# VENTURING OUT OF NARROW SEAS

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July 8, 2011 Brian Easton[0]

Today I want to talk about my current project: writing a history of New Zealand from an economics perspective – it has the tentative title *Not in Narrow Seas*.

It may seem over-ambitious to take on such a challenge, since I took only two university courses in history – both economic history. I have read fairly widely in New Zealand history over the years; outside New Zealand my history reading has been more erratic, although I have particular interests in the history of mathematics and intellectual history. But I am only a bystander in the methodological disputes and developments which beset the discipline. For the record, like most scientists (and somebody who went to the University of Canterbury in the 1960s) my methodology is heavily influenced by Karl Popper.

Economics is not much of an experimental science – when it is a science at all – so as an applied economist I use the past as a means of testing hypotheses. For instance I first got into considering the history of depressions and long recessions – the topic of the last part of this paper – in the 1970s when I was puzzling about the contemporary state of the economy.

Keynes said that he did 'not know which makes a man more conservative – to know nothing but the present, or nothing but the past'. (Perhaps economists have solved the Keynes problem by knowing nothing of either; we are experts on the future.) Some of my books are about contemporary events, but often I find that I have to go deep into the past to provide a foundation for the narrative.

The precipitant of the current project might have been my 1994 Hocken lecture *Towards a Political Economy of New Zealand: The Tectonics of History* which explained how one might think about the development of New Zealand. After it, Tom Brooking told me I should write a history of New Zealand. If that was the beginning, Tom has once more a lot to answer for.

This is all a defensive way of saying that, for whatever reason, I am writing a history of New Zealand. For the record, I am up to about 1939 and have written 150,000 odd words. I have been fortunate to have received funding support from the Claude McCarthy Trust for the work on the pre-market economy, from the Stout Trust for the nineteenth century economy, and from the New Zealand History Trust for up to 1966 when the pastoral economy's

[0]1. Economic and Social Trust On New Zealand; www.eastonbh.ac.nz

dominance ended. After which the funds run out and like other independent scholars, I live in hope that something will turn up.

I have also received much support from historians. I'll mention some as I proceed. It would be remiss of me not to mention the support of Elizabeth Caffin. There is barely a coherent sentence in my writing which has not been improved by her; she gives much other support besides.

Does history from an economic perspective have any merit? The book may give an answer for you to judge, but it is a few years off. Today's presentation is an interim response.

The deep answer is this. It is not just that in all ages humans spend a lot of time involved in economic activity – not just market activity like paid work and purchasing and consuming products. My study pays attention to the non-market economy which includes the subsistence economy and the household economy. The balance between the market and the non-market economy changes as individuals' economic activities become more specialised, while rising household productivity releases housewives into market work. (This is such an important phenomenon after 1970 that I plan to write a chapter on it.)

But not only do humans spend a lot of time in economic activity, it generates a surplus over necessary spending which shapes the lives we lead. Who commands that surplus? How it is used? Unless we address these issues we can hardly engage with society. It matters a lot whether the surplus is used for the suppression of one's own citizens as is happening in, say, Syria or is shared for the wellbeing of everybody as, say, in Scandinavia.

In arguing that the economy contributes to society and its history in these important ways, I am not claiming some exclusive role for an economic perspective. I celebrate histories which, for instance, focus on Maori, women or the environment – or even politicians.

There are lots of things that have to be left out in an attempt to capture the human experience. One does not normally make a fetish of water and wastewater distribution, but when things go wrong – as they have after the Christchurch earthquakes – we realise their significance. The economy is always going wrong.

In the last four and more decades those in above average income brackets – the median income of adults is less than $30,000 a year– have not been greatly affected by the severe economic stresses. The tax cuts on high incomes protected many from the rigours of the Rogernomics Recession between 1984 and 1994 so they did not pay much attention to the economic issues. Historians have used their part of the surplus to consider other things of interest and relevance to our lives. With the earthquake of the Global Financial Crisis they may wish to pay more attention to the sewerage of the economy.

But even if we ignore the grand issue of how the economy shapes the societies in which we live, conventional histories often overlook obvious economic aspects of the narrative which would add to their richness and coherence. A few examples:

I respect for Judith Bassett's biography of Harry Atkinson, but hope that when she updates it, she will pay more attention to his tenure as Colonial Treasurer during the period of severe fiscal austerity of the Long Depression. Another politician whose reputation has suffered because he presided over a period of severe fiscal austerity is Gordon Coates, neither of whose biographers grasped his achievements as Minister of Finance during the latter part of the Great Depression. Or consider Joseph Ward; to understand the end of his first premiership – the end of the Liberal government – you need to know that the economy went through a climacteric – a growth slowdown to stagnation – in about 1908. John Condliffe remarks that it was a 'crisis which demoralised New Zealand industry and trade'; Ward's biographer focuses on political crises.

Conversely, we sing the praises of the First Liberal Government and the First Labour Government. But much of their social innovations were financed by the great economic booms over which they presided – in each case per capita output doubled in ten years. We dont attribute the Liberal boom to the Liberal government and, pinkish sentiments aside, the Labour boom was not particularly due to actions of the Labour government – it was well underway under Coates and almost came to an end in 1939 except for the war. The Liberals and Labour may have spent the growing fiscal surplus wisely – in a way in which others under fiscal austerity can only dream of – but the fiscal surplus made them, not the other way around.

There are many other examples. I have chosen these because they are part of the common knowledge of our history; often while reading a substantial piece of New Zealand historical writing I mutter 'it's missed the [economic] point'.

Let me illustrate the practical relevance of economics to a general history by going through some of what I have already written.

Humans dont arrive in New Zealand until the book's Chapter 3. There aren't any humans in Chapter 1, which is the geological history of New Zealand going back as far as I dared – 650 million years. At issue is not just that we unzipped from Australia 70 million years ago. Geological history created our living environment: the shape of the land, the ruggedness of the country, the quality of our soil, the minerals (or lack of exploitable ones) beneath, the biota – even the prevailing westerlies are a consequence of Australia separating from

Antarctica 30 million years ago. There's also the groundshakes and thermal activity; volcanoes may be more important than earthquakes.

Chapter 2 is about the sort of lives the ancestors of the Maori lived before they got here; Raymond Firth's studies of Tikopia are a major source. (His *Economics of the New Zealand Maori* is central to Chapter 3.) Too often we forget that new arrivals bring baggage from their homelands. I do the same for the Europeans in chapters 6 and 19, and will do the same for Pasifika people later.

(While the first 27 chapters are written, they will be subject to revision as new material accumulates. For instance Joan Druett's recent biography of Tupaia requires us to rethink aspects of Maori historical development.)

There follow three chapters on Maori; on the settling in of the new arrivals and then on the pre-market Maori Society, and an account of the Maori engaging with the market economy – an extraordinary adaption which happened so rapidly it is usually overlooked. That's four chapters on Maori and their ancestors to about 1860; there are another three which treat them largely exclusively: Chapter 13 is about them after the New Zealand Wars and there are yet to be written chapters on Maori in the first half of the twentieth century and the subsequent Maori urbanisation and renaissance. This is not to isolate them, for Maori appear in other chapters, but until around the mid twentieth century the Maori economy was distinctive and largely subsistence in character.

By now we are at chapter 7 – 30,000 odd words in – and we turn to European settlement. The next five chapters might be thought of as subversive. The grand narrative sees New Zealand settlement as sustainable from the beginning. It wasnt – until around 1870 the prosperity of the settlers depended on offshore borrowing and the quarrying of seals, whales, timber and gold, while the British-funded war was economically beneficial to those behind the lines (although they charged us for it as debt). Keith Sinclair's *History of New Zealand* nicely illustrates this lacuna; less than a paragraph on the southern gold rushes, no mention that about the same time Auckland was a war camp.

The grand narrative gives little recognition to how heavily New Zealand was borrowing. Export receipts rarely exceeded import payments before 1887; add in debt servicing and the current account was in deficit even longer. Early New Zealand was on an edge of unsustainability; the collapse of Newfoundland in the 1930s was nearly our destiny.

My chapter 9 uses the wonderful material that Brad Patterson has brought together on Wellington, whose initial prosperity was dependent on whaling; later I use Russell Stone's equally valuable material on Auckland. While we are so keen to see ourselves as here forever, we forget how fragile was the survival of the first European settlements. As environmentalists will tell you, sustainability does not come easily.

Chapter 8, on the establishment of the settler governance of New Zealand, introduces another major theme. The government preceded settlement, which never had the opportunity to flourish without it; instead New Zealand society developed dependent upon it. When it has a problem it turns to Wellington for a solution. This chapter also contains my standard illustration of why I cannot write a pure economic history. It would be somehow deficient to state just that the Tiriti o Waitangi brought British commercial law to New Zealand.

Sustainable settlement became possible when it was discovered that sheep thrived in New Zealand – the quarrying of offshore phosphate and oil aside. It was going to be a very different settlement under the great stations which produced only wool – more like the Falklands. Sheep stations were largely self-sufficient so there were no rural towns aside from those in the Wairarapa which provisioned Wellington. (Thankyou Roberta McIntyre for reminding me.) Generally, small settler farms were near subsistence, even exchanging their surpluses with the local store for goods rather than for money.

The economic story of the Vogel Boom followed by the Long Depression is reasonably well known although the book adds a couple of complications.

The failure of Maori to develop economically was not simply the result of the loss of their land, an explanation which has only the vaguest of causal mechanisms such as ‘demoralisation’ – whatever that means. Ian Pool argues that land sales and confiscations were followed by the arrival of settlers who brought disease from which Maori had no natural immunity; so their mortality rose.

While many iwi had enough land they were unable to benefit from the staple industry of wool, because they were not located where sheep thrived. Aside from the East Cape, there were hardly any sheep north of Taupo because the land lacked trace elements, so stock suffered from bush sickness; or was swamp, and the sheep suffered from footrot.

Both geographies were the consequence of the Taupo eruption in about 220CE. We can but be in awe that an event 1600 years earlier was shaping crucial features of the nineteenth century economy. Instructively, Maori south of Taupo had flocks similar in size to the settler ones, after allowing for their population size. Today’s Ngai Tahu may be ahead of their northern cousins on various socio-economic measures because they could farm sheep in the nineteenth century.

Settlers north of the Taupo line could not get into sheep farming either. In the late nineteenth century New Zealand was two disconnected economies. That resolves one of the disputes about the extent of the Long Depression. Russell Stone and Ian Hunter describe a boom in the 1880s, while others describe depressed economic conditions. Both are right; the Aucklanders are talking about the Auckland economy; others about south of Taupo, which faced falling wool prices and borrowing difficulties in Britain. Auckland was not dependent upon wool but the quarrying of hard rock gold, kauri gum and timber; it prospered by linking into booming Sydney and Melbourne. When the Australian economy collapsed in the late 1880s – almost a decade after the European one – Auckland went down too, and in the early 1890s depression covered the entire country. That was when the three New Zealand-based banks had to be bailed out.

Europe pulled out of its Long Depression in the mid 1890s; so did New Zealand but it was a different economy. Wool prices remained weak, but refrigeration enabled smaller family farms – crossbred sheep and dairy. Farms converted from subsistence modes of production, others emerged from the breaking up of the large estates in the South Island and the Maori estate in the North. The rural towns which serviced them flourished. Out of this transformation the relatively socially flat, some would say ‘classless’, society of the early twentieth century arose.

It was this burgeoning rural economy which dragged the Liberals away from the initial Lib-Lab coalition, and led to the eventual establishment of the Labour party. The Liberals used the surplus to create many of the institutions which we think of as integral to New Zealand life, but their luck ran out in 1908 when the boom ended.

It was partly the impact of the world economy, but productivity growth in the farm economy faltered, despite an increase in the number of farms. Perhaps they were on more marginal land, but the established ones were suffering from depletion of soil fertility. Artificial fertilizers were not heavily applied until the middle of the 1920s; rises in farm productivity followed. When farmers cut back on their application – in the early 1930s when they were broke; in the early 1940s when phosphates were diverted to explosives – farm production again faltered.

The economic history of the decade after 1908 is problematic; the data is inadequate, while the narratives, concerned with political upheaval and the Great War – do not offer a lot of economic insights. From what I can gather the economy stagnated.

There was a sharp downturn in 1920 as war conditions reversed; a stagnation largely continued in the 1920s, with odd ups and downs, collapsing in the early 1930s following a borrowing crisis and a dramatic fall in the terms of trade. It is possible that the economy was broadly stagnant in per capita output terms from about 1908 to 1935, which would mean that the interwar recession was longer than we usually think.

Economic stagnation does not mean nothing happens, as I am reminded when I see the – alas disappearing – art deco picture theatres built during the depths of the Great Depression. It is silly to say they were to take people's mind off their misery; it was more that new technologies opened up opportunities for entrepreneurs despite depressed aggregate demand.

At a structural level the interwar period is one of urbanisation and industrialisation; the main cities became less dependent upon the countryside, beginning to develop as mature and independent social and cultural entities.

Malcolm McKinnon is doing some great work on the Great Depression, so I have only a couple of chapters on it, although because I use a thematic approach with overlapping periods, it – like the Maori – appears elsewhere. I cannot mention Malcolm – or Brad Patterson – without noting how much I admire the craft of historians.

I was going to devote only one chapter to the First Labour government – the Second World War aside. But the material and the thematic approach meant I added two chapters on the development of the welfare state, starting as far back as I dared go and ending in about 1972; a later chapter will argue that the subsequently changing social and economic circumstances have made the framework less robust, illustrative of a theme which will dominate the end of the book. Economic and social change undermines the old verities.

It will take me the rest of the year to get to 1966, the end of the golden wether, when the pastoral economy which refrigeration and the Liberals founded began to unravel. If you want to know more about what happens after, you will have to invite me back, when I have written more of the book.

Instead I would like to use the last part of my time to reverse my theme and talk about how history can assist economists. I am making a fuller presentation – a more technical one – on this to a Treasury seminar at the end of the month, so this is a trailer.

In late 2008, shortly after the Global Financial Crisis began, some New Zealand economists knew that economic theory was not enough to guide them, while New Zealand's experience would be quite different from those of the central economies of the United States and Europe. So they went to history to bolster theory and commonsense. You might call it a 'Sarah Palin moment'. They knew history was important, but they did not know much history.

They rightly dismissed the previous downturn – the 1997 Asian crisis – as a shallow business cycle compared to what is now being called the 'Global Long Recession'. They tried to remember the Ruthanasia downturn of the early 1990s. It turns out not to be particularly relevant because it was domestically generated and involved dramatic changes to the economic structure.

Scraping around in their memories they overlooked the 1966 to 1978 growth recession and the 1945 to 1953 post-war recession, which I shall come back to. They knew there was the Great Depression but they weren't too clued up on that either.

Fortunately there is a rich economic literature on the Great Depression in America and Europe to which many quality economists have contributed, including Ben Bernanke, chairman of the US Fed. It enabled them to take measures to avoid a second great depression, but they could not prevent the rich-world economy stagnating.

The New Zealand experience during the Great Depression was different. We were already in borrowing difficulties in 1928, and we suffered a severe fall in our relative export prices – most other countries did not. This time none of our banks collapsed.

Instead, when I looked through our economic history I was struck most by the parallels with the Long Depression which ran from about 1879 to 1895 – some sixteen odd years. We were over-borrowed although it was not evident at the time; Vogel was sailing off to London to raise more money in October 1878 when the City of Glasgow Bank crashed precipitating the long stagnation. A sound financial system can cope with a single bank crash, but there was systemic unsoundness – more London-based banks fell; it took a long time for the financial system to recover.

New Zealand's prosperity of the 1870s had been underwritten by the Vogel borrowing binge which depended upon capital gains from land values. Afterwards borrowers struggled to service their debt, as did the country's leaders – Atkinson not least. Wool prices began falling, although they were probably offset – to some degree – by the sheep industry's rising productivity as farmers managed their flocks better and bred wools demanded by the market. Meanwhile a new pastoral industry evolved based upon the export of refrigerated meat and dairy products. The story of the Long Depression is complicated by Auckland being hooked into booming Sydney and Melbourne. That may have parallels with today's dairy industry hooked into China.

While the parallels between the Long Depression and the current economy are suggestive, they are not exact. But studying them, and those of other severe downturns, helps us think systematically about today's circumstances. So back at the end of 2008 I was able to warn that it seemed likely that the stagnation which followed the Global Financial Crisis would last longer than a couple of years.

How long might the stagnation last? Measuring and defining recession length involves a lot of judgement, even when the data base is reliable. Here are my assessments of five periods of poor economic growth, noting that there is a sense that by current standards there was a stagnation of the 600 years of the New Zealand pre-market economy from the arrival of the proto-Maori to the first Europeans.

The first post-market stagnation was *The Long Depression* which I have already discussed. It lasted from about 1879 to about 1895 – as long as 16 years.

Second was *The Interwar Recession*. If one measures it from the beginning of the sharp depression of 1920 to the end of the Great Depression in 1934 its length was 14 years. Given there is a plausible case that it began in the first decade of the twentieth century, it may have lasted over 25 years.

*The Post-war Recession* was the third, running for ten years from 1944 to early 1954. That sees through the production boost from the wool price boom of 1950. Expenditure did not stagnate because of the favourable prices for our exports, so we could spend more without producing more. I suspect National's post-war economic boom – of around 15 years – was more the consequence of our receiving favourable prices offshore than anything we did.

Our fourth was the *recession which followed the wool price collapse* of 1966. It did not really come to an end until mid 1978 which makes it over 11 years long, although there were only 8 years of stagnation. Perhaps it was a growth recession rather than a period of total stagnation.

The final great stagnation – the current one aside – was the *Rogernomics Recession* beginning in early 1984. The output flat-lined to the end of 1990, collapsed into a deep dip and was back at the flat-line level at the end of 1993, a total of 10 years.

The five long stagnations total almost 60 years excluding the 1910s; over 70 including them. For over a third of New Zealand's measurable economic history, production has stagnated for long periods. That proportion also applies to the post-war era,

The New Zealand economy peaked in output per capita terms in the September quarter of 2007. That is almost four years ago. The Treasury budget forecasts have the economy not returning to that level before September 2012, five years after. Many think the forecasts are optimistic – they have been shaded them down a bit since – in which case the return to the level of the previous peak will take even longer. New Zealand is in another Long Recession.

We do not listen to Cassandras. New Zealanders are natural optimists; anyone whose ancestors sailed thousands of miles to a barely known destination has optimism wired into their genes. Pessimism is not welcomed even when the evidence favours it. As Keynes remarked, ‘worldly wisdom teaches that it is better for the reputation to fail conventionally than to succeed unconventionally.’

How long will this long recession last? That largely depends on the world economy. The weight of the opinion of those who have been mostly right up to now is that it will take at least another five or so years for it to recover. That is 2016; an eightish year long recession, not untypical of the postwar era. I joke that I’ll finish the book about the time we come out of it.