

THE RESERVE BANK AND NEW ZEALAND'S ECONOMIC HISTORY

CONTENTS

Introduction	3
Maori economy pre-1840	4
Colonial economy 1840-1890	5
The 'long depression'	
The settler economy by numbers	
Britain's farm 1890-1932	8
The trading banks and the economy	
The early twentieth century by numbers	
National development 1933-1973	12
Planned recovery	
Pastoral prosperity	
End of pastoral prosperity	
The mid-twentieth century by numbers	
Turbulent transition 1973-1993	19
New Zealand's problems	
Inflation busting	
The late twentieth century by numbers	
Open economy 1993-	25
Renewed growth	
Glossary	27

Front cover images, clockwise from left top: Reserve Bank dealing room, early 1990s (RBNZ); Reserve Bank building (right), (RBNZ, photography Stephen A'Court); One pound note issued by the Otago Banking Company, circa 1860s (RBNZ); underlay, Wellington buildings (RBNZ); "Economy House", token issued by a Dunedin merchant, circa 1860s (RBNZ). Back cover: Reserve Bank of New Zealand building (RBNZ, photography by Stephen A'Court).

ISBN 978-0-9582675-5-7 (print)

ISBN 978-0-9582675-6-4 (online)

Copyright © 2007 Reserve Bank of New Zealand

Illustrations: Reserve Bank of New Zealand except where noted.

ATL: Alexander Turnbull Library, Wellington.

INTRODUCTION



The Reserve Bank plays a significant role in the New Zealand economy, and has done so since the Bank's formation in 1934. Today the Bank is responsible for maintaining price stability, promoting the maintenance of a sound and efficient financial

system, and meeting the currency needs of the public.

However, this role has changed over the years. This booklet outlines the broad history of the New Zealand economy since the 1840s, and details the role the Reserve Bank has played in it since the mid-1930s.



MAORI ECONOMY

PRE-1840

Polynesians established permanent settlements in New Zealand, and initial exploitation of natural resources gave way, probably during the fifteenth century, to a more settled world of gardening and resource management. The Maori economy produced enough surplus to support a significant cycle of pa building from the mid-fifteenth century onwards.

When Europeans first arrived in numbers in the early nineteenth century, Maori were eager to trade. Potatoes, corn and flax grown by Maori were usually bartered for weapons, rum, tobacco, blankets and European tools and products. By the late 1830s, settlers and Maori were using money in ever-increasing quantities.



George French Angas, ATL,PUBL-0014-55

Top right: A lithograph by George Angas showing everyday items from the Maori domestic economy, around 1847.

Right: John Williams is usually credited with this ink-and-wash sketch of Maori bargaining with pakeha, mid-1840s. Pigs, potatoes and flax were usually exchanged for tobacco, blankets, tools, guns and powder.



John Williams, ATL, A-079-017.

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.

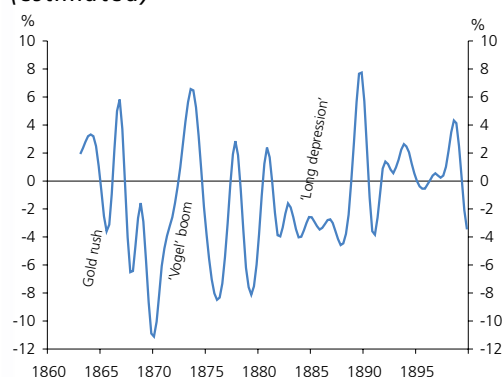
Without good internal communications, the New Zealand economy was a cluster of separate regional economies. Colonial Treasurer Julius Vogel initiated a loan-funded public spending programme to rectify this in the early 1870s, intending to build internal infrastructure and bring new settlers to open up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

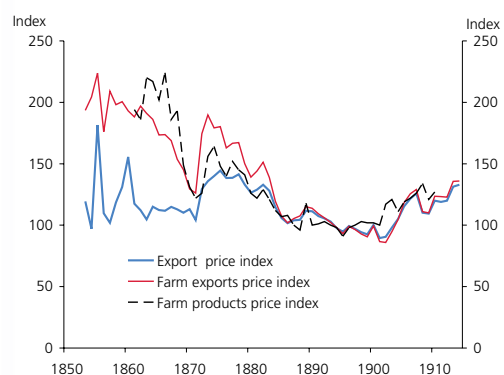
Settler-era statistics are patchy. However, we can get a general picture of what was happening from export figures and price changes.

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).

BRITAIN'S FARM

1890-1932



Edward Thomas Robson, ATL, F-1541-1/2-MNZ.

The second main phase of New Zealand's economic history began in the 1890s and lasted into the early 1930s. During this time New Zealand became a primary producer for Britain, exporting largely pastoral products into this single market.

One of the most significant economic developments of the period was new trade in meat and dairy products, supplementing the wool market. This industry was driven by the development of refrigerated shipping in the 1880s. By the eve of the First World War, meat and dairy exports made up 35 percent of total goods exports. Export commodity prices boomed during the war, when Britain was keen to buy whatever could be supplied. However, although the boom lasted for a few years after the war, from the early 1920s the New Zealand economy performed quite poorly, with only brief upturns.

Much of the difficulty came from the external sector. As a primary producer selling principally to the 'home country', New Zealand was particularly vulnerable to economic fluctuations in Britain. In 1928, for example, Britain took £41 million of New Zealand's total exports, by value, out of a total of £56 million. However, British fortunes, after the First World War and into the 1920s, were not good, and this was reflected into New Zealand's economic situation.



Colour print label, ATL, Eph-F-MEAT-Gear-002-3



Frederick Nelson Jones, ATL, F. N. Jones Collection, G-7689-1/1

Opposite: Meat from the Longburn freezing works being taken aboard ship in Wellington, early 1930s.

Above: Railway construction workers on the Main Trunk Line near Waiouru, Ruapehu and Ngauruhoe in the background, probably between 1901-10. Railway played a key role in New Zealand's internal communications and economy for many years.

Top: Gear Meat label, circa 1880s.

THE TRADING BANKS AND THE ECONOMY

In the 1920s, New Zealand still lacked a central bank, despite encouragement from Britain to establish one. Bank notes were issued by the six main trading banks. Until 1914 they were required to hold enough gold and securities to back the value of the currency, but this requirement was suspended for the war emergency and never reinstated. In practise this change made little difference: the key question for the banks remained their ability to meet customer demand for sterling balances – the funds in Britain that paid for imports. The banks managed their local lending in order to keep the value of the New Zealand pound roughly equal to that of the British. This in turn influenced

the level of spending and economic activity in the domestic economy.

Four of the six trading banks were Australian owned. Their sterling balances in London actually reflected Australasian activity, not just that of New Zealand, with the result that the state of Australia's foreign trade also affected the availability of credit and foreign exchange in New Zealand. This arrangement worked well when the Australian and New Zealand economies were in much the same state, but left New Zealand exposed whenever the Australian economy was weaker than ours.

The government had few tools to address this and other economic issues – all that could be done was to adjust government revenue and expenditure, through fiscal policy. Governments in the mid-to-late 1920s therefore sought to use



Frank J. Denton, ATL, Tesla Studios Collection, G-17399-1/1



Top: Bank of New South Wales, Wanganui branch, 1910.

Above: Bank of New Zealand five pound note, 1920s.



Arthur James Northwood, ATL, Northwood Collection, G-6214-1/1

Left: Timber workers in the Kaitaki ranges, log hauler on the left. Although the economy was pastorally dominated, timber was a significant local industry for New Zealand.

Opposite top: Depression relief work on the Akatarawa road, early 1932.



Photographer unidentified, ATL, Evening Post Collection, G-84131-1/2

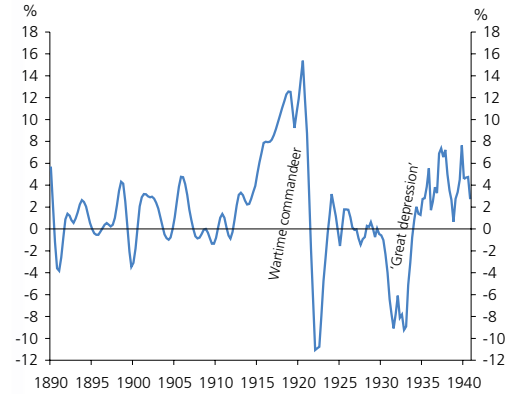
fiscal policy to stimulate the economy, but these efforts were overwhelmed by the Great Depression, into which the world economy fell in 1930.

New Zealand was particularly hard-hit by the collapse of primary-sector prices. At a time when both production and export markets were undiversified, the crash of the British market had dire effects. Unemployment rose sharply, and the economy continued to run down into 1932-33. Estimates suggest that gross domestic product fell by 17 percent between 1929 and 1931. Inflation turned substantially negative. Real incomes for those in work actually rose – prices fell faster than wages – but for the increasing number who were out of work, hardship was often severe. As in many countries, there was considerable pressure to cut government expenditure.

THE EARLY TWENTIETH CENTURY BY NUMBERS

Graph 3

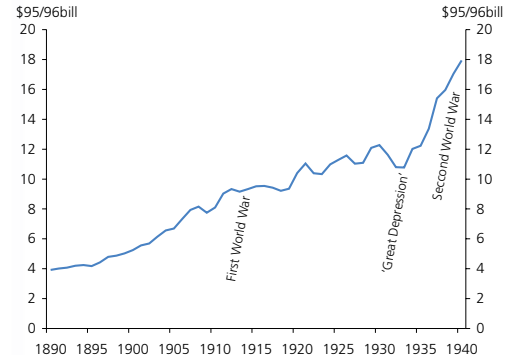
CPI inflation 1890–1940



Source: Statistics New Zealand.

Graph 4

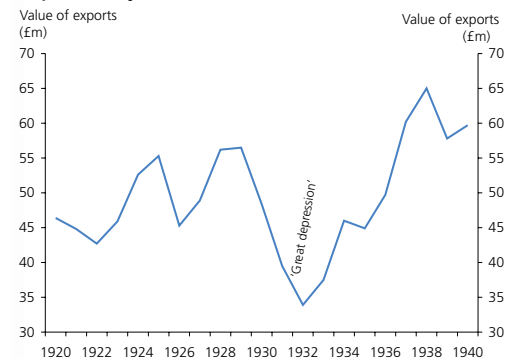
Estimated GDP 1890–1940



Source: K. Rankin (1991), Brian Easton (1990), as republished in Phil Briggs (2003).

Graph 5

Exports by value 1920–1940



Source: M. F. Lloyd-Prichard (1970), Statistics New Zealand.

NATIONAL DEVELOPMENT

1932-1973

Policy-makers inched towards solutions for the problems New Zealand faced during the depression. The exchange rate was devalued by 25 percent in 1933, and in 1934 the Reserve Bank opened for business.

Establishing a central bank, although not solely a response to the depression, gave New Zealand authorities more tools to manage future downturns in the New Zealand economy. An important aspect of the Reserve Bank's role, from its founding, was the sole right to issue banknotes in New Zealand.



Leslie Lefeaux, first Governor of the Reserve Bank.



Auckland Star

How cartoonist J. C. Hill (d. 1957) saw the arrival of the Reserve Bank.

The Reserve Bank was initially set up as an independent entity, but this quickly changed, and the Labour government that came to power in late 1935 brought the Bank under government control – one of its first acts – and gave the Bank capacity to act as an agent for the implementation of its economic agenda.

The Reserve Bank thus became an integral part of the wider interventionist regime that the first Labour government introduced, designed to better insulate the economy and people from fluctuations in world commodity prices. This reflected

- and to some extent anticipated
- a general international trend towards controls and intervention at that time.

PLANNED RECOVERY

The new government's agenda involved significant increases in spending, putting severe pressure on the foreign exchange reserves of the new central bank, and threatening the viability of the fixed exchange rate. In 1938, comprehensive foreign exchange controls were put in place; these were administered by the Reserve Bank until controls on capital flows were finally lifted in 1984. Import licensing became a dominant feature of the economy, with an emphasis on developing local manufacturing and assembly industries.

The Second World War was a human tragedy, but it was also economically beneficial for New Zealand – demand for our commodity exports was strong. The war emergency prompted government to take near-total control of the economy, but wartime made it easier for the public to accept austerity measures. The Government's external debt was paid off, and the economy was performing so well post-war that the government felt able to reverse the exchange rate devaluation of 1933, putting the New Zealand pound back on par with the British.

The post-war era saw the world return to fixed exchange rates, under the new International Monetary Fund (IMF), though



S. P. Andrew Collection, ATL, F-19049-1/1



Top: J. G. Coates, 1878-1943, Reform party leader and a key mover behind the founding of the Reserve Bank – seen here probably around 1938.

Above: The Reserve Bank Board, Governor Lefeaux sitting centre, 1935. Silver platters in the background were a gift from the Bank of England.

Below: First series ten shilling note issued in 1934.





Photolithograph on sheet, ATL, Eph-E-TRADE-1940s-01



Green and Hahn, ATL, Making New Zealand Collection, PAColl-3060-010, F-1651-1/4-MNZ

Top: Wartime poster celebrating New Zealand's pastoral production.

Above: Buyers appraising wool in a Canterbury woolstore, around 1939.

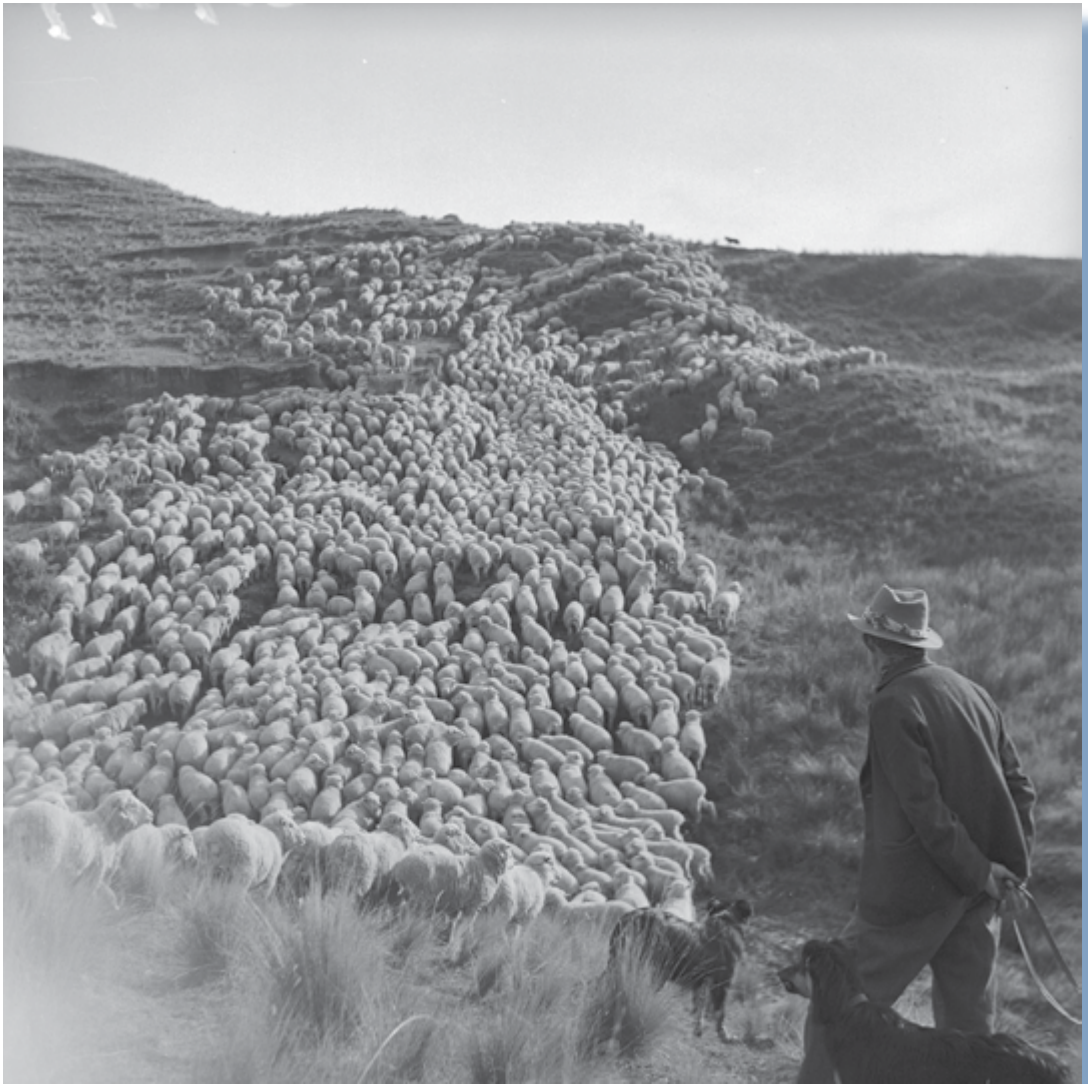
New Zealand did not finally join this until 1961. However, extensive controls on private capital flows were in place in most countries and protective barriers to trade were high, in New Zealand and elsewhere.

PASTORAL PROSPERITY

The 1950s opened up a new economic world for New Zealand. Terms of trade soared during the early part of the decade, and while export volumes did not grow spectacularly, prices soared. These high prices – and the fact that New Zealand hadn't been badly affected by the war – meant that New Zealand rode high in the international income rankings during these years. In the 1950s, New Zealand's per-capita income was 88 percent that of the United States.

One of the outcomes of this growth, during the 1950s and 1960s in particular, was a number of significant government-funded public works projects. Most national roads were sealed and new bridges were put in. A major hydro-electric system was built in the South Island, of such scale that it stood New Zealand in good stead two generations later. A major state housing initiative was maintained into the 1960s.

The economy was highly regulated throughout this period, which arguably contributed to stall innovation and the development of new internationally competitive industries, in turn



John Dobree Pascoe, ATL, John Pascoe Collection, F-399-1/4

Above: Mustering sheep at Oran Gorge Station, Geraldine county, May 1943.

undermining New Zealand's longer-term growth prospects. The financial sector was also heavily regulated – bank interest rates were tightly controlled. Capital issues controls, administered by the Reserve Bank, affected the ability of non-bank borrowers and businesses to raise capital directly. Only from around the

late 1960s did material liberalisation begin in the financial sector.

The Reserve Bank's main role through this period involved implementing government policy, and managing the economic effects of swings in the external trade position and fluctuations in government spending. Inflation remained



Artwork Sir William Dargie, photo Stephen A'Court, RBNZ.



Photographer unidentified, New Zealand Free Lance Collection, ATL, PAColl-6303-05

Top: *Edward C. Fussell, Governor of the Reserve Bank 1948-62.*

Above: *Walter Godfrey Bowen, world champion shearer, February 1953.*

relatively low, here and abroad, until around the end of the 1960s.

END OF PASTORAL PROSPERITY

Although the 1950s were prosperous for New Zealand, the writing was nonetheless on the wall for this second phase of New Zealand's 'Britain's farm' era. The country was, as one economist remarked, effectively a monoculture – he classified all our exports as 'processed grass', and most of it was going to a single market, Britain. British efforts to look to Europe as trading partner, rather than its former empire, meant that New Zealand increasingly had to fight for access to its traditional markets, particularly once the UK joined the European Economic Community (EEC) in 1973.

Even before then, however, New Zealand was in economic difficulties. Wool prices collapsed in December 1966, and in 1967 the exchange rate was devalued sharply – the first adjustment since 1948. Commodity prices were temporarily strong again in the early 1970s, before the aftermath of the first oil shock, in



1973-74, confirmed the sharp turn for the worse in New Zealand's fortunes. New Zealand's slide down the international OECD rankings accelerated from 1966-67; and although New Zealanders of the day did not recognise it, they were at the end of an era.



Photographer unidentified, ATL, New Zealand Free Lance Collection, PAColl-8602-45.



Morris James Hill, ATL, Morrie Hill Collection, F-177219-1/2

Top: HRH Prince Philip talks to a freezing worker on the chain at the Gear Meat Works, Petone, December 1956.

Left: The Waipa Forest Service sawmill near Rotorua, air seasoning yards visible in the background, November 1955.

Below: Tomoana freezing works, near Hastings, 1940s.

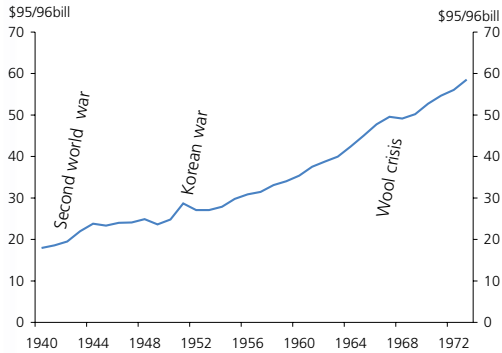


Gordon Onslow Hilbury Burt, Gordon Burt Collection, ATL, F-36542-1/2

THE MID-TWENTIETH CENTURY BY NUMBERS

Graph 6

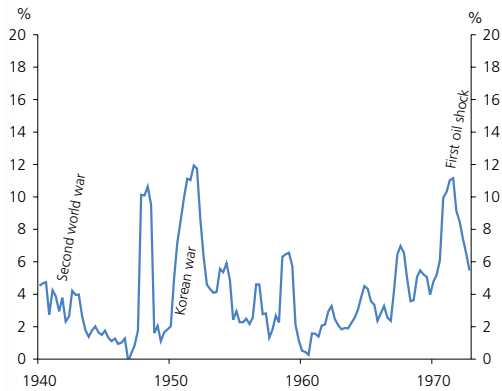
Real GDP 1940–1973



Source: Brian Easton (1990), Statistics New Zealand, as republished in Phil Briggs (2003).

Graph 7

Inflation, 1940–1973



Source: Statistics New Zealand

\$
ISSUED BY THE DECIMAL CURRENCY BOARD
SHOPKEEPERS - BUSINESSMEN - MANAGEMENT

Free advice on how to change over to DOLLARS & CENTS

Dollars & Cents and YOUR BUSINESS

ALL QUESTIONS IN THIS NEW CURRENCY NUMBERED SHIRT AND CLEARLY IN ONE FREE OFFICIAL BOOKLET

- How will our stationery be affected by the change... will we need new forms?
- Should our business change over to the new currency straight away on July 10th, 1967?
- How do we write... and speak... in the new currency?
- When will our £ s d machines be converted to £ c operation... how will this be arranged... will we get a loan machine while they are away?
- Can we trade in both currencies?
- How can we help customers and clients?
- Will we be able to take "old" money for "new" prices... and "new" money for "old" prices?
- HOW and WHEN do we start training our staff and ourselves in the new currency and new methods?
- How do we convert £ s d prices to £ c prices... should we show both old and new prices... and when?
- If we continue trading in £ s d after D.C. Day how will we be able to get £ s d from the bank... although they are operating in £ c?

Shopkeepers, businessmen, and management are vitally concerned in the changeover to the new currency on July 10, 1967. Careful planning was goodwill and custom. Start your planning NOW by writing for "Decimal Currency and YOUR BUSINESS".

MAIL THIS COUPON TODAY!

The Secretary,
Decimal Currency Board,
Private Bag, London Quay,
WELLINGTON.

Please send me... my copy of your free booklet "Dollars and Cents and YOUR BUSINESS".

NAME (Block letters) _____

ADDRESS (Block letters) _____

Above: New Zealand changed to decimal currency in 1967, bringing the third series of banknotes into circulation.

Below: Series Three one dollar note.



TURBULENT TRANSITION

1973–1993

The changes that marked the last quarter of the twentieth century in the New Zealand economy were far-reaching and, at times, controversial. Although often couched in purely philosophic or political terms, these changes also reflected long-term economic issues that can be traced back well before the 'reform period'.



Above: Series Three ten dollar note.



Photographer unidentified, ATL, New Zealand Free Lance Collection, PAColl-5936-55, F-125016-1/2

Above: Benmore hydro-electric scheme under construction on the Waitaki river, central Otago, early 1960s.

In part New Zealand's fortunes reflected the international situation. During the 1960s and 1970s, the cost of the Vietnam War and the oil shocks helped create conditions in the United States and other western economies that combined weaker growth than had been seen in much of the post-war period, and much higher inflation. New Zealand was no exception – indeed, our inflation rate on average was one of the highest of any of the OECD countries. Unemployment, however, remained very low in New Zealand until the mid-late 1970s.

NEW ZEALAND'S PROBLEMS

New Zealand had a number of specific local economic problems by the late 1970s. Despite growing trends to deregulate elsewhere around the western world, the New Zealand economy remained quite heavily regulated – the liberalisation process lagged behind that of countries such as the UK, US and Australia. There was some progress towards economic diversification. State forests, planted during the 1930s depression and later, were coming to maturity. Trade in logs and associated wood products continued to grow during the 1970s. Fisheries expanded, and a base of manufacturing exporters developed. The government of the day undertook some important measures, including the Closer Economic Relations (CER) agreement with Australia, and extensive liberalisation of the financial sector.

However, politicians and the public found it difficult to grapple with both the reality and the longer-term implications of New Zealand's relative economic decline, and were reluctant to take steps that would have had substantial short-run employment costs. One response, partly prompted by the second oil shock in 1979, was the 'Think Big' economic strategy of 1981, designed to create 400,000 jobs and move New Zealand towards energy self-sufficiency. In practise, 'Think Big' did not work – falling oil prices undermined



Photographer unidentified, ATL, Dominion Post Collection, EP/1969/3580/33.



K. E. Niven & Co, ATL, K.E.Niven & Co Collection, F-64235-35mm.

Top: Wellington motorway under construction, August 1969.

Above: Hiller UH-12E of Alexander Helicopters transports building material 1973.



Ross Giblin, ATL, Dominion Post Collection, EP/1987/5979/26.

Above: Brokers amid the stock market crash on 25 October 1987.

the economics of the energy policy, and the promised jobs did not eventuate. Extensive foreign borrowing to support living standards created increasing pressure on the government's finances.

In attempting to combat inflation without undue short-term employment costs, the government then turned to increasingly draconian economic regulation. This included a price and wage freeze in 1982-84, and extensive controls over interest rates were also put in place.

A new government that came to power after a snap election in mid-1984 introduced sweeping reforms, cutting the scale of both regulation and government service, and opening the economy up to

international competition and markets. These reforms were designed to liberalise and diversify the New Zealand economy, opening it up to global competition; and to stem and eventually reverse New Zealand's relative economic decline.

To achieve this the exchange rate was floated, trade protection was reduced, state enterprises were put on a more commercial footing, and steps were taken to restore the Crown's fiscal position. The main thrust of these reforms continued under two different governments until 1993, encompassing a wide range of economic policies and government activities, producing significant social change as well as an economic restructuring.

In the transition period, the costs of these changes proved quite high. Real GDP growth was flat in the second half of the 1980s, and recovery did not begin until 1992. Unemployment soared, driven in part by restructuring across the public sector, and in part by the sharp fall in traditional sectoral employment, notably manufacturing. Liberalised firms and financial markets took time to settle down. The 1987 share market crash, which hit many 'Mum and Dad' investors hard, precipitated a shakeout. Many corporates collapsed, some banks were pushed to the edge, and one major financial institution – DFC – collapsed.

These experiences highlighted another aspect of the Reserve Bank's role in the economy. Until the mid-late 1980s, there had been extensive control of financial institutions, including banks, and those controls were used as tools in macroeconomic management. This had the effect of constraining the risks that mainstream financial institutions could take. Once the tight controls had been removed, a framework for prudential supervision of banks was developed and put in place. This supervision, designed to reduce risks and manage the consequences of any bank failures, became a major component of the Reserve Bank's role into the twenty-first century. A sound and efficient financial system is a vital component of a market economy.



Above: Sixth series five and fifty dollar notes. New-design notes featuring significant New Zealanders were released by the Reserve Bank in 1993, and in 1999 paper was replaced with polymer, introducing new security features such as transparent windows.

INFLATION BUSTING

Conquering inflation became a particular priority during the late 1980s, by which time New Zealand had been suffering high and erratic inflation (averaging 10-15 percent per annum) for over two decades. By the late 1980s, the Reserve Bank was actively working to quash inflation, broadly envisaging price stability by the early 1990s.

The effort was formalised in the Reserve Bank Act 1989. This Act was pioneering in a number of ways. It gave the Reserve Bank the independence to set monetary policy, but within the context of a transparent agreement between the

Governor of the Reserve Bank and the Minister of Finance on what goal the Bank would pursue. New Zealand was the first country in the modern era to adopt a formal inflation target. The targeted approach to price stability was also picked up around the world by a range of significant economies.

Getting on top of inflation proved neither easy nor costless; the floating exchange rate tended to be both high and volatile, as did interest rates. However, by the early 1990s low inflation had been achieved, and has since become a well-entrenched feature of the economic landscape here and abroad. In many other countries, similar efforts at around the same time also saw inflation lowered. Lower inflation provides a more stable climate for firms and households, and this more stable backdrop may have contributed to the generally more stable economy, here and abroad, of the last 15 years or so.



Above: A Reserve Bank office, 1992.

Below: Operational independence under the Reserve Bank Act 1989 included a requirement for full transparency of monetary policy, implemented through regular Monetary Policy Statements, and by parliamentary review. Here, Reserve Bank Governor Dr Alan Bollard (far end of table, centre) meets the Finance and Expenditure Committee in 2003.

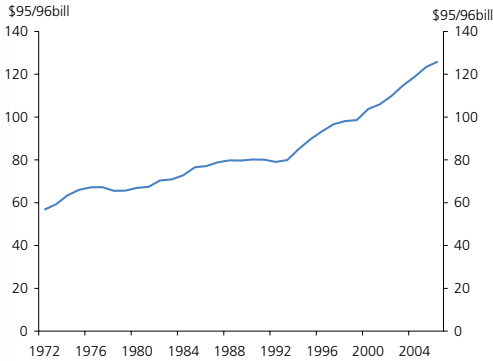
Below left: The Reserve Bank issued one and two dollar coins in 1991.



Stephen A'Court, RBNZ.

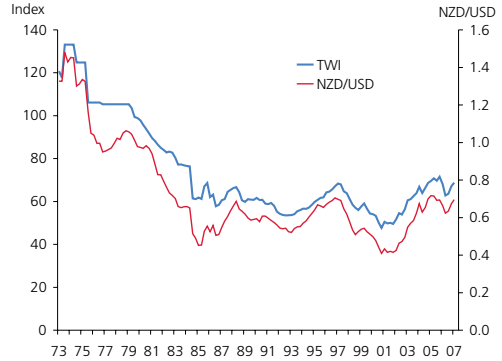
THE LATE TWENTIETH CENTURY BY NUMBERS

Graph 8
Real GDP 1973–2007



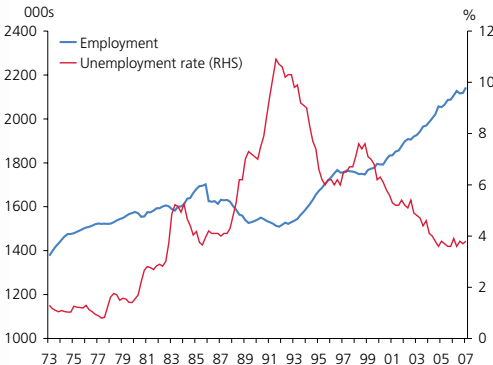
Source: Statistics New Zealand.

Graph 10
Exchange rate 1973–2007



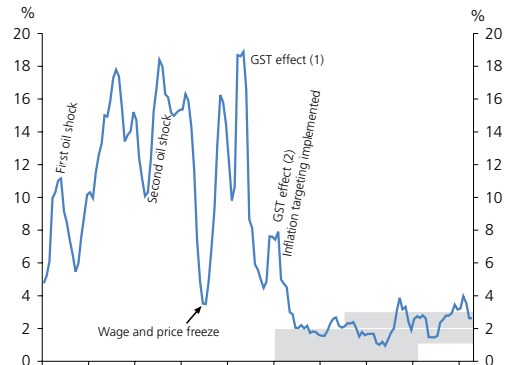
Source: RBNZ.

Graph 9
Unemployment, 1973–2007



Source: Statistics New Zealand, Chapple (1994).

Graph 11
Inflation 1970–2007



Source: Statistics New Zealand.

OPEN ECONOMY

1993–

By the late 1990s the difficult period of transition from a regulated, inflationary and largely undiversified economy to a more liberal and diversified environment was largely achieved. The New Zealand economy of the early 21st century was very different from that of a generation earlier. Open and competitive markets scored highly in international comparisons of the ease of doing business.



In 2006 the Reserve Bank introduced plated-steel ten, twenty and fifty cent coins; this is the twenty, featuring the 'Pukaki' design and 'spanish flower' edging.

By international standards New Zealand's exports were still dominated by primary products. But there was a greater range of such products and a significantly greater range of markets; Britain, which had taken 90 percent or more of New Zealand's production in the mid-twentieth century, now took less than 6 percent. Tourism became the largest single export industry. High-tech industries and manufacturing were also prominent.

RENEWED GROWTH

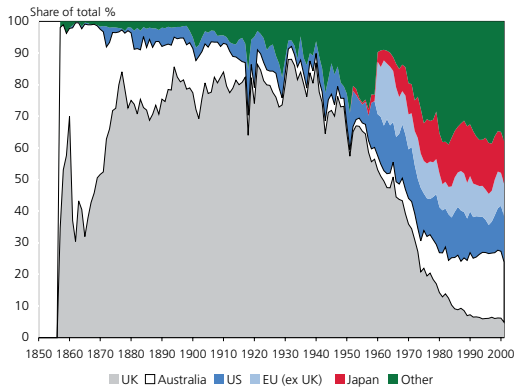
In 1998 the New Zealand economy entered a period of significant growth, which by 2006 had become one of the longest and strongest growth periods the country had seen. It also occurred in the context of a significantly diversified and deregulated low-inflation economy. Unemployment fell to record low levels, and New Zealand became the first country in the OECD to run long-term fiscal surpluses.

However, although New Zealand's relative decline was halted, there was

Graph 12

Destinations of goods exports

1860–2000



Source: G. T. Bloomfield (1984), *Statistics New Zealand*, in Phil Briggs (2003).

little progress in moving back up the international income rankings. A high appetite for debt and a reluctance to save meant that interest rates in New Zealand stayed persistently higher than those in comparable countries, holding back investment. And although the government's own external position was strong, the private sector had become highly indebted and reliant on the continuing flow of foreign debt and equity finance.

These issues, which unfolded during the first years of the twenty-first century, highlighted the point that the New Zealand economy remained a dynamic product of people, place and time, each new generation offering a succession of fresh challenges for policy-makers, people and governments to meet.



Stephen A'Court, RBNZ.

The Reserve Bank building, right; The Treasury and other government buildings on the left.

GLOSSARY

Business cycle – the cyclic movement of an economy between periods of high and low growth.

CPI – Consumers Price Index, a statistical measure of prices, calculated by Statistics New Zealand on the basis of a ‘basket’ of goods.

Current account deficit – the amount to which national expenditure exceeds income over a particular period.

Deflation – a decrease in average prices over time, in New Zealand usually measured by the all-groups CPI published by Statistics New Zealand.

GDP – Gross Domestic Product, the total market value of all final goods and services produced in New Zealand over a specified time period.

Growth – in the economic sense, usually measured as GDP growth over a period, typically per annum.

Inflation – an increase in average prices over time, in New Zealand usually measured by the all-groups CPI published by Statistics New Zealand.

Keynesianism – the economic theory developed by John Maynard Keynes, followed by most western nations during the mid-twentieth century.

Labour force participation – the percentage of the potential labour force actually working.

OCR – Official Cash Rate, the wholesale interest rate, set by the Reserve Bank

OECD – Organisation for Economic Co-operation and Development.

Output gap – the ‘gap’ between demand in an economy, and the ability of the economy to supply.

Price shock – a sudden or unexpected shift in the price of a commodity.

Price stability – for practical purposes, prices held within a specific band of change.

PTA – Policy Targets Agreement, the document signed by the Minister of Finance and Governor of the Reserve Bank that defines the inflation target.

Real GDP – nominal GDP, deflated relative to a base year.

Real interest rate – the rate of interest, deflated by the expected or actual CPI.

Terms of trade – the ratio between the price of exported commodities and the price of imported commodities.

FURTHER

INFORMATION

Further information on New Zealand's economy, its history, and the role of the Reserve Bank is available in the Reserve Bank Museum, open weekdays 9.00 a.m.– 4.00 p.m., except when required for private functions; and on our website at www.rbnz.govt.nz We also recommend the following books, articles and pamphlets:

Briggs, Phil *Looking At The Numbers: a view of New Zealand's economic history*, NZIER Research Monograph 69, NZIER, Wellington 2003.

Lloyd-Prichard, M. F., *An economic history of New Zealand to 1939*, Collins, Auckland 1970.

Hawke, Gary, *Between Governments and Banks: a History of the Reserve Bank of New Zealand*, Government Print, Wellington 1973.

Reserve Bank of New Zealand, *Explaining Monetary Policy*, Reserve Bank of New Zealand, Wellington, 2007.

Reserve Bank of New Zealand, *Explaining Currency*, Reserve Bank of New Zealand, Wellington, 2006.

Singleton, John, *Innovation + Independence: The Reserve Bank of New Zealand 1973-2002*, Auckland University Press, Auckland 2006.

Wright, Matthew 'The Policy Origins of the Reserve Bank of New Zealand', Reserve Bank of New Zealand *Bulletin*, Vol. 69, No. 3, September 2006.