

COLONIAL ECONOMY

1840-1890

An economy in the western sense emerged across New Zealand in the 1840s.

One historian has called this early phase our 'quarrying' period. Exports were based on exploitation of existing resources, notably flax, timber, gum, gold, and the available fertility of the soil.



Photographer unidentified, ATL, F-48814-1/2

Top right: *Bank of New Zealand branch at either Arthur's Point or Maori Point, Otago, opened by George Ross in 1863.*

Above: *Dunedin, 1870s.*



Photographer unidentified, ATL, F-594-1/1

Banks made an early appearance. The Union Bank of Australia opened a branch in Britannia (Petone) in 1840, but at first there was no central authority to issue or administer currency. In 1851 the government opened the Colonial Bank of Issue, with authority to issue banknotes. However, this experiment did not last long, and the bank closed in 1856.

The infant colony had a great need for infrastructure. Everything required to support society and economy had to be built from scratch – including roads, railways, schools, hospitals, sewerage systems, ports, and factories – and somebody had to pay for it. Private enterprise played a role in building businesses, but the main weight of responsibility for financing infrastructure fell on the government.



Artist unidentified, ATL, A-253-035

Left: Gold digging in Otago, probably on the Clutha, early 1860s.

Below: Panning for gold, probably during the 1880s.

This posed other problems. At the time there was no income tax, and the main government income was trade levies. Other sources of Crown revenue included the sale of Crown lands – which were purchased wholesale from Maori during the period – and licensing fees.

Early growth focussed on the pastoral sector, but the main engine behind New Zealand's economy by the early 1860s was gold. Dunedin in particular boomed on the back of the precious metal. Many trading banks were established or set up branches around the goldfields, and between 1861 and 1870 gold made up more than half New Zealand's total exports. In 1863, the peak year, it comprised 70 percent. Wool and timber took distant second and third places.



Photographer unidentified, ATL, F-3053-1/2

THE 'LONG DEPRESSION'

Many settlers envisaged a colony that would become a bigger and better Britain. In fact, once gold had run down, the developing New Zealand economy had little to sell beyond wool. Gum, flax, timber, grain and tallow made up less than ten percent of total exports. Even gold did not prevent massive trade deficits. Typically the economy imported twice what it exported by value during

this period, and the difference was made up by imported capital, some of it accompanying the migrants themselves. Trade deficits of this sort, financed by capital inflows to support development, were typical features of colonial settler societies of the time.

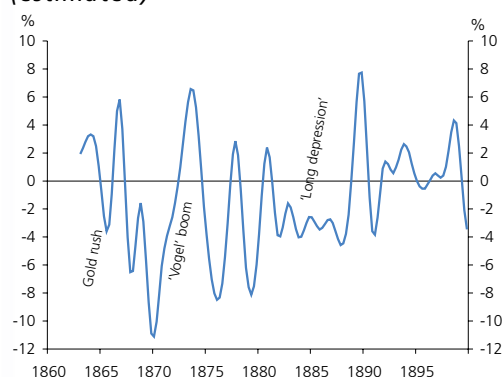
Without good internal communications, the New Zealand economy was a cluster of separate regional economies. Colonial Treasurer Julius Vogel initiated a loan-funded public spending programme to rectify this in the early 1870s, intending to build internal infrastructure and bring new settlers to open up the hinterland of the North Island.

For a few years everything boomed, but from 1879 a recession in Britain flowed into the colonies. Estimates show that New Zealand's level of real GDP was flat during the 1880s, and for the first time there was a net flow of migrants out of the colony. However, industrial and railway development was significant and it has been argued that although prices fell and the banking sector was under strain, the economy was generally going through a period of development, including growth of local small industries, made possible by Vogel's infrastructure which helped spur a national economy. The advent of refrigerated meat exports from the early 1880s created a £1 million export industry by 1890, by which time the trade balance was showing a modest regular surplus.

THE SETTLER ECONOMY BY NUMBERS

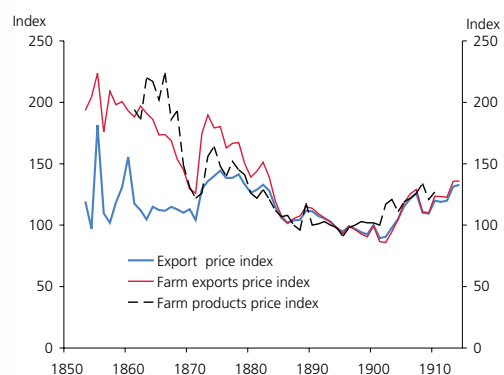
Settler-era statistics are patchy. However, we can get a general picture of what was happening from export figures and price changes.

Graph 1
Inflation 1860–1900
(estimated)



Source: J. W. McIlraith (1911), *Statistics New Zealand*.

Graph 2
Export prices 1853–1914



Source: J. W. McIlraith (1911), Brian Easton (1984), as republished in Phil Briggs (2003).