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# The New Zealand Debt Conversion Act 1933: a case study in coercive domestic public debt restructuring

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New Zealand entered the Great Depression with very large public and private debts. The burden of those debts was greatly exacerbated by the unexpected size of the fall in real incomes and in the price level. In 1931 and 1932, the government passed legislation to ease pressure on private creditors, and in 1933 followed Australia's lead in using legislation to compel domestic holders of existing government debt to accept a lower interest rate on that debt. The conversion operation appears to have had a number of goals. The fiscal savings were significant, although probably not decisive. It was also hoped that cutting interest rates on outstanding domestic debt might make external creditors more receptive to lowering the cost of New Zealand's substantial offshore public debt. Perhaps as importantly, the conversion operation was one more piece in an ongoing programme of measures to adjust to, and reverse, some of the redistributive effects of the unexpected steep fall in the price level.

## 1 Introduction

Current sovereign debt troubles, particularly in Europe, command international news headlines and drive financial markets. But sovereign debt stresses are not new, even in advanced economies, and various authors, led by Carmen Reinhart and Ken Rogoff, have done painstaking work in documenting defaults and coercive restructurings of public debt, domestic and foreign, in a range of countries going back centuries. The New Zealand Debt Conversion Act 1933 is one of the domestic debt restructuring episodes they report.<sup>1</sup> This article, drawing largely on secondary sources, tells the story of that episode in its historical and international context.

## 2 Context

After a decade of little growth in per capita incomes, the sharp fall in the terms of trade (around 40 percent) helped to trigger a substantial fall in New Zealand's real and nominal GDP in the early 1930s. All estimates of GDP for this period are approximate,<sup>2</sup> but only a handful of advanced countries, including the US, Australia, and Canada, are estimated to have experienced a sharper fall in the level of real GDP than New Zealand did.<sup>3</sup>

New Zealand entered the Depression highly indebted. More than half the public debt had been raised in London and that share had steadily increased during the 1920s.<sup>4</sup> Central government debt as a share of GDP is estimated to have been just over 150 percent of GDP in 1929,<sup>5</sup> while general government debt (including local government borrowing) was around 190 percent of GDP. Both central and local government debt had increased substantially during the 1920s. In respect of private debts, the Government Statistician provided a one-off estimate<sup>6</sup> of total mortgage debt (urban and rural) for 1931, equivalent to 140 percent of pre-Depression GDP. Much of the private debt in New Zealand was farm mortgage debt, vulnerable if the commodity prices fell sharply.

Other governments were also highly indebted. The positions of Britain - our principal trading partner and prime source of international borrowing - and the other Dominions (Australia, Canada, Newfoundland, South Africa) were of particular relevance to New Zealand.<sup>7</sup> World War 1 spending had pushed up public debt levels in many countries including Australasia, but the effect had been particularly significant in the UK, which had had a

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<sup>1</sup> See, for example, Reinhart and Rogoff (2011).  
<sup>2</sup> In this article Rankin's estimates of New Zealand's nominal GDP are used, available at [http://www.stats.govt.nz/browse\\_for\\_stats/economic\\_indicators/nationalaccounts/long-term-data-series.aspx](http://www.stats.govt.nz/browse_for_stats/economic_indicators/nationalaccounts/long-term-data-series.aspx). On this measure, nominal GDP fell from £172 million in 1929 to a low of £117 million in 1932.  
<sup>3</sup> Using Maddison's estimates at <http://www.ggdc.net/MADDISON/oriindex.htm>

<sup>4</sup> Schedvin (1970) reports data (p 100) showing that in 1925-28, New Zealand accounted for 12 percent of all British new investment in offshore government securities, compared to 3 percent in the six years prior to World War 1.  
<sup>5</sup> A significant proportion of the government borrowing was on-lent, particularly in the form of rural mortgages.  
<sup>6</sup> New Zealand Official Yearbook 1935.  
<sup>7</sup> Newfoundland's public debt problems became so overwhelming during the Depression that in the aftermath Newfoundland gave up its political independence, eventually becoming part of Canada.

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relatively small public debt prior to the war. Public debt in the UK was around 175 percent of GDP in 1929.

The public debt ratio in Australia (combining federal and state debt) appears to have been very similar to that in New Zealand,<sup>8</sup> and Australia was also heavily dependent on access to the London credit markets (and the largest single and international borrower in the 1920s). Much of the Australian debt was quite short term, and offshore lenders had become concerned about the Australian debt position, jeopardising the ability of Australian governments to go on borrowing and putting early pressure on the Australian exchange rate.

### 3 Responding to the Depression

The depth and duration of New Zealand's economic downturn became clear only gradually. Writing in 1932, the prominent economist Douglas Copland (1932) could note of New Zealand that "by the middle of 1930 the fall in export prices had been only 20 percent in gold [i.e., the foreign currency price], and overseas borrowing had not been interrupted. There was consequently little disturbance to national income", presumably beyond what might have been expected in a typical business cycle. Copland also quotes a League of Nations report noting that New Zealand had been in a relatively favoured position, unlike Australia, for example, at least until early 1931. The Niemeyer Report (Niemeyer 1931), commissioned by the New Zealand government to provide advice on exchange rate issues, was tabled in February 1931 and contains no reference, or sense, of anything out of the ordinary occurring in the economy.

In any event, the New Zealand government had quite limited conventional policy options to respond to downturns, and especially to one of the severity of the Great Depression. New Zealand had no central bank, and credit conditions were managed by the banks, significantly influenced by export receipts and the 'London funds'

(reserve balances) of the banks. The exchange rate was neither formally pegged and nor was it floating – it was set collectively by the banks but typically kept at around parity to sterling, and credit policies were adjusted to keep the reserve balances consistent with a relatively stable exchange rate.

As the export prices and receipts fell, the banks responded to the sharp fall in export receipts by lowering the exchange rate (increasing the cost of purchasing sterling). The extent of the adjustment in the exchange rate was modest when compared to the extent of the fall in the terms of trade (although falling imports meant that, after 1931, banks' London balances were not under particular pressure). The appropriateness of further, perhaps substantial, exchange rate adjustment became a highly contentious political issue, with many economists and farmers favouring a deeper depreciation, while urban and trade union interests resisted the implied increase in the cost of living.

The government's own accounts were materially affected by the economic downturn. Falling domestic incomes and falling external trade volumes meant that any set of tax rates and customs duties now raised less revenue. And the rapid rise in the numbers of people unemployed meant rapidly mounting pressure for additional spending to directly relieve the distress.

Even before the Depression, meeting the interest cost on the central government debt took around a third of total central government revenue. The sharp unexpected fall in the price level raised the real (inflation-adjusted) cost of servicing the debt substantially. As a share of GDP, central government interest costs rose from around 5 percent of GDP in 1929 to almost 8 percent of GDP in 1932. By 1932, the sharp fall in nominal GDP meant that general government debt had risen to almost 300 percent of GDP.

All else equal, those forces tended to push the government accounts further into deficit. But with such high levels of domestic and external debt, the government's continued ability to tap offshore funding markets was seen as a matter of pre-eminent importance. A sustained loss of the ability to roll over maturing foreign debt would have led to even more difficult economic adjustments.<sup>9</sup>

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<sup>8</sup> The *New Zealand Official Yearbook* 1931 reports that central government debt as at 31 March 1930 was £178 per capita, while Australian Federal and state debt totalled £173 per head, and the two currencies had essentially been at parity.

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Access to British funding markets came under severe threat at times, largely as a result of the stresses the UK itself faced, culminating in the decision to leave the Gold Standard in September 1931. During the 1920s, British investors had, in aggregate, been large lenders of long-term funds to the Dominions, including New Zealand, financed not by current account surpluses but by large short-term inflows to the UK. Following the outflow of short-term funds around the crisis of September 1931, there was a great deal of unease about how deep the fall in sterling would be. A strong desire to limit as far as possible new capital outflows from the UK led to a “complete, though unofficial, embargo on foreign new issues.”<sup>10</sup>

At the end of 1931, the New Zealand government had been advised that it should not expect to be able to borrow in London during 1932.<sup>11</sup> The Bank of England’s official historian reports that, in December 1931, the Bank of England had had to lend secretly more than £3 million (around 2 percent of New Zealand’s GDP) to enable New Zealand to meet its London obligations.<sup>12</sup> The risk of being unable to borrow in the London markets was judged serious enough for the New Zealand government to impose a compulsory surrender requirement on exporters, requiring all export proceeds to be sold to the banks, to help ensure the availability of adequate foreign exchange to meet the government’s needs (without triggering a further material depreciation in the exchange rate). As it happened, under official guidance, the London markets freed up sooner than expected for official Empire borrowers, and the New Zealand government was able to issue some debt abroad. In a sense, the critical consideration was consciousness that market access could be lost. Even if they had wanted to run a more expansionary fiscal policy, governments could probably not have increased the rate of external borrowing.

There were significant increases in some taxes and charges and the government economised where possible, including, for example, cuts in public sector wages and substantial cuts to capital spending. Government capital spending (public works) fell from £9.0 million in 1930 to £2.4 million in 1933. Interest rates on new issues of domestic government debt were also reduced in 1931, but in any one year new issues were equal to only a small portion of the stock of debt outstanding. In aggregate, government spending and revenue both rose materially as a share of GDP during the Depression years and the budget remained in deficit (at around 3-4 percent of GDP, and 20 percent of revenue).

Central and local government borrowers were not the only ones who found the real cost of the debt they had taken on unexpectedly high.<sup>13</sup> The sharp unexpected fall in the price level had also substantially raised the real burden of the large private debt. In 1931 and 1932, the government took various far-reaching legislative measures, overriding private contracts, to ease the burden of private interest rates on farm and other private borrowers.

The legislation had twin, conceptually separate, purposes: on the one hand, lowering the marginal interest rates facing new lenders and borrowers, and on the other hand, redistributing some of the unexpected windfall gains and losses that had resulted from the sharp fall in the price level. For example, and complementing specific provisions relating to farm mortgages, the National Expenditure Adjustment Act imposed a standard reduction of 20 percent in existing rates of interest, rent and other fixed charges in the private sector. In the same legislation, the government took power to control interest rates paid on deposits taken by banks and other deposit-taking institutions. Public debt was not subject to the provisions of the National Expenditure Adjustment Act, but an additional 10 percent tax rate was imposed on interest received on government securities.

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<sup>9</sup> Cain and Hopkins (2002), p 493, capture the flavour: “After 1929, what bound the Dominions to London most effectively was the crushing weight of accumulated debt, when exports had collapsed and fresh loans were few and small. It has been noted that ‘the Imperial Conference of 1930 resembled nothing so much as an interview between a bank manager and his improvident clients.’”

<sup>10</sup> Arndt (1944) p 110.

<sup>11</sup> See Copland (1932) and Tocker (1932).

<sup>12</sup> Sayers (1976) p 449.

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<sup>13</sup> While lenders secured an unexpectedly high real return.

<sup>14</sup> Including, in addition to those mentioned here, such measures as the Small Farms (Relief of Unemployment) Act, under which the government secured the power to compulsorily acquire and break up lands “not being utilized to their full extent”, and to use the land for the settlement, with the goal of reducing unemployment.

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Depression pressures had not eased in New Zealand by the end of 1932, and, if anything, concerns about the economic situation were growing. In response, further policy measures ensued.<sup>14</sup> The government finally decided to initiate a formal currency devaluation in January 1933,<sup>15</sup> sparking the resignation of the then Minister of Finance, Downie Stewart.

## 4 Towards action on the public debt

As Minister of Finance, Downie Stewart had also opposed any sort of compulsory reduction in the interest rate on outstanding public debt, noting in Parliament in October 1931, “any compulsory reduction of interest paid to bondholders would in reality mean default by the State, and would seriously damage our credit. Whatever the position of private borrowers may be, the State is able to pay its debts. In my opinion, it could not, and should not, plead inability to pay when the bondholder demands his interest”.<sup>16</sup>

The appointment of Gordon Coates as Minister of Finance in January 1933 led to a change of stance. In his first statement to the House, Coates noted that “the Government consider it essential that interest rates on existing securities should be brought down to a lower level” (Coates 1933), noting that the issue was important for both central and local government debt.

Developments in Australia and the UK materially influenced thinking and debate in New Zealand on debt restructuring issues.

The Australian federal and state governments, under more immediate market pressure than New Zealand, had taken steps to lower the cost of their existing domestic public debt in 1931. This conversion operation was conducted as part of a package of measures to reduce private interest rates etc (similar to New Zealand’s National Expenditure Adjustment Act). Bondholders were offered the opportunity to convert existing domestic debt

into new long-term securities bearing a significantly lower interest rate than the existing securities (the aim had been to reduce the servicing cost of the debt by 22.5 percent).

Through a combination of moral suasion on major institutions, and an appeal to patriotism (easing the burden on the nation in a time of economic crisis), acceptances of around 97 percent of the debt outstanding were received. Following that success, state and federal leaders concluded that it would be unfair for those who had not accepted the offering to be left in a more favourable financial position than those who had accepted. Legislation was subsequently passed to compel the holdouts to convert.<sup>17</sup> During the Depression, the Australian Federal government stepped in to avert the threat of outright default on state debt owed by the government of New South Wales.

The British government’s large domestic debt conversion operation in late 1932, of a single War Loan (equal in size to almost 50 percent of GDP), was undertaken more conventionally.<sup>18</sup> The government had had the contractual right since 1929 to repay this particular loan early. The option was exercised, and holders were offered the opportunity to convert into new long-term government securities (with a range of maturities) at lower yields. The aim was to lower the fiscal cost of the debt. The choice between converting into new government securities or being paid out in cash was entirely at the discretion of each holder. The authorities had a strong interest in a successful conversion, since large-scale repayments would have posed significant liquidity management and financing issues. As it happened, the overwhelming bulk of the called debt was successfully converted – Sayers (1976) ascribes this to some mix of moral suasion on large institutions, and a widespread sense that converting would be an act for the wider good of the nation. In any case, no question of coercion or default arose.

The future of the UK government’s foreign debt was, however, still highly uncertain. Financing provided during World War 1 left the UK with a large amount of debt to the US. Intense debates about this debt were inextricably

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<sup>15</sup> The government had no formal mechanism to bring this about, and had to negotiate (under the implied threat of legislating) an agreement with the banks. Hawke (1985) notes that the indemnities offered to the banks may have inadvertently set a floor under interest rates that impeded the expansionary effects of the devaluation.

<sup>16</sup> Quoted in Coates (1933), p. 14

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<sup>17</sup> For more discussion of the Australian experience, see Schedvin (1970), Copland (1934) and Coates (1933).

<sup>18</sup> See Sayers (1976) for details of this operation.

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linked to questions around the future of the substantial reparations payments to various countries (including New Zealand) due from Germany under the Treaty of Versailles, and the future of the substantial debts owed to the US and the UK by other World War 1 allies (including New Zealand).

Under a moratorium initiated by President Hoover in mid 1931, countries had agreed to suspend all inter-government debt service and related flows for 12 months, but this moratorium expired in mid-1932. The depreciation of sterling following the exit of the Gold Standard substantially raised the real burden of the British (US dollar) debt to the US. The UK decided only at the last minute to meet its debt service obligations to the United States in December 1932 (France and various other countries defaulted then), and made only token payments thereafter before finally defaulting on the war debt in mid 1934. Reparations payments were ended following the Lausanne Conference in 1932.

## 5 The New Zealand Debt Conversion Act

The Minister of Finance announced his debt conversion plan to Parliament on 28 February 1933,<sup>19</sup> in introducing the New Zealand Debt Conversion Bill.

The plan was presented as a voluntary conversion scheme. Holders of domestic government debt were to be invited to convert their existing debt securities into new lower yielding stock, where the yield on the new stock would typically be 20 percent lower than that on the old stock, subject to a minimum taxable yield of 4 percent.<sup>20</sup> Coates (1933) notes that the Australian conversion scheme had been “of material assistance to the Government in framing this legislation”. At the same time as this legislation, Coates also announced further reductions (some imposed, some negotiated) in a variety of new borrowing and lending interest rates for private financial institutions.

This legislation prompted vigorous debate, but was passed through the House of Representatives in a single night. It was followed a week later by the introduction of further legislation providing for a 33 $\frac{1}{3}$  percent tax on any interest paid on domestic government securities that were not converted under the New Zealand Debt Conversion Act. This provision provided the coercive force in the restructuring, as any holder who did not voluntarily convert would, by Act of Parliament, be made worse off than if he had chosen to convert.

Substantive debate, both in Parliament and elsewhere, centred mostly on the question of whether it was appropriate and morally justified to use coercion. Downie Stewart, until recently Minister of Finance, spoke in opposition to any use of coercion to bring about the conversion, while the former long-serving Attorney General and (briefly) Prime Minister Sir Francis Bell staunchly opposed the direct use of legislation to reduce a country's debt or debt service obligations. Speaking in the Legislative Council debate, Bell noted that, “those of us who have been proud of the credit of the country and its adherence to the British tradition which we have inherited are compelled to denounce a proposition which in every respect denies that the country is bound by its promises”.<sup>21</sup>

Outside Parliament, the British journal *Round Table*, which covered Dominion affairs extensively, went so far as to warn “in New Zealand, as in Germany, it often seems that some of the institutions of the capitalist system are in the process of being destroyed by people who profess and believe themselves to be its most ardent supporters”, while acknowledging that “it cannot be pretended that the country has been seriously perturbed by the violation of sound principle in this part of the scheme” (*Round Table*, 1933, p. 934). A local academic, Belshaw (1933), writing in a leading American economics journal, described the overall package of measures, including the debt conversion, as “an unprecedented interference with contractual rights in New Zealand”

Parallel legislation was introduced to confer on each local authority the power to convert its domestic debt securities in much the same way as the national conversion (with the same coercive taxation provision).

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<sup>19</sup> Coates (1933), published in late 1933, is the government's own account of the thinking behind, and the conduct of, the conversion operation.

<sup>20</sup> Similar provisions were made for the significant volume of tax-free securities on issue.

<sup>21</sup> Reported in the *Evening Post*, 3 March 1933.

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## 6 Outcomes

Substantial amounts of debt were subject to the conversion legislation: £115 million of domestic central government debt (£69.5 million, or around 55 percent of GDP, privately held)<sup>22</sup> and around £43 million of local debt covered by the parallel local authority provisions (around 35 percent of GDP). The coercive conversions applied only to domestic holders of domestic debt. The drafters of the scheme went to considerable lengths to exclude, for example, any foreign holders of domestic debt. Coates (1933, p. 43) notes that some foreign holders did nonetheless offer to convert.

It is impossible to be certain how much of the debt would have been converted voluntarily even if the coercive tax provisions had not been introduced. However, the Australian experience suggests that much, and perhaps most, of the debt would have been offered for conversion voluntarily. The use of extensive marketing campaigns, appealing to a sense of the wider public interest, is also consistent with this assessment. It is also consistent with the indications from secondary market pricing on domestic securities (Coates 1933, pp 38,39; Round Table 1933 p934). There is no indication of any significant market backlash following the coerced conversion, and no sign, for example, of an increase in the credit risk premium on New Zealand government securities more generally. Actual dissents tell us little – since those opposed to the conversion still had a financial incentive to accept the conversion – but when the conversion offer closed on 24 March 1933, holders of only 0.5 percent of the affected debt had declined to accept the offer.

Under the local authority conversion, all authorities benefited from an immediate 20 percent reduction in interest rates on existing securities, and then over the following months many followed up with formal conversions of existing debt into longer-maturity debt with lower coupon interest rates.<sup>23</sup>

The net fiscal savings from the central government domestic debt conversion was estimated to be around £0.6 million in a full year – equivalent to around a 2 percent

cut in government spending, and around 0.5 percent of GDP (a comparable saving today would be equivalent to around \$1000 million).

Although the New Zealand government had been careful to avoid penalising private foreign lenders, the British government itself in 1932 indefinitely suspended the servicing obligations on the remaining £24 million (sterling) of New Zealand's war debt to the UK (and some other small inter-government loans).<sup>24</sup> This voluntary British initiative led to annual interest savings of around £1.2 million (sterling), offset only moderately by the loss of the reparations payments from Germany to New Zealand of £0.3 million (sterling) per annum.<sup>25</sup>

In total, these net savings on the central government's debt service costs of outstanding debt and related transactions were in excess of 1 percent of GDP. That represented a significant contribution to closing the fiscal deficit, although in absolute magnitude it was swamped by other changes to the public finances, notably the public works cuts.

## 7 What was the government trying to achieve?

In introducing the legislation, and subsequently, Coates (1933) argued that the focus of the conversion plan was to reduce the prevailing level of interest rates in the economy, to help promote recovery, rather than being primarily to achieve fiscal savings. It is difficult to take this entirely at face value. Interest rates on new debt (public and private) should have been more important for reviving economic activity, except to the extent that fiscal savings from reducing government debt service costs eased the pressure to cut other spending or raise other taxes.

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<sup>22</sup> Substantial amounts of the remaining debt was the counterpart to private deposits held with the Post Office Savings Bank.

<sup>23</sup> Despite these interest rate reductions, Plumtre (1939) records that three small local authority borrowers did default, and in one of those cases central government stepped in to avoid losses to London creditors.

<sup>24</sup> These obligations had already been suspended for a year in 1931 under the terms of the "Hoover moratorium". The New Zealand government had offered to resume payments in 1932 (*Evening Post*, 24 December 1932), but the British government declined the offer. Condliffe (1959) notes that these debts remained contingent liabilities of the New Zealand government but were no longer recorded in public debt data after 1952.

<sup>25</sup> Following the devaluation of 1933, £1 sterling was equal to New Zealand £1.25.

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There seem to have been at least two other considerations. The first was a strong emphasis on fairness: the price level had turned out to be much lower than that prevailing (and expected) when the debt had been taken on. In that sense, seeking a reduction in the cost of the existing debt was seen by many as a fair response to a severe shock and a large windfall gain to lenders. This strand of argument ran through debates around the earlier adjustments to private interest rates. The force of this sort of argument, in New Zealand and abroad, has already been noted: there was a substantial, genuinely voluntary, component to the various public debt conversions.

Speaking in Parliament, Coates noted that “investors were not being asked to accept a sacrifice that was greater than the fall that had already taken place in the cost of living. The latest figures from the Government Statistician showed that the cost of living had fallen from 18 to 20 percent., and that was approximately the sacrifice which the holders were being asked to make”.<sup>26</sup>

The New Zealand Debt Conversion Act also appears to have been positioned as a prelude to seeking a reduction in the cost of the existing (and larger) stock of overseas debt. The domestic conversion itself had been carefully designed to exclude any overseas lenders. However, a clearly well-sourced newspaper account published the day before the New Zealand Debt Conversion Bill was introduced stated that “the Government views it as an essential prelude to continuing the negotiations which have already been opened with the British financial authorities for a review .....of about £140 million held by the British public. A successful New Zealand conversion would undoubtedly have a powerful influence on any appeal to the overseas lender for a slight lifting of the debt service burden.”<sup>27</sup>

This line was also articulated in debate in Parliament a few days later by a senior Opposition spokesman who observed of the domestic conversion. “when negotiations began for the conversion of the external debt New Zealand could say that she had put her house in order first”.<sup>28</sup> In the same year, the Labour party adopted a nine point

economic policy platform, later known as “Labour’s Plan”, in which one of the points was to call for “negotiations with British government and overseas financial houses for the purpose of converting the overseas debt to a lower rate of interest, and readjustment to price levels operating at time of raising loans”.<sup>29</sup> As Sayers (1976, p. 449) notes, the British were well aware that this was regarded as an issue by each of the Dominions “and this was irrespective of political parties”. They worried that if commodity prices did not lift, the Dominions would each “point out that their position as sterling debtors would become untenable, and that they would be forced to seek a reduction in the contractual rates of interest on their bonded debt outstanding in the London market”.

The Prime Minister himself picked up this theme in May 1933, shortly after the conclusion of the domestic debt conversion. Mr Forbes observed that the domestic conversion had “created the right atmosphere for making proposals in respect of the larger portion of our indebtedness, which is domiciled overseas. This question, involving the rights of investors outside the Dominion, requires careful approach, and can in the last resort be favourably settled only by direct negotiation with the representatives of interests concerned. If success in reducing our overseas debt charges is to be achieved, it will only be possible by responsible Ministers presenting the case in London. This question I regard as one of paramount importance to our own Dominion.”<sup>30</sup>

The comments were made as Ministers left for the World Economic Conference in London. High hopes were harboured by many that this conference would produce durable solutions to the world’s monetary problems. Those hopes were quickly dashed. Hopes for relief on the interest cost of the existing offshore debt, owed to private creditors, were also short-lived.

Forbes returned from London in September 1933 and reported that the British government had taken the stance that if commodity prices were higher New Zealand could afford to service its debts, and that the British policy focus was on generating a lift in global economic activity

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<sup>26</sup> As reported in the *Evening Post* 7 March 1933.

<sup>27</sup> *Evening Post*, 27 February 1933.

<sup>28</sup> Hon M. Fagan, reported in the *Evening Post* 9 March 1933.

<sup>29</sup> Brown (1962) p.162.

<sup>30</sup> Quoted in the *Evening Post*, 10 May 1933.

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and prices. If that was successful “we will be able to pay our way and the same necessity for a general conversion of our indebtedness will not exist”. In an editorial, the *Evening Post* observed that “Britain has honoured her own obligations, and it is not to be expected that she will readily adopt methods similar to those applied to our internal debt.”<sup>31</sup> The possibility of a link between the domestic conversion and external debt relief received no mention in the government’s official account of the conversion operation published in December 1933 (Coates 1933).

An entirely voluntary conversion of a small amount of the New Zealand’s offshore debt, held by private British creditors and on which the government had the contractual right to make early repayment, was undertaken subsequently (Condliffe 1959, p41).

## 8 Conclusion

New Zealand borrowers, public and private, ended the 1920s carrying a very heavy burden of domestic and external debt. That burden increased materially and unexpectedly as real and nominal incomes fell. The severity of the Depression took time to become fully apparent, but as it did the New Zealand government, like its counterparts in Australia facing similar pressures, responded with some far-reaching and unconventional measures, while doing everything possible to retain the diminished access to the vital London funding markets.

The New Zealand Debt Conversion Act and its local government counterpart were coercive domestic public debt restructurings, securing material interest savings for both central and local government. The effective degree of coercion was, however, probably rather small. The substantial voluntary component to the conversion is consistent with the perception that some adjustment was fair in the wake of the steep and unexpected fall in nominal incomes. The legislation can be seen as complementing similar adjustments that had already been imposed on lenders to the private sector. A longer game appears to have been a hope that the domestic restructuring would make overseas lenders more receptive to cutting the

servicing cost of New Zealand’s large overseas debt. That came to nothing.

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<sup>31</sup> Quotes in this paragraph drawn from the *Evening Post*, 18 September 1933, p8.