



The First Labour Government's New Start for Manufacturing, Employment, and Social Security in New Zealand, 1935-1949

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New Zealand's first Labour government swept to power in 1935 with ambitious plans for recovery after years of depression. Its promises were similar to those of other national governments in the United States, Britain, and Europe that also accepted specific responsibility for economic wellbeing. Labour used state powers, state institutions, and private business to boost local industry, thereby creating employment and conserving precious foreign exchange. Its real challenge was smoothing out sharp changes in external commodity prices to achieve internal price stability and somehow sharing out through paid employment the "national" income earned by a small sector and a few exports. Labour took the lead in economic regulation, curbing competition and concentrating industry to avoid costly duplication of plant, equipment, or expertise and to ensure "stabilization." However, expansionist policies and prosperity brought strong demand from industry and public works. Large volumes of imports and sharply fluctuating prices for meat and dairy products on the London market caused a foreign exchange crisis in 1938. Threats of balance of payments crises recurred throughout the postwar years, undermining long-term aims for local industry. Labour's legacy lived on after 1949, however, as new governments also maintained a commitment to a full-employment welfare state.

The state's powerful role in building new national wealth, especially after economic depression, has been widely demonstrated in many studies. Several works have shown how national governments helped propel the growth of industry in Western Europe from the end of the Second World War until the early 1980s.¹ In a different way, U.S. federal and state

¹ Matthias Kipping, "The Changing Nature of the Business-Government Relationship in Western Europe after 1945," in *European Yearbook of Business*

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governments also explicitly accepted responsibility for national economic wellbeing.² A key purpose of Australian government policy for much of the twentieth century was full employment and economic stability, partly through import protection to promote and diversify domestic infant industries, including inefficient small-scale producers.³ Understanding and assessing the methods, influence, and contexts of government intervention in expanding and modernizing national economies and building national wealth is a difficult task.

For most of the postwar years until the late 1970s, New Zealand governments sought to shelter the economy as far as possible from the outside world and to sustain a full-employment welfare state. These policies had their origins in the 1930s in the commitments of the first Labour government. In this paper I show how Labour used state powers to boost private business in the national interest, most importantly to create paid employment and to conserve precious foreign exchange in order to provide social security for all, in the paid work force or not.

Labour swept to clear victory in 1935 with ambitious plans for recovery and reconstruction after seven years of depression. The government's cautious, commonsense leaders were determined to address in a practical way the urgent problems of employment, housing, education, and social security.⁴ Labour's manifesto had spoken of distributing production and services to guarantee to everyone able and willing to work an income sufficient to provide a "home" and "home life" in the best sense of those terms.⁵ Perhaps most attractive to voters were promises to guarantee prices for farmers, to use public credit for housing, and to foster secondary industries to provide employment.⁶

Such promises were similar to those made by other national governments in the United States, Britain, and Europe. The New Zealand government's problem was how to smooth out external commodity price fluctuations to achieve internal price stability, and how in some way to

History, vol. 2, ed. Wilfried Feldenkirchen and Terry Gourvish (Aldershot, U.K., 1999), 35-51; and Matthias Kipping, "Business-Government Relations: Beyond Performance Issues," in *Business History Around the World*, ed. Franco Amatori and Geoffrey Jones (Cambridge, U.K., 2003), 372-93.

² Thomas K. McCraw, "Government and Big Business," in *Big Business and the Wealth of Nations*, ed. Alfred D. Chandler, Jr., Franco Amatori, and Takashi Hikino (New York, 1997), 522-45.

³ Gordon Boyce and Simon Ville, *The Development of Modern Business* (Basingstoke, U.K., 2002), 320-21.

⁴ See, for example, the brief summary of the fall in prices to primary producers, incidence of over-mortgaged land, cuts in salaries and pensions, and unprecedented unemployment, in Financial Statement, 4 Aug. 1936, *New Zealand Parliamentary Debates* [hereafter, *NZPD*], vol. 246 (1936), 261.

⁵ Barry Gustafson, *From the Cradle to the Grave: A Biography of Michael Joseph Savage* (Auckland, 1986), 165.

⁶ See Keith Sinclair, *Walter Nash* (Auckland, 1956), 255-57.

share the “national” income earned by a small export sector throughout the economy. New Zealand still sent meat, wool, and dairy products mainly to Britain, exports that were subject to uncontrollable price changes. Because farming and related production, such as export meat processing, were becoming more mechanized, they could provide little new employment. Both the market and the labor force were too small to sustain much heavy industry apart from meat-freezing and -preserving works, large coach-building and motor-body building, and cycle works (1,150 in 1936), motor engineering works (204 in 1936), iron smelting plants, and brick, tile, and pottery-making factories. Most industry was in scattered in small workshops employing fewer than fifty people. Many enterprises were family owned.⁷

As in the United States during the New Deal, the government took the lead in what was later known as economic management. Attempts to revive the economy by the previous coalition government were too tentative. The Labour leaders knew that unemployment could not be tackled by public works alone, although languishing programs were quickly restarted, including one of the last great rail projects. “Our job is to develop the secondary industries of New Zealand,” said prime minister Michael Joseph Savage. “The government intended to help the manufacturers,” he said, “not for the sake of the manufacturers alone, but for the sake of the people of the country.” In this way, New Zealand could be more self-sufficient, especially if the government controlled imports of locally produced goods.⁸ But, as a signatory to the new formal arrangements of the 1932 Ottawa Agreement, the government found that imposing import controls was easier said than done, especially as New Zealand needed Britain for its export markets and British financiers for loans. “We are part and parcel of Britain,” said the prime minister. “Britain takes our stuff—it is a fair thing that we should return the compliment.”⁹

A crucial part of Labour’s recovery program was taking control of “the people’s credit” (and currency) to create low- or no-interest loans for public purposes, especially housing, purchasing butter and cheese for export to allow payment of a guaranteed price to farmers, and providing a

⁷ Tom Brooking, “Economic Transformation,” in *The Oxford History of New Zealand*, 2d ed., ed. Geoffrey W. Rice (Auckland, 1992), 249-50; Department of Industries and Commerce Annual Report 1937, *Appendices to the Journals of the House of Representatives* [hereafter, *AJHR*], 1937-38, H.44, 23; J. Butcher, Government Statistician, Statistical comparisons between 1914-18 and 1939, 2 Nov. 1939, Archives New Zealand, Nash 48, folio 001-0724.

⁸ See New Zealand Manufacturers Federation: Deputation to the Prime Minister and Minister of Industries and Commerce, Wellington, 2 Sept. 1936, Archives New Zealand, Nash 49, folio 49, 4-24.

⁹ *Ibid.*

free medical service and superannuation payment.¹⁰ The new government's first measure, the Reserve Bank Amendment Act of 1936, was intended to ensure available credit for those major reforms. Just as significant as buying out the private shares of the Reserve Bank, New Zealand's central financial institution, was the legislation's "social clause," which made the clear connection between controlling monetary policy and social and economic wellbeing.¹¹ An amendment in 1939 further increased government control of the bank.

Labour could now turn to its promise to help the dairy industry through Reserve Bank overdrafts. The Labour party had promised in its manifesto to guarantee prices paid to farmers to ensure them a steady income. Under the Primary Products Marketing Act passed in 1936, through a new Primary Products Marketing Department the government would buy, at wharf side, all butter and cheese intended for export and then sell this produce on behalf of the dairy factories through selected British firms. An overdraft on a new Dairy Industry Account at the Reserve Bank would finance all transactions. The department would calculate and fix prices to pay dairy farmers based on the average market price of recent years. This generous price smoothing measure was to prove controversial, once dairying had passed out of depression and farmers were prospering.¹²

Aware that many New Zealand industries were small and scattered, the government aimed to standardize methods in existing industries, encourage new ventures, curb competition, and concentrate production to avoid costly duplication of plant, equipment, and expertise to ensure "stabilization." In 1936, the government passed an Industrial Efficiency Act to help balance growth and to encourage firms to risk investment in new business or expand production in existing ones. A Bureau of Industry, representing manufacturing, farming, labor, and government departments, would license entry to specific industries such as cement, tire making, and pulp and paper and to occupations such as pharmacy.¹³ A more constructive policy related to preparing industry "plans" to regulate standards and prices.

¹⁰ The 1935 manifesto promised to "assume control of the central credit system of the Dominion to ensure the maximum utilisation and distribution of our national resources."

¹¹ *Statutes of New Zealand*, 1936, no. 1, sections 10, 12, 14.

¹² See the detail in *Statutes of New Zealand*, 1936, no.5, 60-73, and the concise summary in Robert Chapman, "From Labour to National," in *The Oxford History of New Zealand*, ed. Rice, 357. Sheep farmers, who had recovered earlier, chose to remain in the free market.

¹³ *Statutes of New Zealand*, 1936, 407; Industries and Commerce Annual Report 1937, *AJHR* 1937-38, H.44, 24-27; Industries and Commerce Annual Report, 1938, *AJHR* 1938, H.44, 21-23.

The direction of a fledgling pulp and paper industry in the national interest is a good illustration of the intentions behind government policies such as concentrating production. In view of large surpluses in the world newsprint industry, the tiny domestic market, competition for export markets, and scarce local capital, the Labour government began in 1939 to plan one small state-owned and managed kraft pulp and paper mill, drawing all pulpwood supplies from local forests. The license for the new industry would be under the Industrial Efficiency Act, allowing the government to control resources and leave the field free for a state scheme. Nine firms applied for licenses and three were granted.¹⁴

Building Houses for the State

Of all Labour's achievements, state housing and social security are perhaps the two most vividly impressed upon the memories of those who lived through these times. The prime minister said, in 1936:

I think that we can have smiling homes in New Zealand; that we can use the public credit for the purposes of building homes worth living in—homes for the Native race; homes for their pakeha brethren. . . . We have the timber and the mills and the men, and the women, too, willing to go to work.¹⁵

Labour was not the first New Zealand government to build houses, but the scale of its scheme was quite new. Because ministers clearly understood that housing was an economic as well as a social force and the crucial role of the building and construction industry, they wanted to make housing a direct state responsibility. In this way they could bring together unemployed building workers, unused building materials, vacant land, local money, and people in desperate need of housing.¹⁶

The government established a Department of Housing Construction under provisions of the Housing Act of 1919 and the State Advances Corporation Act of 1936, and began to acquire land for state housing all over New Zealand. Within a year, the scheme was employing about 2,500 people in building or making and transporting materials. The houses were not for sale, but for rent. The Reserve Bank, through low-interest credit,

¹⁴ Secretary, Industries and Commerce to Minister, Pulp and paper manufacture, 11 Sept. 1939, Archives New Zealand, pp. 1-4, IC 1 21/1/1, part 1. See also Entrican to Commissioner of State Forests, 10 March 1941, Archives New Zealand, T 1 52/539, part 2. The right to make newsprint was originally granted to the New Zealand Forest Service. See also Deputation from Whakatane Paper Mills to Sullivan, Minister of Industries and Commerce, 21 April 1938, Archives New Zealand, T 1 52/539, part 2.

¹⁵ *NZPD*, vol. 244 (1936), 65.

¹⁶ R.T. Metge, "The House That Jack Built: The Origins of Labour State Housing 1935-8 with Particular Reference to the Role of J.A. Lee" (M.A. thesis, Auckland University, 1972).

provided the money for the scheme.¹⁷ This way of providing public finance fitted in with Labour's long-term ambition for financial self-sufficiency, but it was unorthodox. The Treasury preferred that the Housing Account be subject to the annual appropriation of Parliament, which eventually occurred.¹⁸

In spite of their self-assurance, the Labour ministers and public servants knew little about costing and managing large enterprises. The minister of finance, Walter Nash, assumed charge and took valuable advice from a leading building firm, Fletcher Construction. With a firm operating on a national scale, experience in managing large construction projects, access to building materials, and political skill, James Fletcher was ready for this major building opportunity. Aware that housing affected many sectors, he warned the prime minister to invite the co-operation of every major construction interest, not just that of his own building firm. Because his company already had many major commitments, he preferred to avoid radical change such as the sale of his building and contracting business to the government. At the same time, he provided the cabinet with a detailed, practical plan to organize large-scale construction.¹⁹

Preparation of plans, bills of quantities, and specifications began so that tenders could be called as soon as a government housing department was up and running. Fletcher organized underemployed architects to draw up plans for many different house designs and enlisted the good will of builders who had stood aloof from the plan. Fletcher Construction won the contract for the first state housing schemes in 1937 and supplied many of the designs. Because of a shortage of skilled labor, Fletcher agents in England and Scotland recruited several hundred carpenters and joiners for the company's government housing factory in Wellington.²⁰ By February 1939, the Fletcher company had built 877 houses. Of only 371 state houses completed on time, Fletcher had built 317.²¹ The company went on to build well over 10,000 state houses, in regimented subdivisions.

¹⁷ A. Tyndall, Director of Housing Construction, to the aide-de-camp in waiting, Government House, 20 July 1937, Archives New Zealand, HD, Accession W1353, 3/1/8, part 2. See figures for land, tenders, contracts, in Tyndall to parliamentary under-secretary for finance, 26 Oct. 1937 and W. Nash, Financial Statement, Sept. 1937, *AJHR* 1937-38, B.6, 5-6.

¹⁸ See the interesting, detailed discussion in Simon Boyce, *Unsound Finance and Creative Accounting: The Role of Treasury in New Zealand's Financial Policy, 1941-67* (Paraparaumu Beach, New Zealand, 2004).

¹⁹ James Fletcher to Prime Minister [Savage], 13 June 1936, pp. 1-2; see also Fletcher, Proposals for organisation of building construction, 13 June 1936, Archives New Zealand, 1-6, Nash 2196, folio 0112-0266, Housing.

²⁰ See one example, Mitchell, Glasgow, to Calder, Inverness, 21 July 1937, Fletcher Challenge Archives, series 0134/7, item 7.

²¹ Department of Housing Construction, Archives New Zealand, 3/1/8, part 3.

The Social Security Act 1938

At about the same time Labour began serious preparations for a comprehensive social security scheme.²² A few weeks before the party's re-election for a second term in October 1938, and after struggling to resolve some deep divisions, Prime Minister Savage and the minister of health, Peter Fraser, introduced the landmark Social Security Act. It spelled out principles and a framework to provide for a series of state benefits, including a small universal pension for those over sixty-five, and the creation of what politicians intended to be a free national health service to include hospital treatment, family doctor service and free medicines.²³ A levy on all salaries, wages, and other income allowed the creation of a special Social Security Fund.²⁴ The prime minister described the legislation as an attempt "for the first time to provide, as generously as possible, for all persons who have been deprived of the power to obtain a reasonable livelihood through age, illness, unemployment, widowhood, or other misfortune."²⁵

The promise of a free health service provides an interesting example of the compromises made as appropriate ministers sought to implement the radical legislation. The local branch of the British Medical Association strongly opposed the planned new health service, especially a proposed general contract for doctors based on an annual payment. A prolonged dispute delayed the introduction of pharmaceutical benefits until 1941. Eventually the government offered doctors a fee-for-service agreement and made a commitment to fund both doctors' services and such medicines as they thought appropriate to prescribe. The effect of that decision was that the prescribing habits of doctors (who, like their patients, neither had to know nor were concerned with the costs of the medicines) and constant innovation in drug therapies produced by the pharmaceutical companies would drive spending on pharmaceutical benefits. Similarly, the volume and cost of the medicines dispensed directly related to pharmacists' profits. Like doctors and their patients, they had little incentive to limit the volume of prescriptions or to seek cheaper alternatives. The Department of Health tried to prevent drug companies from exploiting the situation for profit, but the department often found itself in an uneasy relationship with the Department of

²² Report of the Select Committee on National Health and Superannuation, *AJHR* 1938, I-6, 6-12.

²³ *Statutes of New Zealand*, 1938, 116-17. See also the interesting summary in Government Election Manifesto, 1938 General Election, Archives New Zealand, Nash 1325 0348, folio 1325.

²⁴ See *Statutes of New Zealand*, 1938, part IV, Financial Provisions, pp. 122-27.

²⁵ Gustafson, *From the Cradle to the Grave*, 223.

Industries and Commerce, which aimed to encourage the development of local industry and to minimize demands on precious foreign exchange.²⁶

The 1938 Sterling Crisis

The general prosperity brought about by the government's expansionist policies, including state housing, encouraged strong demand from industry and public works for imported raw materials and capital equipment, as well as a demand for imported consumer goods such as American cars. At the same time export prices, especially for wool, dropped sharply.²⁷

New Zealand's international transactions, including payment for imports, debt repayments, and export receipts, were settled in pounds sterling. This was the currency of New Zealand's most important trading partner and the financial controller from the Bank of England of the monetary union known as the sterling area. The territories within this network, including New Zealand and other members of the Commonwealth (except Canada), pegged their exchange rates to sterling, maintained their national reserves in that currency, and cooperated in trade and investment to make the best use of the scarce dollars available and to reduce dollar spending. For example, members were expected, where possible, to import from other members.²⁸ The formal agreement for the exchange pool did not permit any political influence over New Zealand's exchange rate.²⁹

A dangerous fall in the sterling reserves held by New Zealand banks in 1938 forced the government, which perhaps had tried to ignore earlier ominous signs until after the election, into drastic action. In a revealing note in his journal, secretary to the treasury Bernard Ashwin wrote, "I don't think Savage [the Prime Minister] appreciates the gravity of the situation, whilst the rank and file of people continue to enjoy prosperity without realizing that the foundations are crumbling beneath them."³⁰ Devaluation was not an option for the government, because it would

²⁶ Astrid Baker, "Private Interests and Public Money: The State Provision of Medicines in New Zealand, 1938-1986 (Ph.D. diss., Massey University, New Zealand, 1996).

²⁷ Gary R. Hawke, *The Making of New Zealand: An Economic History* (Cambridge, U.K., 1985), and Gary R. Hawke, "Economic Trends and Economic Policy, 1938-1992," in *Oxford History of New Zealand*, ed. Rice.

²⁸ Paul L. Robertson and John Singleton, "The Commonwealth as an Economic Network," *Australian Economic History Review* 41 (Nov. 2001): 241-66, and Tim Rooth, "Australia, Canada, and the International Economy in the Era of Postwar Reconstruction, 1945-50," *ibid.* 40 (July 2000): 147.

²⁹ Simon Boyce, "In Spite of Tooley Street, Montagu Norman, and the Reserve Bank's Governor: Recolonization or the Eclipse of Colonial Financial Ties with Britain in the 1930s?" *New Zealand Journal of History* 39 (April 2005): 83.

³⁰ Quoted in Malcolm McKinnon, *Treasury: The New Zealand Treasury, 1840-2000* (Auckland, 2003), 165.

increase the cost of living as imports cost more.³¹ In December 1938, Labour introduced quotas or licensing on imports and strict rules on the movement of foreign exchange in and out of New Zealand.³²

Import “licensing” gave priority to raw materials, equipment, and machinery for local processing and manufacturing, rather than to finished goods. The Reserve Bank, through comprehensive new powers, controlled receipts from exports to ensure that all foreign exchange returned to New Zealand banks for rationing for approved purposes. A system of exchange permits channeled payments to other countries. All these were crisis measures, yet they were quite consistent with Labour’s approach to protecting employment, living standards, and local industry since its election in 1935.

As well as sheltering locally owned factories, import quotas encouraged overseas companies to enter the New Zealand market through local production based on imported raw materials and components, rather than direct export of finished goods. Some foreign investment in local operations dated back to the nineteenth century—for example, in meat processing, sugar refining, and ammunition making. However, the number of overseas-owned enterprises established in New Zealand grew sharply after 1938, when Labour first introduced import licensing.³³ Those businesses were persuaded to complete at least some of the finishing processes locally, or denied import licenses if they did not.

Chemical companies, especially paint and pharmaceutical producers, were among the overseas-owned assembly industries. New Zealand’s small-scale pharmaceutical production, with its wasteful use of capital, low levels of productivity, high production costs, and lack of internal competition, is an interesting example of the contradictions in Labour’s broad industrial policy. New Zealand had established no fine chemical industry producing basic pharmaceutical materials and conducted little or no basic drug research. Legal access to most of the drugs being developed by major international pharmaceutical companies in Europe and the United States, at least before their patents expired, could be gained only by

³¹ Balance of payments accounting was still primitive. But see graph showing Reserve Bank selected assets, 1934-1939, Appendix 4, and the detail in chap. 7 in Gary Hawke, *Between Governments and Banks: A History of the Reserve Bank of New Zealand* (Wellington, N.Z., 1973). The rate established under the Coalition Government in 1933 remained unchanged until 1948.

³² See “The Exchange Crisis 1938-9,” in Sinclair, *Walter Nash*, 170-89.

³³ Roderick S. Deane, *Foreign Investment in New Zealand Manufacturing* (Wellington, N.Z., 1970), Table 2-1, 20. Deane defined the establishment date as that date when the overseas enterprise commenced manufacturing in New Zealand, or when a 25 percent or more foreign interest was first purchased in an already existing New Zealand-owned manufacturing company.

importing the product or by establishing local subsidiaries to produce the products under license.³⁴

Managing the Economy

Coordinating many different departments—including Customs, Industries and Commerce, and the Reserve Bank—during tensions and anxieties at home and abroad was difficult. The Department of Industries and Commerce managed the broad policy, especially ensuring the supply of plant and raw materials to expand and develop secondary industry.³⁵ Officials distributed import licenses in such a way as to serve a particular market, or to foster certain industries by ensuring that available funds were allocated to the necessary raw materials and machinery: for example, for clothing and textiles, engineering, rubber tires, sugar refining, cement, agricultural implements, electrical goods, most plastic goods, paint, cardboard, and packaging.³⁶ To ensure that expenditures on imports were limited to available overseas exchange and to the most efficient use of resources possible, regulations prohibited the import of goods except where a license had been issued or an exemption granted by the Minister of Customs.³⁷

Controls on imports and foreign exchange operated alongside already established tariffs and measures to control prices. Nevertheless, the volume of importing and fluctuating prices for New Zealand meat and dairy products on the London market threatened further balance of payments crises throughout the postwar years, which undermined long-term government aims for the manufacturing industry and sharply reduced funds for investment in the private sector.

The outbreak of the Second World War brought drastic changes in the demands made on the government. Because New Zealand was both shut off from traditional imports and had to support Allied forces in the Pacific with food and other war materials, the war helped foster several new industries.³⁸ During the postwar years of full employment, when demand for labor exceeded supply, the government continued to elaborate and redefine its arrangements for price control to stabilize prices and hold

³⁴ Baker, “Private Interests and Public Money.”

³⁵ Industries and Commerce, Annual Report 1945, *AJHR* 1945, H.44, 8.

³⁶ Marshall, Secretary, Industries and Commerce, Memo for Minister, The Tariff and the Import Situation, 14 July 1955, 2, Archives New Zealand, IC 1 2/2, Accession W1697; Department of Industries and Commerce Annual Report 1950, *AJHR* 1950, H.44, 12.

³⁷ The government soon strengthened the legal basis of its Dec. 1938 import controls by passing the Customs Act Amendment Act of 1939, which gave it power to regulate imports as it saw fit.

³⁸ Industries and Commerce Annual Report 1940, *AJHR* 1940, H.44, 15.

down inflation. The effect was to foster expansion of industry by ensuring generous returns on investment.³⁹

The Control of Prices Act of 1947 consolidated powers and functions formerly exercised mainly under the Emergency Regulations and confirmed the government's power to fix prices on any goods or services indefinitely.⁴⁰ The act reconstituted the 1939 Price Tribunal and extended its powers and functions. The tribunal could fix prices for goods and services, investigate complaints, and establish proceedings to deal with offenders.⁴¹ In general it was concerned not so much with consumers, but rather with the financial progress of industries and traders, and hence with employment.⁴² A separate division of the Department of Industries and Commerce, known as the Price Control Division, administered and "enforced" price control.⁴³

The general principle that substantial rewards for investment in a particular industry would encourage the growth of new enterprises continued to be the basis of Price Tribunal policy for the next twenty years. Hence the role of price control was to ensure fixed prices and profit margins to allow sellers to recover their costs. Because "costs" included rewards for management and capital investors, when the tribunal fixed prices for separate lines made by individual firms it allowed the cost of materials, labor, and overheads, with a margin for profit equivalent to the average return for that particular industry, to be included. Under these arrangements for managing the economy, the efficiency or otherwise of individual producers came second to ensuring returns on investment.⁴⁴

After the war ended, there was greater dispersion of the peculiar concentration of power available during the war, making managing the economy even more complicated. Nevertheless, the government attempted to keep all available production factors employed. By the late 1940s,

³⁹ See J. B. Condliffe, *The Welfare State in New Zealand* (London, 1959), 103-4, for an interesting discussion of the meaning of the "blessed" word stabilization. See also H. G. Lang, Treasury, Report on Price Control, 3 March 1953, 1-3, Archives New Zealand, IC 51, file 1/10, Accession W2618.

⁴⁰ Industries and Commerce, Annual Report 1948, *AJHR* 1948, H.44, 28.

⁴¹ *Ibid.*; Industries and Commerce, Annual Report 1949, *AJHR* 1949, H.44, 28-29; Nordmeyer, Minister of Industries and Commerce to Wilson President Auckland Chamber of Commerce, 21 April 1949, 1, Archives New Zealand, IC 51, file 1/10, Accession W2618; see further on government price stabilization J. V. T. Baker, *New Zealand People at War: War Economy* (Wellington, N.Z., 1965), chaps. 11, 12.

⁴² Notes on policy of Price Tribunal, 12 Oct. 1951, 4, Archives New Zealand, IC 51, file 1/10, Accession W2618.

⁴³ Industries and Commerce, Annual Report 1948, *AJHR* 1948, H.44, 28; Control of Prices Act, 1947, Instrument of Delegation to the Director of Price Control, 17 Dec. 1947, 1-2, Archives New Zealand, IC 51, file 1/10, Accession W2618.

⁴⁴ Notes on Policy of Price Tribunal, 14 Feb. 1952, Archives New Zealand, IC 51, file 1/10, Accession W2618.

New Zealand manufacturing could be divided into those firms using domestic raw materials (such as grain milling, dairy factories, pulp, paper, and woolen mills), those importing raw materials in either a crude or simply transformed state (tinned plate and sheet metal, tire, paint, and chemical fertilizers), and those made by assembling imported parts with little local content in the final product (motor vehicle assembly, pharmaceuticals).⁴⁵ Table 1 shows the increase in the number of establishments, number employed, value of output, and value added between 1936 and 1938.

TABLE 1: Growth of New Zealand Factory Production, 1936-1948

Year	No. of Establishments	No. Employed	Value of Output (£ millions)	Value Added (£ millions) ^a
1936	5,536	86,588	90.0	29.8
1938	5,924	102,344	113.7	38.3
1940	6,324	109,722	129.1	43.8
1942	6,367	117,214	155.6	53.3
1944	6,202	117,864	175.7	62.8
1946	6,991	128,208	195.3	71.8
1948	7,966	140,267	272.2	90.4
Increase, 1936-48	1.5	1.8	3.8	3.6

^a value of output minus materials cost

Source: Compiled from *New Zealand Official Yearbook*, 1950, Census and Statistics Department. Department of Industries and Commerce Annual Reports in the Appendices to the Journals of the House of Representatives contain more detailed employment and manufacturing figures.

In the immediate postwar years New Zealand's terms of trade gradually improved, but in 1949 had not fully reversed the deterioration of the war. Unless new products and markets could yield greater export earnings and reduce reliance on a few commodities for foreign exchange, New Zealand would have to hold down imports, even of materials and capital equipment needed for new manufacturing and for mechanizing primary industry.

But the Labour government was keeping its promises. In the 1949 budget, Walter Nash, the minister of finance, returned to the original puzzle. New Zealanders were enjoying prosperity, he said.

Employment levels are very high; wages and other incomes afford a comfortable living for those who work; social security benefits provide for the aged, the widows, and the disabled; and the volume of goods available in New Zealand has never been greater...We should never lose sight of the fact that our standard of living depends ultimately on the goods and services available.

⁴⁵ *New Zealand Official Year-Book*, 1950, 408.

Wise planning can ensure that these are distributed fairly within the community; but total production must continue to increase if the standard of living is to advance.⁴⁶

Conclusion

I have illustrated the wide range of social, economic, and political aims pursued by modern governments, especially as they responded to the turmoil of worldwide economic depression. To foster internal and external economic growth (including exports), build local industry and debt repayment, and provide social welfare, modern governments worked through state institutions such as central banks and various ministries including treasury, trade, and health. Governments also had to get things done through private enterprise.

New Zealand's first Labour government used political power, state institutions, and private business to transform a small, vulnerable economy and society after years of depression. In this way Labour's sometimes unorthodox recovery and reconstruction policies fostered long-term investment in local industry, thereby creating employment, conserving precious foreign exchange, and building new national wealth. Low-rent state housing, guaranteed prices for dairy industry exports, new local industries, social security and health services, and strict controls on imports and the movement of foreign exchange, all served to stimulate and diversify the economy. Just as important were Labour's external financial and trade policies, which aimed to make New Zealand more self-sufficient and less dependent on overseas capital. All these policies were more ambitious and consistent, and far less pragmatic and ad hoc, than has previously been suggested.

Prosperity came at a cost and produced many contradictions, however. The achievement of almost full employment for long periods, supported by comprehensive social welfare, boosted demand to the point that a sort of "hyper-demand" appeared, which in turn led to apparent labor and material shortages and to pressure on the prices of goods and services. In another effort to make New Zealand self-sufficient, the Minister of Finance persisted in trying to transform external into internal debt through the Reserve Bank. Producing for the home market (rather than importing) was especially important for creating jobs. Yet economies of scale proved to be very difficult to exploit in such local production—for example, in pharmaceuticals or pulp and paper.

In spite of the constant challenge of holding down imports to balance receipts and payments without endangering employment and living standards, Labour held on to office until 1949. Its political and economic legacy lived on as new governments also tried to keep the commitment to New Zealand's full employment welfare state.

⁴⁶ Financial Statement, August 1949, *NZPD*, vol. 286 (1949).

Further research could examine Labour's efforts to expand and modernize the economy in an international context. For example, the government's monetary policies and use of state financial resources for housing, social security, and price guarantees to dairy farmers could be compared to the accomplishments of the U.S. government bank, the Reconstruction Finance Corporation established in 1932. Alternatively, we could explore the influence on New Zealand Labour's leaders of Franklin Roosevelt's New Deal government intervention. The powerful facilitating role of governments in postwar Australia, which included import protection, could also be part of a wider context for a study of the role of the first Labour government in the twentieth-century New Zealand economy.