained in real terms,⁶⁹ median incomes fell sharply. This was a consequence of rising unemployment, reductions in overtime and the reductions in wages and salaries that followed the 1932 suspension of the arbitration system. Available data indicates that in 1925-26, just 11.3 percent of New Zealand's 557,288-strong workforce were receiving less than £52 per annum. By 1932-33, some 42.3 percent of a 681,135-strong workforce were in this category.⁷⁰

Available data also shows that food prices, an important component of any household budget in the lower income bracket, closely tracked the all-groups CPI (figure 5);⁷¹ but quantities purchased fell.⁷² This suggests that the 'income reaction' – the very sharp fall in median incomes and the drastic rise in the proportion earning less than £1 a week – was a significant contributor to hardship.⁷³

Those with debt were in particular trouble. Real interest rates increased because they did not fall as far or fast as the CPI.⁷⁴

⁵⁵ *New Zealand Official Yearbook 1941*, Government Printer, Wellington, p. 760.

⁵⁶ Lloyd-Pritchard (1970), p. 379.

⁵⁷ Rankin (1995), p. 13.

⁵⁸ Paish (1931), p. 62.

⁵⁹ Lloyd-Pritchard (1970), p. 324.

⁶⁰ Keith Rankin (1992a), 'Manufacturing output in New Zealand: 1870-1940', Paper for the 1992 Conference of the Economic History Association of Australia and New Zealand, Perth, p. 11.

⁶¹ See, e.g., David Thompson (1998), *A World Without Welfare*, Bridget Williams Books/Auckland University Press, pp. 18-32.

⁶² Lloyd-Pritchard (1970), p. 379.

⁶³ RBNZ Inflation Calculator Q3 1935 compared with Q2 2009 (1935 sustenance figures only available).

⁶⁴ RBNZ Inflation Calculator Q3 1935 compared with Q2 2009.

⁶⁵ Lloyd-Pritchard (1970), p. 380.

⁶⁶ Simpson (1974), pp. 14-15.

⁶⁷ Lloyd-Pritchard (1970), p. 380.

⁶⁸ Outlined in James Belich (2001), *Reforging Paradise*, Allen Lane, Auckland, p. 255.

⁶⁹ *New Zealand Official Yearbook 1940*, p. 609.

⁷⁰ Rankin (1995), pp. 21, 26.

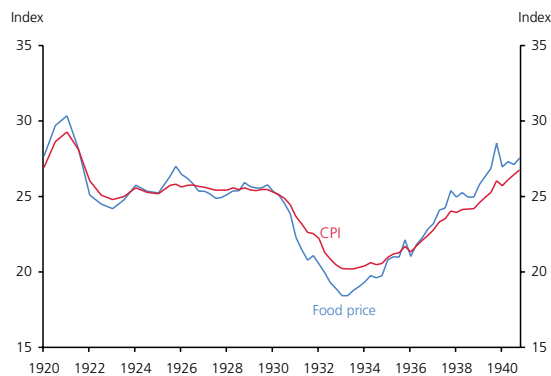
⁷¹ See, eg, *New Zealand Official Yearbook 1940*, p. 789.

⁷² Belich (2001), p. 255.

⁷³ See also *New Zealand Official Yearbook 1940*, pp. 789, 792-793.

⁷⁴ Reddell and Sleeman (2008), p. 6.

Figure 5
Quarterly CPI and food price indices 1920-40⁸¹



Source: SNZ, Reserve Bank data.

Nominal (non-inflation-corrected) mortgage rates between 1930 and 1932, for example, fell only from 6.35 to 6.28 percent.⁷⁵ Deflation also increased debt in real terms, and servicing became particularly onerous as incomes fell. This was a particular issue in the pastoral sector, where servicing costs reached 26 percent of gross incomes in 1932-33.⁷⁶ Additional tax burdens such as the £1 per annum levied on wage earners to fund an Unemployment Board from 1931, a levy that was steadily increased until 1935, were significant for those on the lowest wages.⁷⁷

The early years of the Depression were thus difficult even for those with work. Severe hardships were underscored by the scale of charitable aid. During a seven-month period in 1932, for instance, the Auckland City Mission provided 37,000 beds and 102,080 meals.⁷⁸ While it has been argued that rural communities could absorb a proportion of the urban unemployed,⁷⁹ the pastoral sector was also in difficulty. Hawke's Bay farmer Herbert Guthrie-Smith referred to these as 'mordacious years', watching his 1929 profits vanish into losses. He survived by 'enormously reducing expenditure'.⁸⁰

Although not as severe as elsewhere in the world, these experiences were significant. Because of the social lags involved, these were still factors as late as 1935 when the economy, as measured by the indicators, was well on the way to recovery. While it has been shown that the numbers do not match the memory – that most small farmers did not

walk off their property, for instance⁸² – the severe hardships for some New Zealanders were nevertheless very real. Some children did make their way barefoot and hungry to school with only a Chelsea sugar sack or newspaper to keep the rain from their heads. Food was desperately short at times. Some families had to sell carpets and amenities to make ends meet.⁸³ At other times, parents gave what food they had to their children;⁸⁴ but malnourishment among boys was partly responsible for the relatively high medical rejection rate when they were called up for military service eight or ten years later. The plight of the children prompted Coates, in 1934, to contemplate introducing free milk in schools.

The impact can be seen empirically in social indicators; for example, marriage rates fell from 7.8 per thousand in 1929 to 6.81 per thousand in 1932.⁸⁵ Birth rates fell from 19.76 per thousand in 1926-30 to 16.98 per thousand in 1931-35, picking up again in 1936-38.⁸⁶ Abortion rates rose.⁸⁷ Curiously, crime dropped – cases in magistrates courts fell from 35.78 per thousand in 1929 to 28.09 per thousand in 1934, recovering to 35.88 per thousand in 1940.⁸⁸ This was the reverse of what might be expected, and in contrast to other times of downturn.⁸⁹

3 Social and political effects in New Zealand

The social impact as 'bogey man'

Both received memory and social indicators show that the Great Depression was as much a human as a technical economic phenomenon in New Zealand; and in order to understand the scale that the Depression gained in popular memory, as opposed to that shown by the purely economic indicators, we have to recognise the degree to which the moral impact framed both perceptions and the intellectual response, at the time and later. Jim McAloon suggests that

⁷⁵ Reserve Bank data.
⁷⁶ Reddell and Sleeman (2008), p. 6.
⁷⁷ Hawke (1985), p. 149.
⁷⁸ Cited in Burdon (1965), p. 140.
⁷⁹ Rankin, (1995), p.2
⁸⁰ Guthrie-Smith (1940), pp. 414, 418.

⁸¹ Statistics New Zealand, Reserve Bank data.
⁸² Hawke (1985), p. 137.
⁸³ Simpson (1974), p. 50.
⁸⁴ Simpson (1974), p. 79.
⁸⁵ Lloyd Pritchard (1970), p. 383.
⁸⁶ *New Zealand Yearbook* 1940, p. 87.
⁸⁷ Belich (2001), p. 256.
⁸⁸ *New Zealand Official Yearbook* 1940, p. 207.
⁸⁹ Lloyd-Prichard (1970), pp. 131-132.

recent economic history 'is a thoroughly politicised affair'.⁹⁰ The same seems true of many social analyses in New Zealand and elsewhere.

The social reaction to the Depression in New Zealand lagged the economic effects by perhaps 12-18 months. It was 1932 before the Depression translated into a sense of personal crisis in New Zealand.⁹¹ In New Zealand, the phenomenon was given specific shape by New Zealand's pakeha culture, and arguably flowed from both systemic and proximate socio-cultural causes.

The systemic origins can arguably be traced to local expectations over the 80 or 90 years from the mid-nineteenth century, generally reflecting idealism, professed egalitarianism, and an exaltation of the nuclear family, underpinned by security of housing and employment. As has been shown, these were reactions to conditions in nineteenth-century Britain and evolved into drivers for New Zealand. A depression in the 1880s had already shaken this ideology, switching New Zealand from a mind-set of 'bigger, better Britain' to one of the 'best of Britain's children'. That experience also reinforced concepts of security – notably of income and housing – which became thoroughly embedded in the New Zealand psyche. The Great Depression occurred within this context.⁹²

This established a general environment within which the social effects of the Depression played out; however, the proximate causes of the reaction to the Depression, and its immediate shape, flowed in a large part from the succession of social shocks to which New Zealand was subjected from 1914. The first and largest of these was the First World War, which involved a socially significant slice of New Zealand's population, over 100,000 young men – about half their demographic cohort. More than half became casualties.⁹³ It was followed by the influenza epidemic of 1918-19. Deaths estimated at over 8500 – including more than 2160 Maori –

added to the sense of loss.⁹⁴ Hundreds of former servicemen then died during the 1920s, many from the long-term effects of dichloroethyl sulphide ('mustard gas').⁹⁵ To this was added a significant number suffering degrees of post-traumatic stress disorder.

These consequences played out against the backdrop of the economically hard 1920s, in which the social ideal that exalted the safe, secure nuclear family seemed difficult to attain; and where the government had manifestly failed to create the 'land fit for heroes' promised to servicemen in return for their sacrifices.⁹⁶ The Depression then added cut-backs in state spending and private sector wages. Although some people retained money and lifestyles,⁹⁷ and a few spoke of unemployment as a 'purification' of the lazy from the workforce, it was a further blow. Income effects and rising debt costs helped provoke despair and hopelessness among a significant number of New Zealanders, a feeling captured in such literary output as James K. Baxter's 'The Magpies'.⁹⁸

The direct hardship and generally adverse conditions experienced by New Zealand during the 1920s, all at odds with long-standing social and personal aspirations, thus contributed to a mood that overwhelmed the economic reality of a sharp but relatively short economic downturn from 1930. To John Mulgan, the Depression also struck hard because abstract economics were intangible; people did not understand. Economists, he later wrote, 'gained the status of witch doctors'.⁹⁹ There was an impression in some circles that politicians simply did not know what to do.¹⁰⁰

It was a principally pakeha issue. Maori had been economically marginalised for years. For the urban unemployed, or those whose incomes fell below subsistence, hope faded. Although the quarter-acre section should have provided partial defence against starvation – promoted via such

⁹⁰ McAloon (2008), p. 51.

⁹¹ Mulgan (1947), p. 9.

⁹² This has been extensively analysed from various perspectives; for summaries see, e.g. Michael King, (2003), *The Penguin History of New Zealand*, Penguin, Auckland, pp. 206-208; Matthew Wright (2004), *The Reed Illustrated History of New Zealand*, Reed, Auckland, pp. 95-148; Matthew Wright (2009), *Old South*, Penguin, Auckland, pp. 54-59.

⁹³ Matthew Wright (2005), *Western Front*, Reed, Auckland, p. 8.

⁹⁴ Geoffrey W. Rice (2005), *Black November: the 1918 influenza pandemic in New Zealand*, 2nd Edition, Canterbury University Press, Christchurch, pp. 203, 284-293.

⁹⁵ It was a carcinogen that also left victims vulnerable to tuberculosis.

⁹⁶ Wright (2004), pp. 282-285.

⁹⁷ Mulgan (1947), p. 9.

⁹⁸ <http://www.dpmms.cam.ac.uk/~tf/poem10.html>, accessed 23-7-09.

⁹⁹ Mulgan (1947), pp. 10, 12.

¹⁰⁰ Simpson (1974), p. 127.



Above: Albert Malam (far left) and others ditch-digging in 1932. Tasks such as this typified Depression-age relief work, partly driven by concerns that work schemes should not compete unfairly with the private sector. (Photographer unidentified, Alexander Turnbull Library, F-27086-1/2)

things as a 1933 contest to find the best garden kept by an unemployed householder – some householders were too despondent to try. Houses went unpainted. Some former breadwinners even took to their beds.¹⁰¹ City councils and community groups tried to revive hope with morale-boosting entertainments. Some published accounts make clear that for some people, lost morale was difficult to regain when conditions improved.¹⁰²

Government was swiftly held responsible for many of the ‘ill-starred necessities’ of the age.¹⁰³ The ill-feeling towards Coates and Forbes in particular was arguably focussed in the popular mind by relief schemes. These had a high public profile as breadwinners were forced to travel to work camps, many of which were inadequately fitted out. Some tasks involved useless make-work efforts.¹⁰⁴ Some schemes developed a sub-culture of management bullying.¹⁰⁵

¹⁰¹ J. Wright, pers. comm.

¹⁰² Simpson (1974), pp. 50-51.

¹⁰³ Mulgan (1947), pp. 10, 12.

¹⁰⁴ C. G. Scrimgeour, John A. Lee and Tony Simpson (1976), *The Scrim-Lee Papers*, A.H. & A.W. Reed, Wellington, p. 26.

¹⁰⁵ Notably in an account published in Simpson (1974), pp. 43-44.



Above: Soup kitchen in Wellington, early 1930s. (Photographer unidentified, *Evening Post* Collection, Alexander Turnbull Library, G-8646-1/2-EP)

Packaging these efforts as essential medicine intensified the belief that government was the author of Depression hardships, and there was much cynicism. Relief workers, one writer who lived through the period declared, were ‘given tasks designed to keep them down, break their spirit, so they couldn’t cause trouble’.¹⁰⁶ While, as has been shown, Coates was taking steps to address the situation after 1933, his efforts did not overcome a public perception of state abjuration, even malice. Coates was widely, though wrongly, alleged to have declared that the poor could ‘eat grass’.¹⁰⁷

The Depression-era administration never regained the moral high ground, and the popular image of a state that responded to economic downturn by punishing the electorate became received memory. As late as 1965 one historian remarked that ‘so much legislation that hurt so many people had never before been crammed into so brief a period’.¹⁰⁸ The concept helped bolster a perception among some groups that the government of Michael Joseph Savage, elected in 1935, had saved New Zealand economically.¹⁰⁹

These general perceptions also coloured the wider interpretation of the Depression in New Zealand afterwards, even among analysts.¹¹⁰ Equally, the experience had an effect on historiography and other frameworks of analysis; to economist William Sutch, the Depression discredited older

¹⁰⁶ Alexander Turnbull Library 91-110, McRay, Colin J., fl. 1929-1991 “The silver halfpenny”, typescript. Simpson (1974, 1997), p. 18.

¹⁰⁷ R. M. Burdon (1965), *The New Dominion*, A. H. & A. W. Reed, Wellington, p. 145.

¹⁰⁹ Wright (2004), pp. 318-319.

¹¹⁰ Easton (1997), p. 35.



Relief workers pulling a chain harrow near Petone, 1932. This particular picture was used in Labour party posters of the day to discredit government relief schemes. Nonetheless, it remains a graphic illustration of the way relief work damaged morale at national level. (Jeremy Garvitch, J. V. Garvitch Collection, Alexander Turnbull Library PACOII-5584-03, F-76300-1/2)

market-led approaches.¹¹¹ Afterwards, when Keynesian-style approaches had become economic orthodoxy, his and other mid-twentieth-century studies tended to focus on the failure of earlier policies. The adoption of more market-oriented ideas in the 1980s offered other frameworks, and only then was some of the work of the United-Reform administration really highlighted.¹¹²

Popular political effects

New Zealand of the 1930s had no tradition of civil unrest other than the industrial protests of 1912-13.¹¹³ The popular street response to the Great Depression was not of this scale and mainly expressed in the winter of 1932. Rioters in Queen Street smashed windows. Labour MP John A. Lee blamed need – the rioters were ‘so hungry, with families as hungry’ they had no choice but to make a ‘desperate bid for food.’¹¹⁴ In Wellington there was a riot in upper Cuba Street. Christchurch strikers were confronted by baton-wielding

police.¹¹⁵ Government responded sharply; one Wellington rally was covered with automatic weapons. But the mood settled. Michael King has argued that New Zealanders had gone to the brink – then pulled back.¹¹⁶

In this environment, extremes such as the New Zealand Legion and the Communist Party gained no real traction.¹¹⁷ The only significant political effect was a decision to postpone the 1934 general election. When the country finally went to the polls in November 1935, the Labour party gained power in a landslide, a swing to the left comparable with similar shifts experienced by democracies such as the US. As in the US, this shift was expressed within the existing democratic system.

By contrast, nations such as Germany, Italy and Japan experienced dramatic structural change away from democracy, as some politicians used the dislocation of the Great Depression to focus other issues and push themselves

¹¹¹ See, e.g. W. B. Sutch, (1966), *The Quest for Security in New Zealand*, Oxford, pp 176-200.

¹¹² See, e.g. Michael Bassett (2005) *Coates of Kaipara*, Auckland University Press.

¹¹³ This stood in contrast to the actual economic picture. Discussed in, eg, Wright (2004), pp. 250-254.

¹¹⁴ Scrimgeour, Lee and Simpson (1976), p. 32.

¹¹⁵ Burdon (1965), p. 146.

¹¹⁶ King (2003), p. 348.

¹¹⁷ Belich (2001), p. 257.



The 'Cuba Street riot', mid-1932. As Michael King has argued, New Zealanders went to the brink – and then pulled back. Constable with raised baton mid-frame is noteworthy. (Photographer unidentified, *Dominion* Collection, Alexander Turnbull Library F-29260-1/2)



Demonstration by the unemployed at Parliament, 1932 or 1933. (Photographer unidentified, *Evening Post* Collection, Alexander Turnbull Library G-84840-1/2)

to power.¹¹⁸ The Soviet Union was already outside the democratic system. Together all these powers encompassed a significant proportion of the developed world, and their relatively rapid emergence in wake of the First World War provoked a belief in some circles that democracy was in eclipse. It has been argued that it was not until 1943-44 – amidst a war that carried a final death toll estimated at 70 million – that it became clear that democracy would, in fact, prevail as a major world governmental system.¹¹⁹

¹¹⁸ Fleisig (1976) correlates the 'rise of Hitler' with increasing Depression-triggered unemployment, p. 56.

¹¹⁹ Richard Overy (1995, 2006), *Why the Allies Won*, Pimlico, London, pp. 13-15, 24-25.

4 Recovery from the Great Depression

Mechanisms of economic recovery

Debate over the technical mechanisms that ended the Great Depression worldwide has variously credited policies such as Roosevelt's New Deal; or, conversely, argued that these merely cleared the way for recovery based on market principles.¹²⁰ Specific processes have been postulated such as the 'Keynes effect', where expansion of the money supply helped stimulate a recovery;¹²¹ and the 'Mundell effect', in which deflationary expectations were controlled and confidence returned.¹²² Both have been applied to New Zealand.¹²³ All these analyses to some extent have been framed by particular theoretical positions; and in reality, given the complexities of economy and society, it is likely that no single factor or mechanism applied in isolation.

These issues aside, New Zealand's empirical economic recovery from the Depression was sharp. While dairy prices stayed down in 1934, wool and meat experienced decisive improvements – wool prices, in particular, effectively doubled.¹²⁴ Total trade per capita, which plunged from just over £70 in 1929 to just over £39 in 1932, climbed sharply after 1933 and returned to 1929 levels late in 1936.¹²⁵ It has been argued that one of the triggers was the hard-fought decision to devalue the New Zealand pound by 25 percent against the sterling in January 1933.¹²⁶ Not everybody agreed at the time; Downie Stewart resigned over the issue and was replaced as Minister of Finance by Coates, who introduced a series of policies such as the formation of the Reserve Bank, the establishment of a Dairy Board, and many public works schemes.¹²⁷

¹²⁰ Christina D. Romer (1991), 'What ended the Great Depression?', *Working Paper No. 3829*, National Bureau of Economic Research, Cambridge, MA., pp. 2-3.

¹²¹ Christina D. Romer (1992), 'What ended the Great Depression?', *The Journal of Economic History*, 52(4), Cambridge University Press, Cambridge, pp. 775-776.

¹²² David Greasley and Les Oxley (2002), 'Regime shift and fast recovery on the periphery: New Zealand in the 1930s', *Economic History Review*, LV(4), p. 698.

¹²³ Greasley and Oxley (2002), p. 719.

¹²⁴ *New Zealand Official Yearbook 1934*, Government Printer, Wellington, p. 801.

¹²⁵ Lloyd-Prichard (1970), p. 349.

¹²⁶ Greasley and Oxley (2002), p. 698.

¹²⁷ Easton (1997), p. 62.

These facts emphasise the point that the Labour government elected in 1935 was not the trigger for purely economic recovery from Depression lows. While James Belich has argued that the only successful Depression-era measure Coates undertook was founding the Reserve Bank,¹²⁸ the more compelling interpretation is that the Coates-Forbes administration essentially produced an economic recovery, mainly on the back of a world turn-around; and that Coates then introduced policies that helped nurture it.

Mechanisms of social recovery

Although economic indicators showed significant recovery from 1934, and a startling increase in GDP during 1936, there were lags at the social level, in part because it took time to soak up unemployment even after economic recovery, and in part because of the inextricable popular association between the Coates-Forbes administration and hardship. It is in this context that the Labour administration elected in November 1935 arguably had its main impact, fostering recovery in what we might, in the economic sense, think of as something akin to 'confidence'. In folk mythology, this was often conflated with the technical economic recovery.

These points deserve more discussion and amplification than is possible in a brief paper, but salient points are summarised. Part of the recovery in morale came from the fact that Prime Minister Michael Joseph Savage and his cabinet were new faces. This helped obscure the fact that many policies were simply older approaches repackaged in friendlier ways. For example, the 'Unemployment Fund', retained from the Coates administration, was renamed the 'Employment Promotion Fund'.¹²⁹ Similarly, Labour repeated Coates' theme of using public works expenditure as an economic booster,¹³⁰ but repackaged it as labour-saving, not labour-inflicting. In a well-orchestrated publicity stunt, Minister of Works Robert Semple made the point by using a D8 bulldozer to push a pile of wheelbarrows over a bank.

These initiatives, along with early moves to restore wage rates, were a direct response to the popular perception

of what the Depression government had done to New Zealanders. The congenial Savage was personally associated with the change, and small gestures carried disproportionate weight, notably the decision to issue a Christmas bonus to the unemployed in 1935. This meant everything to those who received it, and of all Labour's moves was the one remembered in family circles, even 70 years later.¹³¹ Such opinions were reinforced in 1938 when Savage couched a new social welfare system as a right, a system for ensuring that New Zealanders would not suffer when beset by misfortune not of their own making. Amid intense political debate, Savage summed up the policy in two words: 'applied Christianity'.¹³² There were reasons why Savage's portrait hung alongside that of Christ in some households.

The result was that Labour seized the moral high ground; and in a general sense, the positive mood extended to the conservative pastoral and business sectors, who otherwise viewed Labour with unease. When his farm accounts went back into black, Guthrie-Smith received a benediction from his bank manager. 'I found myself in the street...amazedness still upon me as to whether all bankers blessed clients on their return to solvency or if the practice was confined to the Union Bank of Australia.'¹³³

Other economic initiatives

Although many of the economic policies utilised by the Savage administration were an extension of earlier initiatives, some were distinct to that government. However, the explicit Depression experience was more causative relative to these policies than might be considered on a superficial glance, a point that becomes clear if we deconstruct the motives driving the housing policy introduced in 1936. Although political philosophy gave a flavour to the thrust and packaging, a part of the motive for this policy also flowed from the experiences of the early 1930s, when a third of New Zealand mortgages were foreclosed.¹³⁴ It has been

¹²⁸ Belich (2001), p. 257.

¹²⁹ *New Zealand Official Yearbook 1940*, p. 581.

¹³⁰ Burdon (1965), p. 215.

¹³¹ J. Wright, pers. comm; also discussion with RBNZ colleagues relative to their own family reminiscence.

¹³² Barry Gustafson (1986), *From the Cradle to the Grave – a biography of Michael Joseph Savage*, Reed Methuen, Auckland, pp. 225-228.

¹³³ Guthrie-Smith (1940) pp. 414, 418.

¹³⁴ Cited in Belich (2001), p. 260.

argued that Minister of Finance Walter Nash was prepared to 'experiment' with central bank credit in order to address the issue.¹³⁵ These moves helped address one of the wider expectations that had moulded New Zealand society since the settler period, the concept of individual home ownership as ticket to personal security.

The functional causation between some new policies and the Depression was also true of the foreign exchange regulations introduced during late 1938. Again, we can identify a dissonance between ideological motives, short-run proximate and longer-run pragmatic causes. Conservative reaction decried regulation as a policy of the left, and to the extent that the Labour government framed their approach in such colours, it was. But such thinking shrouded practical need. It has been argued that these import controls were an immediate measure to stem 'capital flight' on the back of recovery, in part flowing from Labour's unwillingness to accept higher import prices among its urban constituency.¹³⁶

However, perhaps the more significant pragmatic driver for these policies – irrespective of the proximate triggers or the way they were clothed by political parties – again remained the legacy of the Depression. The Coates administration had already initiated a more regulatory direction in response to Depression needs. The new policy introduced by Labour in the late 1930s went significantly further, but the name given to the approach at the time, 'insulationism',¹³⁷ makes the relationship clear. There was a perception that New Zealand's Great Depression had been imported via the reserves system. If the national economy could be 'insulated', another shock would not be transmitted. It remains telling relative to this aspect as driver that 'insulationism' was continued, with some variations, by all the governments that held power in Wellington through the mid-twentieth century. It evolved into 'protectionism', and New Zealand's general regulatory cycle, involving rules and systems of increasing complexity, did not end until the mid-1980s.

The economic and social policies introduced during the mid-to-late 1930s – in twenty-first century terms, guiding 'expectations' and building what might be called 'confidence'

– masked the fact that although the Depression had ended, the late 1930s still offered specific economic challenges for New Zealand. In this sense the arbiter of sustained economic recovery was the Second World War. Although an estimated 40 percent of local output went directly to the war effort,¹³⁸ the wartime government, partly via the multi-sectoral Stabilisation Commission, exploited the situation to remedy the 'many and various deficiencies in the economic structure of the pre-1939 era'.¹³⁹ It has been argued that the war helped bed in a regulated regimen that, by and large, produced near-full employment and long-run growth until the early 1970s, albeit at the cost of inflation.¹⁴⁰

Role of the Reserve Bank in New Zealand's recovery

It has been shown elsewhere that the wider policy origins of the Reserve Bank do not relate to the Great Depression;¹⁴¹ and although action was triggered by that economic crisis, the Bank was not specifically set up to facilitate recovery.¹⁴² However, policy-makers saw the Reserve Bank as an important agent in the economy in that context;¹⁴³ and Coates argued that it would promote stability and produce 'cheaper credit' through control of the bill market.¹⁴⁴ Founding legislation saw the Bank as a means by which 'the economic welfare of the Dominion may be promoted and maintained'.¹⁴⁵ That, to Coates, meant it would 'exercise a steadying influence'.¹⁴⁶

Initial functions included control of foreign reserves;¹⁴⁷ as early as 1932, Bank of England Governor Montagu Norman

¹³⁵ Hawke (1985), p. 165.

¹³⁶ Greasley and Oxley (2002), p. 718.

¹³⁷ Hawke (1985), p. 163.

¹³⁸ *Ibid*, p. 167.

¹³⁹ Organisation for National Development (1944), *Interim report on Post-war Reconstruction and National Development*, Wellington, p. 18.

¹⁴⁰ This was suggested by G. R. Hawke (1985), pp. 173-177.

¹⁴¹ Matthew Wright (2006), 'The policy origins of the Reserve Bank of New Zealand', *Reserve Bank of New Zealand Bulletin*, 69 (3), pp. 10-12.

¹⁴² John Singleton, Arthur Grimes, Gary Hawke and Frank Holmes (2006), *Innovation + Independence: the Reserve Bank of New Zealand 1973-2002*, Auckland University Press, Auckland, p. 9.

¹⁴³ Malcolm McKinnon (2003), *Treasury*, Auckland University Press, Auckland, pp. 124-125.

¹⁴⁴ J. G. Coates (1933), 'Reserve Bank of New Zealand Proposal', Wellington, September, p. 4.

¹⁴⁵ 24 Geo. V, Reserve Bank of New Zealand Act 1933, Clause 12.

¹⁴⁶ *New Zealand Parliamentary Debates*, Vol. 236, p. 895.

¹⁴⁷ Hawke (1973), p. 22.



Reserve Bank Board of Directors 1934-35. (Photographer unknown, RBNZ Archive).

told Downie Stewart that the 'first and most important thing for New Zealand was to determine their attitude as an economic unit: were they to be dragged at the tail of Australia or to face their own affairs: in short, did his Government intend to form a Central Bank?'¹⁴⁸ The absence of a central bank was keenly felt; Finance Minister Downie Stewart even admitted he was subservient to the trading banks,¹⁴⁹ presumably a reference to trading bank control of the overseas reserve position.

This was crucial because it was through the lack of control over sterling reserves and cross-contamination with Australia that New Zealand had principally descended into the Depression in the first place. However, Coates warned that in general 'we must... not expect an improved monetary system to be a panacea for all our economic ills'.¹⁵⁰ Certainly the initial impact was minimal. Although A. H. Tocker attributed the decline of interest rates from 1934 to the Reserve Bank,¹⁵¹ Gary Hawke has argued that, initially, the Reserve Bank did little other than 'act as the Government's Banker'. Initial financial returns to government, via seigniorage, were minimal.¹⁵²

Legislative change from 1936 gave the Reserve Bank power to make home loans, contributing to the stimulatory effect of government expenditure on public works and social services. This was by no means welcomed in the Reserve Bank, where



Leslie Lefeaux, first Reserve Bank Governor. (Artwork, Archibald Nicoll; photography, Stephen A'Court)

the Governor, Leslie Lefeaux, cabled Norman to warn that the new legislation would 'open up [the] way for unlimited inflation' and 'render the Reserve Bank a menace instead of [a] useful part of [the] financial machine.'¹⁵³ In a technical sense, Lefeaux was correct; these functions increased the money supply.¹⁵⁴ The debate also reflected the fact that many of Nash's initiatives stood in the face of the economic orthodoxy of the 1930s, and while popular among the have-nots, engendered dismay at conservative levels.

In the immediate, however, no disasters occurred; indeed, it has been estimated that New Zealand's GNP grew 18 percent in 1936.¹⁵⁵ Whether, as two analysts have argued, this was due in part to the changes of Reserve Bank function and that the government of the day went too far in creating credit via the Bank,¹⁵⁶ is attractive but remains contentious. Arguably, this sharp acceleration was as much a recovery from the lows of 1932-33. It did not reduce tensions between Lefeaux and his Minister, and by 1939 Nash felt obliged to introduce legislation putting the Reserve Bank more particularly under control of the Minister of Finance.¹⁵⁷

¹⁴⁸ Bank of England OV59/1, Notes of informal meeting between the Governor and Downie Stewart at the Hotel Metropole, London, 15 Sept. 1932. Research by John Singleton.

¹⁴⁹ Hawke (1985), p. 146.

¹⁵⁰ Coates, (1933) p. 4.

¹⁵¹ A. H. Tocker (1934), 'The Establishment of Central Banking in New Zealand', *Economic Record*, December, p. 228.

¹⁵² Hawke (1973), p. 58.

¹⁵³ Bank of England G1/339, Lefeaux to Norman, 10 January 1936.

¹⁵⁴ Greasley and Oxley (2002), p. 710.

¹⁵⁵ Rankin (1992), p. 61. But see also Chapple (1994), p.9.

¹⁵⁶ Greasley and Oxley (2002), pp. 710, 718.

¹⁵⁷ Hawke (1973), pp. 62, 65.

5 Conclusion

With a duration of just 18 months, followed by a fast recovery, the Great Depression in New Zealand was relatively short as a purely economic phenomenon. This stands in contrast to the significant impact the Depression had on New Zealand's popular mind; and it was from this social impact that the Depression gained its real legacy in folk memory and in terms of practical policy-making over the next half century.

When analysing these events, we must be careful not to interpret the 1930s in presentist terms. Internationally, the financial legacy of the First World War and the faltering gold standard system gave a particular flavour to the credit boom of the 1920s. New Zealand's own situation of 1930, with a concentrated export focus on Britain, a foreign exchange system inextricably linked with that of Australia, and no central bank, was specific. The human legacy of the First World War, coupled with the social expectations of New Zealand and the indifferent economic fortunes of the 1920s, gave a social power to the Great Depression in New Zealand that it would likely not have had in different circumstances.

There was a disconnection between social effects and the economic experience; and it seems clear that the popular perception of a recovery in the mid-to-late 1930s in fact reflected recovery of morale, including what we might call 'confidence'. Many of the economic policies applied in New Zealand during the mid-to-late 1930s, as has been argued in this paper, were developments of policies introduced during the Depression; and others were founded less in the theory with which they were sometimes interpreted at the time, as a reaction to the perceived problems of the Depression, driven and framed by immediate social factors.

When combined with the regulations of the Second World War, this endorsed the trend towards a regulated economy that marked the middle decades of New Zealand's twentieth century. By no coincidence, the span of this thinking in New Zealand was the active working lifespan of the children of the Depression era.

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Financial crises, sound policies and sound institutions: an interview with Michael Bordo¹

Interview conducted by John Singleton, Victoria University of Wellington

Professor Michael D. Bordo is a Professor of Economics and Director of the Center for Monetary and Financial History at Rutgers University in New Brunswick, New Jersey. He visited New Zealand in June and July 2009 as part of the Professorial Fellowship in Monetary and Financial Economics sponsored by the Reserve Bank of New Zealand and Victoria University of Wellington. Michael is a Research Associate of the National Bureau of Economic Research in the United States, and has spent time as a Visiting Scholar, Professor or Consultant at the IMF, the World Bank, and many central banks. In this interview, Michael talks to John Singleton about his research interests in monetary and financial history and financial crises, the determinants of New Zealand's financial vulnerability, and some of the issues facing central banks in dealing with the aftermath of the current global financial crisis.

How did you come to do advanced studies in economics and to focus your research on financial crises?

I started my university education at McGill University in Montreal. I was always interested in history and political science and I developed an interest in economics. In a course in my first year at McGill, Frank Cyril James gave a spectacular course on global economic history, with the culmination of the course being the 1931 Financial Crisis. I just loved this course, and eventually took Honours [in] economics and political science at McGill. The teachers we had were excellent. I knew I wanted to go to graduate school, I knew I wanted to be a professor. I decided to apply to the London School of Economics, and not really knowing what I was going to do, I signed up for public finance. I later switched to advanced economic theory. Being in the Masters programme at LSE was a very enjoyable time for me. There, I met Bill Phillips.

When you went to the LSE, were you aware that Phillips was an important character and that he'd done very important research?

Yes, but not that much – I was still green in the profession. I was impressed with Lionel Robbins and gave a paper in his seminar. That was really a very exciting event for me. There

¹ The views expressed in this article are those of Professor Bordo, and are not necessarily those of the Reserve Bank of New Zealand.



Professor Michael Bordo (Tim Ng/RBNZ).

were other great people at LSE and Phillips was one of them, but he wasn't really on my radar screen. I knew about the Phillips Curve, but it's not something that was dominating our thinking. We were being taught very Keynesian-type macro, as anybody who went to university in England or Canada at the time was getting.

Was Phillips himself a Keynesian?

Well, I'm giving you my impressions as a graduate student at 21 years old. He gave a series of lectures and demonstrated how his machine could explain the circular flow of income in a very simple Keynesian model. He had a concept of the economy as a control system, in today's sense. You know,