New Zealand Tariff Policy Between the Wars.

Geoff Bertram
Victoria University of Wellington

1. Introduction

Recent trends in New Zealand tariff policy amount to a return to the policies, and the policy issues, of the half-century before 1938. Import licensing (the dominant form of government intervention in import trade from 1938 to the 1980s) is being phased out. Export producers, led by the farmers, are pressuring government for duty-free or low-duty imports of equipment and intermediate inputs. The overall framework for trade policy planning is provided by CER, the 1980s reincarnation of Imperial Preference.

Prior to the imposition of import controls by the Labour Government in 1938, industrial protection in New Zealand had rested on the twin bases of distance and the tariff. Distance (and consequently high transport costs) provided in the interwar period the equivalent of 11-15% protection for New Zealand manufacturers (Carroll, 1937, pp.21-22), and tariffs on items subject to duty commonly added a further 20% or so. Despite comments in the *Official Yearbook* to the effect that the tariff revision of 1895 had resulted in the New Zealand tariff assuming "a distinctly protective form" (cf Lloyd Pritchard 1970, p.138), New Zealand was in fact the least protectionist of the British Dominions, and consequently had the least to offer at the 1932 Ottawa Conference in terms of tariff reductions. Murphy in 1933 described the prevailing tariff as "a tariff mainly for revenue, combined with moderate protection", and suggested that "New Zealand tariff policy in the last generation has been as liberal and enlightened as that pursued by any other country" ("The New Zealand Tariff", in *New Zealand Financial Times* , May 10 1933, p.53). All things are relative, however, and even within the broad context of New Zealand trade liberalism there were significant debates and policy trends.

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The present paper surveys trends in tariff policy during the 1920s and 1930s on the basis of a preliminary exploration of the statistical record; and raises the question of how it came about that New Zealand so decisively abandoned in 1938 a policy mix to which we are now returning.

Of the general trends which emerge from a survey of the interwar record, one which has tended to be overlooked in some recent work (e.g. Hawke 1985 p.158, Hawke 1987) is that the period from 1930 to 1938 was characterised by reductions rather than increases in the level of protection provided by tariffs. Both in 1932 following the Ottawa Conference, and following the report of the 1934 Tariff Commission, significant tariff reductions were carried out; and the reduced tariff rates were maintained by the First Labour Government in the three years from its election in 1935 through to the adoption of import control at the end of 1938. The reasons why such erosion of protection was politically acceptable during the depths of the Depression were, first, the 25% devaluation of 1932, which had far more impact on the profitability of local traded-goods producers than any changes contemplated or introduced to the tariff schedules; and second, the hope that tariff-cutting might cement bilateral agreements to maintain markets for New Zealand's exports.

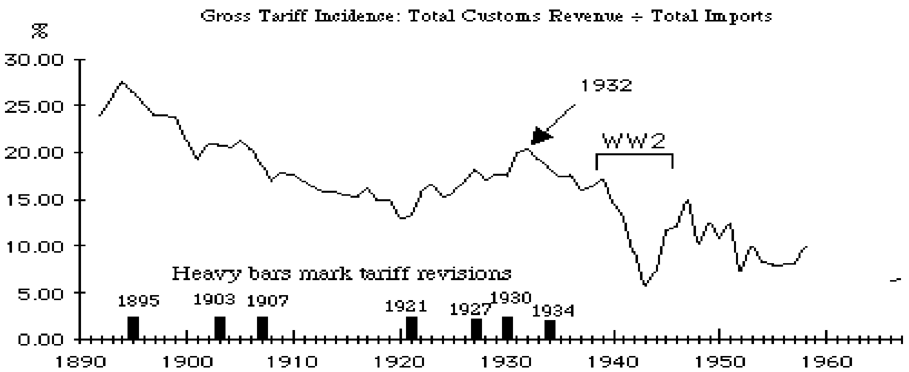
2. Some Data on Tariff Incidence.

In the three decades following the 1895 revision, the evolution of the New Zealand tariff system was dominated by two trends: duty-free status for a growing share of imports; and the adoption and extension of imperial preference. The effect of these is to render rather complex our interpretation of the trends in New Zealand tariff incidence during the interwar years.

As a skeleton on which to hang our discussion of tariff policy, this section surveys the readily-accessible data on the *ex post* incidence of tariffs on imports. The value of this approach is the ease of assembling some fairly simple charts; the obvious disadvantage is that tariffs work by changing the incentives facing local and overseas economic agents, so that import composition will not have remained unaffected in the face of changes in tariff rates. The tables and charts which follow have not been adjusted for changes in import composition; thus in interpreting them, it is necessary to have an eye both for the immediate impact of tariff changes (visible in the first year of application of new rates) and to the longer-run adjustment of import composition in response to tariff changes, which shows up in trends during periods when the tariff structure was stable (1903-1907, 1908-1921, 1922-1927, 1928-1930, 1931-1934, 1934-).

The most readily-obtained indicator of tariff incidence is total Customs revenue divided by the CIF value of total imports; as Figure 1 and Table A1 show, this fell from 28% to 13% between 1894 and 1920, rose back to 20% by 1932, and then turned down again, falling to 16% by 1938. Thereafter the switch to import controls as the main protective device rendered the tariff of diminishing relevance, as high-tariff items tended to be those which were shut out by licensing.

FIGURE 1



Source: Appendix Table A1.

The gross-incidence measure in Figure 1, despite its obvious faults, has been fairly widely used in writing on the history of protection in New Zealand (for example, in

Condliffe 1930 pp.228, Lattimore 1985, p.38 and Hawke 1987, p.112), and there has been a tendency for these writers to assume that falling gross incidence indicated falling levels of protection, *ceteris paribus*, while rising gross incidence is taken to indicate rising protection. Reading Figure 1 in this way would give a story of a "protectionist" 1920s breaking a longer-run downward drift in tariff protection; then tariff-cutting in response to the Great Depression. In the sections which follow we show that decomposing the totals enables us both to modify and to elaborate this story.

2.1. The "Free List"

The first distinction to be made is between duty-free and dutiable goods. The 1895 tariff changes are regarded as "protectionist" more because of the expansion of the list of duty-free goods, than because of any actual increases in tariff rates; "protectionism" in that context means the departure from a uniform revenue tariff as the authorities increasingly distinguished amongst different types of goods on the basis of their role vis-a-vis local productive activity. The growth of the "free list" as a proportion of New Zealand's total imports is traced in Figure 2 and Table A2. In 1896 one-third of imports entered free of duty; the share crept up slowly until the 1907 tariff revision brought a sharp jump to about half of total imports. Condliffe (1930 p.179) notes that an important feature of the new tariff was

> the removal of duties upon such articles as sugars, dried fruits, mustard, spices, cereal foods, nuts. household chemicals, infants' food, children's boots, and sheetings. The
>
> net effect of such changes, therefore, was considerably to lighten the burden of indirect taxation upon household necessities.

Attracting more comment at the time, however, was the extension of duty-free entry for machinery and intermediate goods, since all purchasers of machinery not specifically included in the 1907 duty-free list embarked upon intensive, and in most cases eventually successful, lobbying to secure relief from duty on imported items.

FIGURE 2A

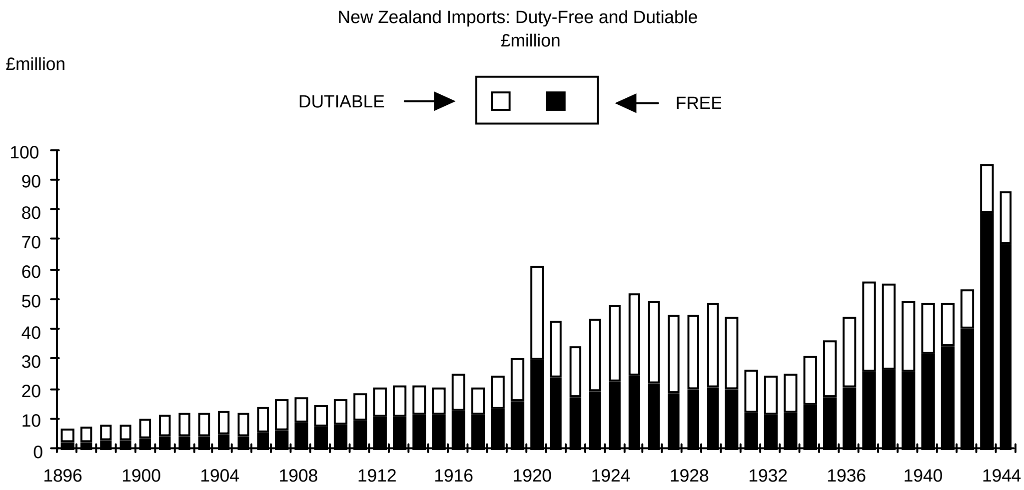
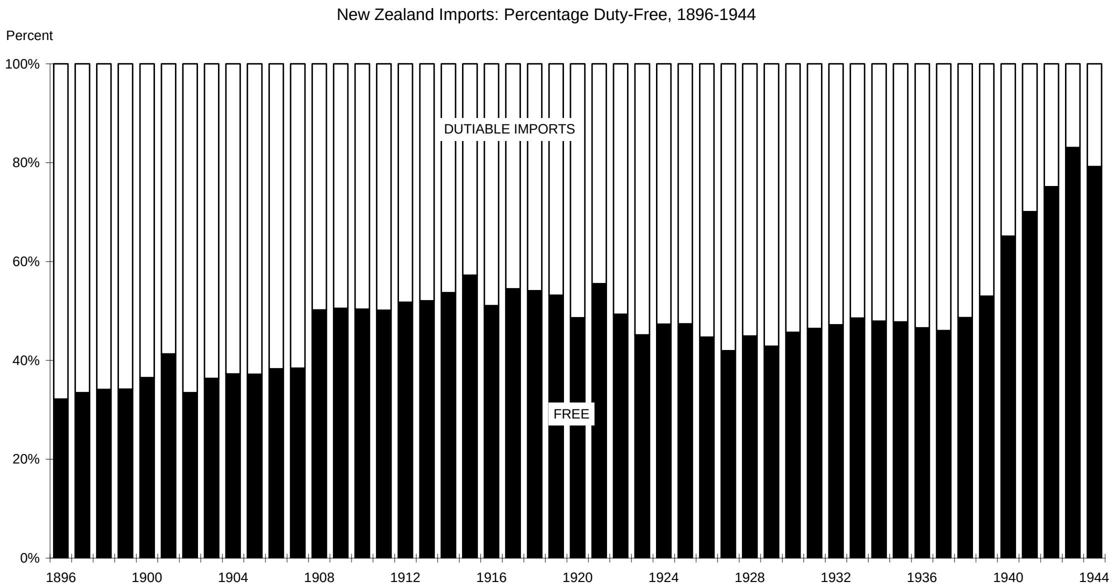


FIGURE 2B



Source: Data from *NZ Official Yearbooks* , assembled in Appendix Table A2.

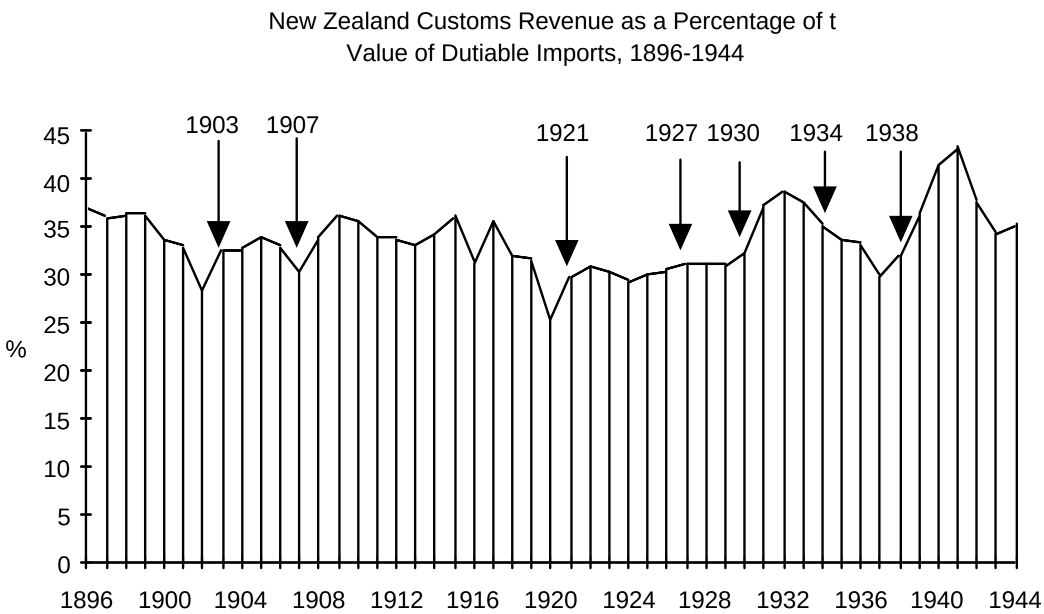
During World War I the duty-free proportion crept up towards 60% of total imports, peaking at 57% in 1915. Thus for many commodities, the old revenue motive for the tariff had been superseded (or at least supplemented) by the desire to cheapen inputs for local producers. Naturally, local producers had strong vested interests in the retention and extension of this free list so long as it applied to their inputs, while those among them supplying the local market were at the same time happy to see protective tariff rates applied on goods which competed with their outputs. The boundary between the free list and the dutiable list was therefore a matter of some significance in New Zealand political economy.

Starting from a relatively indiscrimminate revenue tariff of around 25%, this reduction in duty on inputs for agriculture and manufacturing implied a substantial increase in the effective rate of protection for traded-goods producers, and must have played an important role in maintaining the rate of profit for firms in these sectors during the early period of arbitration and the move to a minimum-wage system, when the maintenance of a high-wage economy became a central plank of policy.

The rising trend of the free list was halted after the First World War by two obstacles. In the first place, the list of goods exempt from duty could not expand indefinitely without encroaching on products which were or could be locally produced; at this point, protectionism had to switch its focus from cheapening inputs to raising final-goods prices. In fact, during the War there was a strong impetus towards local production of goods which were difficult to secure overseas (for example, agricultural implements and machinery) and in 1919 the Industries Committee recommended that duty-free access should be available only to machinery which could not be made in New Zealand, or which embodied new technology or patents. (*AJHR* 1919 Vol.2 I.12 p.viii).

Secondly, following the War there was a strong desire by the Massey government to strengthen British Preference for all types of goods, including the machines and inputs which were on the free list. To achieve this, many previously duty-free items were in 1921 made once again subject to duty unless they were of British manufacture. Thereafter the proportion of imports (by value) entering duty-free held steady at around 45% until the switch from the tariff to import control in 1938, following which the duty-free class of imports moved rapidly to a dominant position of 83% of the total by 1943, presumably because both wartime exigencies and the preferences of Government planners dictated sharp cuts in imports of the luxury goods which carried the highest tariff rates.

FIGURE 3



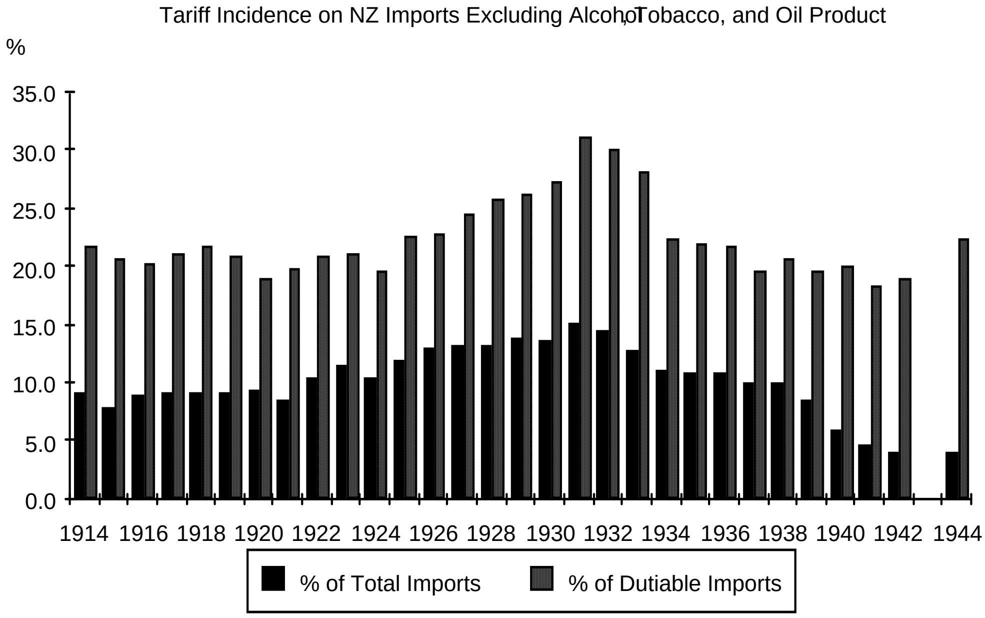
SOURCE: Table A2.

Figure 3 indicates that the downward trend of gross tariff incidence found in Figure 1 did not result from reduced tariffs on dutiable imports, but was due to changes in the proportion of imports entering duty-free. If customs revenue is taken as a proportion of the value of those imports subject to duty, the picture is of a remarkably consistent aggregate incidence of around 30-35%. The tariff changes of 1903, 1907, 1921, and 1927, all of which involved increases in the duty rates for non-British suppliers, produced short-run upward movements of the ratio, but over the long run merely served to hold the line. The 1930-31 imposition of surcharges and primage duty prevented revenues from falling as fast as imports (an effect reinforced by falling unit values of those imports subject to specific rather than *as valorem* duties). The removal of the surcharge from British goods following Ottawa in 1932, and the tariff-cutting reform of 1934, then contributed to a clear fall in the ratio from 38% to 29% between 1932 and 1937.

2.2. Tobacco, Alcohol and Petrol.

The data underlying Figure 3 are still very highly aggregated, and in particular they include three categories of imports which were increasingly treated as cash cows in the interwar years. Alcohol and tobacco products initially, plus motor spirits from 1927, were goods in inelastic demand from which large revenues could be extracted, and the tariff for these classes of imports was designed primarily with revenue in mind. To obtain Figure 4, we have subtracted from the Figure 3 data the three import classes IV (spirits and alcoholic liquors), V (Tobacco and preparations thereof), and X (Oils, Fats ands Waxes - the nearest we could get to motor spirits in the*Yearbook* data - the annual trade statistics contain more information, but were not used for this paper), to give the incidence of duties on all other classes of imports.

FIGURE 4



Source: Table A3.

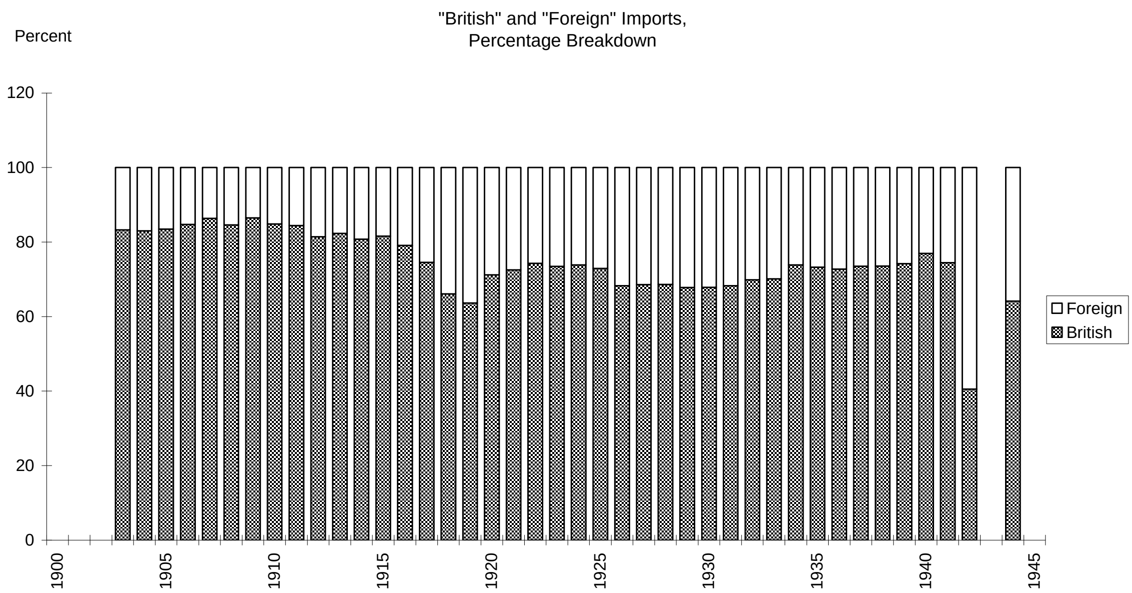
The incidence of duties on dutiable imports other than those in the three revenue-tariff classes shows substantially more variation than the Figure 3 data, and for the period 1918-1938 this graph is probably as close as we can get with this sort of analysis to a proxy for the effect of tariffs on the local-market price level of imported goods in general, given that the free list had reached more or less its full extent. We return, thus, to a story of rising duty incidence in the 1920s, peaking in 1931-32, and then going into reverse under the impact of Ottawa and the 1934 tariff reform.

2.3. British Preference

The rising incidence of duties in the 1920s, however, should still not be interpreted as a straightforward increase in the level of protection for local producers. The primary beneficiaries of the 1921 and 1927 tariff revisions were not local firms, but "British" suppliers serving the New Zealand market. For local producers, the protective effect of the tariff system was determined by three factors: the competitiveness of "British" imports entering under the lower preferential tariff, the competitiveness of "foreign" imports entering under the General tariff, and the elasticity of substitution between British and Foreign goods. Since tariff rates on "British" goods were not raised in the 1920s, and were cut in the 1930s, the rising average incidence of duties helped local producers only to the extent that they faced "foreign" rather than "British" competitors in their particular market.

British Imperial Preference was introduced by the Seddon government in 1903, by placing a surtax on certain imports from outside the Empire. The scope of the surtax was extended in 1907, so that on a wide range of dutiable commodities the basic tariff of around 20% was supplemented by a further 10% on non-British goods. In 1921, following the report of a Tariff Commission in that year, the system was restructured and the preferential margin widened. The basic-rate-plus-surtax approach was replaced by a new "General Rate" (around 35% on many dutiable items) which applied to non-British goods, while the old basic tariff (commonly about 20%) was relabelled as the "British Preferential Rate". In 1927 the preference margin was again widened by raising the General Rate on many items to 40%.

FIGURE 5



Source: Table A4.

In 1934 a further tariff revision was legislated which further widened the margin of British preference, but this time by cutting the "British rate" of duty on about 100 items while leaving the General rates unaltered.

Figure 5 shows the breakdown of New Zealand imports between British Empire suppliers and "Foreign" suppliers over the first forty years of preference, suggesting that if the steadily-widening margin of preference had any long-run effect in practice, it was to enable Empire suppliers to retain their existing market share. With over 80% of the New Zealand import market in 1903 (cf Appendix Figure A1), the Empire had little scope for raising its share; but as the graphs show, there were signs at the end of World War I that Foreign competitors were gaining ground, and the same trend began to re-emerge in the mid-1920s. In both cases, increases in the margin of preference were promptly enacted (1921 and 1927) and were followed by some recovery of the Empire's market share. The 1934 changes, however, had no visible impact on the Empire share, which stayed steady through the 1930s at a bit over 70%.

Some examples of the role of preferential tariffs in the context of real-world markets are discussed in the appendices to the 1927 Tariff Commission report (*AJHR* 1927 H-28 pp.32-37). In several cases the Commission found evidence that "foreign" goods were significantly cheaper on world markets than British goods, so that provision of a uniform level of protection to local industries required the imposition of a higher duty rate on the foreign suppliers. In relation to dairy churns, for example, the Commission stated (*AJHR* 1927 H-28 p.32)

> Local makers are able to meet competition from British sources, but during the last year or two foreign churns have been offering keener competition. The Commission considers that ... some measure of protection is warranted against foreign churns. We have accordingly recommended that ... there be levied a duty of 20 per cent ad valorem on foreign churns.

Similarly in the case of anhydrous ammonia for use in freezing works, the Commission noted that local production (as a by-product of coal-gas manufacture)

> is apparently able to compete satisfactorily in price with Australian ammonia... So far as foreign ammonia is concerned, however, there appears to be some likelihood of the importation and sale of a synthetic product of Continental origin... We ... recommend that this commodity continue to be admitted free of duty when of British origin, but that a duty of 4d per pound be imposed on ammonia from foreign sources.
>
> (*AJHR* 1927 H-28 p.32).

2.4. Conclusions

The trends evident in Figures 1 - 5 appear consistent with a story which attributes the falling gross incidence in the first two decades of the century to the steady expansion of the "free list", compounded at the end of World War I by a drop in the average duty on dutiable commodities (probably due to the effects of inflation on articles with specific rather than ad valorem duties).

The 1919 Industries Committee and 1921 Tariff Commission then initiated a decade of rising gross incidence by raising the tariff rates on non-British imports. Legislation following the 1927 Tariff Commission further raised the General rate to 40% on many items (thus widening the British preferential margin while leaving unchanged the position of New Zealand producers vis-a-vis their British competitors). In 1930, in the face of the Depression, a general tariff surcharge was imposed which prevented revenues from falling as fast as imports, thus pushing up the gross incidence until 1932, when at the Ottawa Conference New Zealand abandoned the surcharge on British imports, again widening the margin of Preference since "foreign" imports remained subject to the surcharge. Thereafter tariff incidence fell throughout the 1930s, a process to which the 1934 tariff cuts contributed.

The overall picture is of three swings in tariff policy from the 1890s to the Second World War: first a selective liberalisation, bringing (probably) rising effective protection for several protected industries; then from 1920 on a new wave of "preferentialism", directed against non-British imports rather than against imports *per se* , and implemented by means of increases in the Foreign duty rates; then after 1932 the post-Ottawa liberalisation which took its full shape in the 1934 Customs Acts Amendment Act, a measure which cut the British tariff rate on over 100 categories of imports while leaving rates on non-British goods largely untouched (cf *NZ Official Yearbook* 1937 pp.216-217).

If we wish to find evidence of protectionism in the 1920s, thus, we must seek specific cases where local producers secured increases in the British, as distinct from the General, tariff rates in 1921 and 1927. Ironically, the two most prominent cases of this were tobacco and wheat - local agricultural products which were always (tobacco) or had become (wheat) primarily oriented to the local market. (A third case of protectionist duties in the 1927 revision was timber - a sector with certain"factory" characteristics in the local sawmills, but important also because of the returns to North Island land developers from bush clearance.) Because of the importance of these two products to farmers' incomes in the South Island, one cannot speak of a general commitment by the farming lobby to free trade. The banner of free trade was carried in the interwar years by the dairy farmers of the North Island.

3. Policy Trends and Milestones

3.1. The 1919 Industries Committee

Set up as a Select Committee by Parliament (on Massey's motion) immediately after the War to survey the development possibilities and needs of the postwar economy, the Industries Committee summed up the lessons of the war in the following words (AJHR 1919 Vol.2 I-12 p.ii):

> It should be the aim of the Government to impress upon the people that in all future efforts at development of the country's resources the policy of

> self-reliance cannot be too strongly fostered. The demands made upon us by the Great War have surely taught us many useful lessons. Our people were self-reliant during the greatest crisis the world has ever passed through, and they have proved their ability to provide funds the magnitude of which would have staggered us in the years that are past. In asking that its proposals be adopted, the Committee urges the people of the country to assume in peace the attitude they assumed in war.

If this sounds a little like the late-1970s rhetoric of response to the first oil shock, the parallel is apt. In 1919 as in 1979 a conservative government, based on a business-farming alliance, decided that the economy needed large-scale investment in non-traditional activities, especially electricity and forestry. It may be time a fresh look was taken at the economic history of the 1920s; there was far more to the decade than merely the dictatorship of Massey's dairy-farmers. The retrenchment of public-works programmes in 1930 eliminated one of the leading sectors of the 1920s economy. The Massey era's legacy to the New Zealand economy remains with us today, though now bearing new names such as Electricorp, ForestryCorp, Woolcorp, Dairycorp, and Tradecorp. The Liberals of the 1890s and Labourites of the 1930s may have left us the welfare state; but it was "Farmer Bill" Massey who presided over New Zealand's first twentieth-century Think Big programme, in which the state moved to undertake massive infrastructure investments and to take control of several commanding heights of the non-farm productive economy, in order to give impetus to economic diversification away from sole reliance on farming. Joseph Ward and his 1927 "£70 million" loan was merely a dying echo of the big development push in the first half of the 1920s.

The 1919 Industries Committee recommended major state activism, both in mobilising savings and in undertaking investment and controlling productive activity. Besides large-scale state programmes of hydroelectric construction and pine planting, the Committee recommended a state shipping line, full nationalisation of coal production, a large-scale state housing programme, government control of the Nauru phosphate industry, state-run flourmills to ensure competition, promotion of a possible iron and steel industry, and a "buy New Zealand" campaign spearheaded by the Government itself. Not all of these proposals were actioned in the 1920s, but all were well established in respectable debate from 1919 on.

In comparison with the high drama of electrification plus the Dairy Board, the discussion of tariff issues in the 1919 Industries Committee report seems rather humdrum. Nevertheless, several important issues were raised, and the committee's recommendations for a more overtly protectionist stance set the tone for interwar thinking. The Committee reported that (*AJHR* 1919, Vol.2, I-12, p.v)

> Your Committee was favoured with voluminous evidence in connection with the secondary industries, and found that the welfare of almost the whole is threatened by competition from abroad, especially Eastern countries...
>
> [N]othwithstanding that in many cases protection is now given, unless further assistance by duties or bonus is extended (always having in view the necessity of keeping down the cost of living), it is certain that some very desirable industries are in danger of languishing and possibly perishing. New Zealand has for many years adopted the policy of protecting the welfare of its workers by insisting upon a good standard of living, and it naturally follows that if this policy is to be pursued (and the Committee agrees that it should continue) it is obvious that the community must be prepared to protect the product of the factory and workshop.

The last revision to the tariff had been in 1907, and a new review was clearly urgent, despite the political can of worms that would be opened. As one witness to the Committee noted (S.J. Harbutt, Auckland Provincial Industrial Association, *AJHR* 1919 I-12 pp.244-245):

> Various Cabinet Ministers have told us that there is no business they fear to bring forward more than a Tariff Bill. The fact that the thousands of

> items constituting the tariff are all open for amendment when a Tariff Bill is before the House naturally causes the Minister to make every possible use of the party machinery to force the Bill through, regardless of anomalies or absurdities which are perpetuated year after year.'"

W.B. Montgomery (Comptroller of Customs) echoed the point (*ibid.* pp.326-330), and argued that there should be provision for more Ministerial discretion in determining minor adjustments to tariff rates for particular cases, as a means of avoiding the nightmare of opening-up the entire tariff schedule to parliamentary horse-trading. The Committee endorsed this proposal (*Ibid.* p.vii) and in due course the 1921 tariff legislation introduced powers for the Minister of Customs to exercise substantial discretion in fixing the rates on particular items, both by means of italicised (i.e. subject to interpretation) sections in the tariff schedule, and by provision for ad-hoc imposition of duties to counteract dumping or unreasonable exchange-rate depreciation by competitors. In 1934 the area of Ministerial discretion was widened to give powers to fix the conditions under which CKD motor vehicle kits could be imported - a provision which was crucial in the development of the nascent motor-vehicle assembly industry. This trend towards ministerial discretion to impose or reduce protective duties without prior parliamentary approval clearly foreshadowed the post-1938 control of imports by regulation (Brooker 1939, pp.152-154).

Although several passages in the Industries Committee report have a decidedly protectionist flavour, the actual recommendations from the Committee were moderate in the extreme. Increased duties, the Committee said, should be granted only after thorough case-by-case enquiries (p.viii) and should be accompanied by price controls to prevent local prices from rising, and to force the burden of the duty onto the foreign supplier (*Ibid.* p.vii). The Committee recommended (p.viii) increased preference for British goods, identified "Eastern countries" as the really damaging competition to local secondary industries (p.v), and suggested a tougher stance over the granting of British Preference to other Dominions which did not provide reciprocal concessions (Australia was specifically named, p.vi).

In the event, the 1921 tariff revision increased the British Preference margin on many goods by raising the General duty rates, made provision for anti-dumping duties and for greater ministerial discretion in administering the tariff, and doubled the revenue duties on spirits while imposing excise duties on beer and tobacco products. According to the *Yearbook* (*NZOYB* 1923 p.291) "the main objects of the revision were to secure a larger revenue to the Dominion and to give a measure of protection to local industries".

Given that the competition which was most feared by local industry evidently came from Japan rather than Britain, it is easy to see why the 1921 tariff was widely construed as an increase in protection rather than an increase in Preference. Subsequently Britain's 1926 return to the Gold Standard, at a time when the New Zealand currency was tied to sterling, naturally gave Japanese suppliers a renewed competitive edge, which was offset in 1927 by another raising of the General rates of duty.

The Industries Committee recommendation for tougher bilateral negotiations with other Dominions was also adopted in 1921, by moving Australia off the British tariff and onto the new, higher, General rates. This prompted Australia to negotiate reciprocal trade concessions and demonstrated to New Zealand policymakers the possibilities of imposing tariffs as a bargaining lever to extract concessions from trading partners. The subsequent course of Australia-New Zealand trade relations in the 1920s and 1930s has been entertainingly chronicled by Sinclair (1987).

3.2. Changing Priorities.

The official objectives of tariff policy in the 1920s were summed up in the Report of the 1927 Tariff Commission (*AJHR* 1927 Vol.3 H-28, p.4) as

(a) The collection of revenues
(b) The protection of local industries, both farming and manufacturing.
(c) The granting of preferential tariff treatment to goods of British Origin

In 1935 an amended set of objectives appeared in the *Yearbook* (*OYB* 1935 p.226):

(a) The development of New Zealand industries
(b) The maintenance and extension of markets for New Zealand produce
(c) The encouragement of intra-Empire trade.
(d) The obtaining of revenue.

In 1937 the reference to revenue was dropped (*OYB* 1937, p.216). The disappearance of revenue as a prime objective, and the addition of a general commitment to bilateral trade negotiations over and above British Preference, sums up the shifting climate of official thinking on the tariff in the 1930s.

In the 1920s policymakers felt comfortable with the three-legged stool of revenue, moderate protection, and British Preference. The 1927 Tariff Commission noted cheerfully that (*AJHR* 1927 Vol.2 H-28 p.4) "These three objectives are inter-related, and are, in general, not clearly separable. The duties levied on many commodities produce simultaneously, in some measure, two or more of these effects."

In the 1930s, however, both "protection" and "British Preference" had rather different overtones. As already noted, in the 1920s farming as well as manufacturing was regarded (and regarded itself) as a legitimate recipient of tariff protection, both by the cheapening of imported inputs for export farming via removal of old revenue duties, and by the protection of the local markets for wheat, tobacco and timber. A vocally protectionist agricultural lobby remained influential in the first half of the 1930s, led by the Nelson tobacco growers whose chief spokesman was the young MP for Motueka, K.J. Holyoake. By the mid-late 1930s, however, "protection for industries" had come to mean manufacturing, and this was the focus of protectionist policy during subsequent decades.

At the same time the connotations of "British Preference" shifted markedly. In the 1920s the Massey government's adherence to Preference was more a matter of loyalty than of clear economic advantage. Britain was still at that time maintaining a free-trade stance, so that New Zealand exports had free access to the British market, where they faced only the hurdle of having to compete with British and other foreign suppliers. The underpinnings of Preference were really twofold: the desire to reinforce political ties with Britain, and the use of Preferential rhetoric to cloak any trend towards industrial protectionism.

The first of these points is illustrated in Sinclair's unflattering portrait of Massey's foreign policy. Massey "had in 1907 opposed the adoption of the title 'Dominion' on the grounds that so pretentious a name would make New Zealand ridiculous" (Sinclair 1969 pp.245-246) and (1969 p.246)

> in office, he declined to participate in the formulation of the concept of 'dominion status'.... Massey consistently denied that the Dominions were, for international purposes, sovereign states. The Dominions had, he and his colleagues urged, merely entered into a 'partnership' with Great Britain for the management of 'the British Empire as a single, undivided entity'.
>
> ... It was hardly possible ... to mistake the direction in which the British Commonwealth was moving. The New Zealand Government was trying to resist the inevitable. It deplored the Balfour Report, which defined Great Britain and the Dominions as 'autonomous communities ... equal in status' and united only by 'a common allegiance to the Crown'.....

> Strangely enough, Australia too, rudely nationalistic in the nineties, also declined to adopt the Statute and unqualified independence within the British Commonwealth of Nations.

Sinclair's strictures seem rather harsh from the standpoint of the 1980s. Massey in the 1920s, in fact, faced much the same dilemma as that facing many small Pacific Island states in the last decade: an exogenously-driven push towards sovereign political status, which threatened to weaken the economic linkages which underpinned living standards. Tuvalu and the Cook Islands, Niue and the Marshall Islands suffer from the same "failure of political imagination" when they give priority to their export markets and migration links over the supposed joys of sovereign independence. (Cf Bertram 1987). From the standpoint of the emergent and self-confident New Zealand of the 1950s and 1960s, Sinclair could afford to scorn Massey's loyalism. In 1988 as New Zealand heads closer into orbit around Australia, we should perhaps be more muted.

The other side of 1920s Preference - the attempt to veil protectionist intentions - was the target of acid comment by B.E. Murphy in his *Outlines of Economics* (Murphy 1930, p.401):

> If Dominion preference to home industries is sufficient to exclude British imports, it is no consolation to Britain that even heavier disabilities have been imposed on imports from foreign sources of supply. To take an analogy, if you are drowned in four feet of water, what advantage is it to you that your rival is drowned in eight?

As Murphy also pointed out (Murphy 1924 pp.503-505; 1930 pp.400-401) it was difficult in the 1920s to see what Britain could be expected to give the Dominions in return for their preferential tariffs:

> Those who think that a closer federation of the Empire is desirable on political grounds usually consider that such a federation would be promoted by a system of preferential tariffs as against foreign countries ...
>
> From an economic point of view the project is open to serious objections. Since inter-empire trade has hitherto been only a minor constituent in the aggregate trade and commerce of Britain, British merchants can hardly be expected to imperil their foreign markets, on which the economic prosperity and indeed the existence of their country depend, for the sake of a somewhat intangible imperial sentiment. As, moreover, the Dominions produce for export mainly food stuffs and raw materials of industry, the only tariff that would be of any assistance to them would be one placed on such commodities, which would raise the cost of living and of manufacture in Britain, and seriously affect her competing power as an exporter of manufactured commodities. It is not easy, moreover, to see what compensating advantages would accrue to Britain from taking such a step, especially as the Dominions have adopted as their consistent and deliberate policy the fostering and protection of their own industries, not only against the foreigner, but where possible against the British manufacturer as well. The attitude of the Dominions to Britain, in asking her to imperil her industrial position by according them a preferential duty on food stuffs and raw materials imported from them into her markets, at the very time that they are striving to render themselves industrially independent, and cut her manufactures off from their markets by tariff protection of their own, is hardly one which a fair-minded man can regard with anything other than astonishment; while it is frequently overlooked that Britain has always accorded a very substantial preference to her oversea dependencies in the form of cheap capital and practically free naval defence. The policies of imperial preference and of protection to local industry are fundamentally inconsistent, in the sense that both cannot be successfully pursued at the same time.

In the early 1930s, the Great Depression radically changed the world economic landscape, and transformed the significance of British Preference for New Zealand politicians. Britain's abandonment of free trade and imposition of duties on imports from the Dominions, plus the threat of quota restrictions on British imports, abruptly opened up the possibility of substantial bilateral negotiations between Britain and the Dominions, with the Dominions seeking the same preferential status in the British market that they already accorded British goods in their own. At the Ottawa Conference in 1932, Britain granted such preferential status to Dominion suppliers, in exchange for promises of tariff-cutting by the Dominions.

3.3. Ottawa and Bilateralism

J.G. Coates, having attended the Ottawa conference as a member of the New Zealand delegation, was deeply impressed by the importance of having something to offer in any bilateral negotiation. A country with no pre-existing tariffs went naked into the conference chamber in the climate of the 1930s, when bilateral deals to sew up export markets were secured by mutual tariff reductions - possible only if the negotiating parties had significant tariffs to start with. New Zealand, having established only moderate tariffs in a period when other Dominions had adopted a more sharply protectionist stance, was relatively ill-equipped to offer major concessions at Ottawa.

At Ottawa, New Zealand's central objective had been to secure preferential access to the British market for New Zealand's primary exports. This was achieved by means of four elements in the Ottawa deal. First, New Zealand exports to the UK were exempted from the 10% so-called "revenue Tariff" imposed by the British Government in 1931. Second, many New Zealand primary products were given an increased margin of preference (generally of the order of 15%) in the British market. Third, New Zealand meat producers were given a quota to protect their share of the British market at the expense of non-Empire meat exporters. Fourth, the British market for dairy products was left open without quota restrictions. (Belshaw 1934, Chapter VI; Belshaw 1937, Chapter 14; Sutch 1936, Chapter 4.)

There was room for differing interpretations of how significant the New Zealand concessions were. An editorial in the *NZ Financial Times* (November 10 1932 pp.31-32) claimed that "New Zealand granted virtually nothing, as her tariff against Britain was negligible compared with those of Canada and Australia. Moreover the small items were in the form of a reduction in cost to New Zealand consumers of British goods. Ottawa did not cost New Zealand a penny except the expenses of the trip."

[The commentator might have remarked - but didn't - that the concentration on tariff and quota issues at Ottawa conveniently diverted attention from the effects of exchange-rate depreciation, both by the sterling area against other currencies in 1931 (Cairncross and Eichengreen 1983, Chapter 3) and by New Zealand against sterling in 1932. The large shift in New Zealand manufacturers' relative competitiveness vis-a-vis Japan and the USA as a result of these currency realignments significantly softened the local impact of the Depression.]

Ottawa notwithstanding, access for New Zealand dairy products to the UK market blew up again into a major issue in 1933 and 1934. UK dairy producers disliked the unrestricted entry of imported dairy products and agitated for a quota system which would have restricted New Zealand exports to the UK.

In the event, the British Government in March 1934 reaffirmed its commitment to unrestricted market access for New Zealand dairy products, at least until the nominal five-year expiry date for the Ottawa agreements in 1937. Meantime, however, faced with the threat of a dairy quota in the UK market, the New Zealand dairy farmers felt that it was crucial for New Zealand scrupulously to honour its side of the Ottawa accords. New Zealand had agreed to a few minor tariff concessions for British goods, and had undertaken to institute an inquiry into its existing protective duties, with an eye specifically to improving the position of British suppliers in the New Zealand market.

From the dairy farmers' point of view, however, it was crucial that the Tariff Commission inquiry should result in major tariff reductions, and that the results should come sooner rather than later, in order to provide ammunition for their fight against the proposals for a dairy quota. Belshaw summarized the programme of the dairying lobby and their allies: (Belshaw 1934, p.97):

> (1) That the quota was a pernicious form of economic nationalism
> (2) That the quota was detrimental to the future welfare of the Dominion
> (3) That the Government should take every step to maintain a free market in the United Kingdom for our produce;
>
> In order to achieve this the Government was urged:
>
> (1) To reduce the tariff equivalently to the rise in exchange
> (2) To carry out its side of the Ottawa agreements immediately;
> (3) To so improve the prospects of the New Zealand market for the British manufacturer that such a concession would obtain for New Zealand a permanently free British market.
>
> From the quota, therefore, arose a demand for lower tariffs.

Belshaw goes on to record (1934, p.98) the establishment of the New Zealand Producers' and United Kingdom Manufacturers' Free Trade Federation, and its journal "Practical Prosperity". This organisation was led by Mr Goodfellow, the Chairman of Directors of the NZ Cooperative Dairy Company Ltd, and it put sustained pressure on the Government to implement a dramatic tariff reduction.

Through 1933 and 1934, faced with the possibility that Britain might impose quotas on imports of dairy products and meat, New Zealand pastoral farmers campaigned desperately for New Zealand to abandon all tariffs on British goods in an attempt to buy the British Government off and secure export markets. (For probably the most thoroughly-researched pamphlet in New Zealand history, see for example NZ Meat Producers Board 1933.) Even the free-trade lobby, thus, had become swept into the 1930s tide of bilateral calculation.

3.4. The 1934 Tariff Revision

As already noted, at Ottawa New Zealand had agreed to set up a Tariff Commission to enquire into prevailing tariff levels and ensure that British goods were not unreasonably disadvantaged in their access to the New Zealand market. The key members of this Commision, set up in May 1933, were George Craig (the Comptroller of Customs) and B.E. Murphy (Professor of Economics at Victoria University). Gow and Pascoe, the two other members, were appointed to represent farming and manufacturing interests, and played only a minor role.

In the evidence presented to the Commission, and the subsequent Parliamentary debates, two competing interpretations of the "spirit of Ottawa" were evident. On one interpretation, levels of British preference were to be maintained while across-the-board reductions in the level of import duties were implemented. This view, to which the Tariff Commission subscribed and to which Professor Murphy's free-trade inclinations must have contributed, fitted well with the calls at the 1933 World Economic Conference for a worldwide retreat from the surge of protectionism of the late 1920s and early 1930s. The underlying objective of tariff reform, from this point of view, was to expose local industries to greater international competition, and hence to encourage resource allocation along lines of comparative advantage.

The alternative view was the strongly bilateralist imperial-preference one, according to which Ottawa had an exercise in cementing trade ties with Britain, whence tariff concessions should be restricted to Britain (and the Empire) but withheld from the rest of the world. This view was adopted by the New Zealand Government, in response to what were clearly strong political pressures. The underlying objective of tariff reform, from this point of view, was purely instrumental: tariff concessions were a bargaining counter in the negotiation of bilateral arrangements to tie New Zealand more securely into the UK market. Increased Imperial preference could be swallowed (albeit reluctantly) by economic interests who were otherwise protectionist - but as an exception to the rule rather than as the first swallow of a free-trade summer.

The Commission's report, much of which was written by Murphy, recommended reductions wherever possible in both the British and the General rates of duty - an approach which would have reduced the protection afforded to local industries while retaining more-or-less unaltered the margin of Imperial preference. The Forbes-Coates Government demurred strongly. Reductions, in the Government's view, were to be confined to the duties on British goods, while no concessions were to to be made to non-British suppliers. Table 1 below compares the changes recommended by the Commission with the changes actually implemented in the 1934 Customs Act Amendment Act.

TABLE I

The 1934 Tariff Revision: Commission and Government Positions

	GOVERNMENT DECISION								
COMMISSION RECOMMENDED:	Cut both	Cut British	Cut General	Retain both	Raise both	Raise British	Raise General	Other*	TOTAL
Cut both	25	99	-	5	1	-	4	-	134
Cut British	-	6	-	1	-	-	1	-	8
Cut General	-	-	-	4	-	-	-	-	4
Retain both	-	2	-	477	-	-	1	-	480
Raise both	-	-	-	2	6	-	1	-	9
Raise British	-	-	-	-	-	-	-	-	0

Raise General	-	-	-	1	-	-	10	-	11
Other*	-	-	-	-	-	-	-	1	1
TOTAL	25	107	1	490	7	0	16	1	647

Recommendation (accepted) to raise the British and cut the General rate on ground maize.

Sources: Pre-1933 tariff rates taken from 1931 edition of *The Customs Tariff of New Zealand.* Commission recommended rates taken from Report of the Tariff Commission, *AJHR 1934* H-28, Appendix B. Government decisions are the rates in the Schedule to the Customs Acts Amendment Act 1934.

The New Zealand tariff nomenclature which the Commission was asked to revise comprised roughly 450 item headings, many of which were broken down into a series of sub-headings. Working through the Commission's recommendations, and comparing the rates given there with those in the Tariff as of 1931, we identified 643 specific recommendations. Of these, 164 recommended retention of duty-free access, 161 recommended retention of the status quo of duty-free British access and a positive General tariff, and 155 recommended retention of the existing levels of (positive) tariffs. These no-change recommendations make up 480 (three-quarters) of the total, and partly reflect the fact that the New Zealand tariff rates on many items were already low by international standards. Of the remaining 167 items the Commission recommended across-the-board reductions in tariffs on 134.

Comparing the 1931 Tariff and the 1934 Commission recommendations with the new schedule enacted in the 1934 Customs Acts Amendment Act, it appears that of the Commission's 480 no-change recommendations, all except three were accepted by the Government. (In these three cases the Government decided instead to widen the British preference margin. On two items - table chinaware and shotgun pellets - the British rate was reduced while the General rate remained unchanged; and on clay pigeons the General rate was raised while retaining free entry for British goods.)

Of the 134 cases in which the Commission proposed reductions in both British and General rates; the Government accepted only 25. In 103 of the 134 items Government opted instead to widen the British preference margin, by either cutting the British or raising the General rate. Of the 8 items where the Commission recommended a cut in the British rate alone, the recommendation was accepted for 6, and an equivalent result (raising the General rate) adopted for a seventh. Similarly, all but one of the 11 recommendations for raising the General rate were accepted. All of the four recommendations to cut the General rate only were rejected. Only on one item (ground maize) did the Commission and the Government agree on reducing the British preference.

In short, the Government departed substantially from the spirit of the Commission's recommendations. Coates did not share Murphy's view of the intrinsic virtues of free trade. Rather, he saw the tariff revision exercise as a matter of making the minimum concessions required to keep the "spirit of Ottawa" alive, while keeping enough tariffs in place to provide a bargaining lever on, e.g., Japan and the United States. In his statement to Parliament on the subject, Coates signalled his decision to change the thrust of the tariff revision (*AJHR 1934* H.28A pp. 2-3):

> The recommendations of the Commission are accepted by the Government - that is to say, they are accepted not finally and in all details as submitted, but as the basis of the Government's decisions; and our view has been that only on the clearest and most substantial ground should there be any departure from the letter of the recommendations of the Commission.
>
> Having said this much, and lest there be any misunderstanding, I should remind the House that the Commission was set up, in the words used in the formal instrument of its appointment, -
>
> > "*To inquire* into the Customs Tariff of New Zealand, *and to recommend for consideration by the Government* any alterations therein..."

> These words make clear the nature of the responsibility that was entrusted to the Tariff Commission. They were to *inquire* and to *recommend* . Final responsibility for altering the tariff was not conferred upon the Commission. It was retained by the Government - it was retained, that is to say, by Parliament.
>
> New Zealand has not adopted, and we do not propose to adopt, the procedure that has been followed in certain countries, whereby control of the tariff rates is vested in a Tariff Board. Our view is that final responsibility should remain with the legislature....
> ....
>
> It is impossible to consider the tariff without having regard to world conditions and the alterations which have taken place during recent years in the commercial and economic policies of the United Kingdom and the other principal trading nations of the world. The most striking characteristic is the development of a policy of nationalism based on the idea of more self-sufficiency. With this object in view, one nation after another has adopted devices by which trade is regulated to a much greater extent than obtained before the period of world depression...
> ....
> For the purpose of the Tariff Commission's report it was, of course, impossible that they should foretell the future course of events. They could not, any more than any of us can, safely assume that this or that change will be permanent. Instead, they did the useful and honest thing ... of making perfectly clear and explicit to themselves and to others the assumption on which the report is based, and it is the simple assumption that international trade will return to substantially its former condition.
>
> It is well that this assumption should be made clear. And it is important to say that its corrollary is that, to the extent that it does not prove to be warranted, we may, and indeed must in some instances, review some specific recommendations.

Coates' line, in fact, was explicitly one of bilateral concessions, and his reluctance to countenance any unforced reductions in the General rates of duty rested on the simple fact that bilateral trade agreements had not been reached with "foreign" partners. As he put it in the body of the debate (*Hansard* July 18 1934, pp.558-559):

> We cannot carry on negotiations with any country until we have fixed our tariff schedules. There are many items in the general tariff which are due for reduction, and should be reduced, but it is felt ... that we should leave the general tariff almost undisturbed, for one reason only - namely, that as it is necessary to find markets for much of our exportable produce, it should be retained as a bargaining point, as the best interests of the Dominion might be served by making trade agreements wherever possible with other countries. There are many who do not agree that it is possible for New Zealand to enter into separate trade agreements. The Government think it is, and, indeed, the time has arrived when much of our trade, for a time at least, will depend on the possibility of being able to make trade agreements with other countries. Sir, if honourable gentlemen will carefully scrutinize the items in the preferential and general columns of the tariff, it will be seen that there is ample room for satisfactory negotiations...
>
> ...[W]e must see how far we can go with trade agreements. Many people think that these trade agreements can be effected in five minutes. The negotiations ... are almost endless. We have been trying, as honourable members know, to get to a point at which we can negotiate with the United States of America. Some honourable gentlemen complain about the tremendously high duty on American motor-cars - 73 $^{1}/_{2}$ per cent. I quote that only as an illustration. I think we should leave the duty there with a view to seeing whether we cannot bargain for the admission of some of our own goods to the American market, in order that we may get our tariff on to a more satisfactory basis. There are some who say that we should not bother about that. But it seems to me that people will not take a great deal of notice of one unless one has some definite point which he can use as an inducement for them to consider the purchase of some of his goods.

The following year the Government changed, but the tariff did not. The new Labour regime left the 1934 tariff untouched, and there does not appear to have been any consideration of a possible set of tariff increases for either protectionist or macroeconomic reasons. The Labour approach to trade lay in another direction, clearly signalled by M.J. Savage in the 1934 debates (*Hansard* July 17 1934, p.429):

> I would not care if there were no protection at all in the way of tariff if there were something in the nature of definite agreements, and if the Government were master of really what was to come in and what was to go out. That seems to me to be a simple principle whatever details may be necessary to give effect to it. I do not think the difficulties would be insurmountable. If the importers were licensed to import the things we thought we needed instead of their importing the things they thought we should have, we would be getting down to the realities and commonsense of the new order, because in the finish, whatever we do with the tariff, we will still be moving blindly.

4. Murphy's Views on Protection.

4.1. Support for Free Trade and Globalisation

To Murphy, the international spread of economic nationalism represented an abandonment of rationality. He did not, however, enter into debate on the 1934 tariff legislation, nor publicly criticise the government's decisions. As a lawyer, Murphy saw Parliament as the body with responsibility for making the laws as they saw fit; and if the elected representatives of the people wished to endorse a bilateralist strategy, they were entitled to do so. Neither in the 1935 edition of *Outlines*, nor in his *New Zealand Financial Times* column, do we find Murphy taking issue with the adopted policy. Only hints are to be found - such as the presumably-well-informed remark by a stand-in for Murphy's "Scrutator" column (*NZFT* September 10 1934, p.532) that

> ... it is not without significance that the Commission, possibly to placate its academic member, expressly declines to offer an opinion as to the desirability of entering into such a treaty [as Ottawa]...

We can, however, trace the evolution of Murphy's own ideas on trade and protecion by a survey of his main writings.

Murphy was, throughout his life, a proponent of free trade and a caustic critic of economic nationalism. At the same time he accepted various specific arguments for protection in certain cases. Similarly, he was a strong proponent of market capitalism and an enemy of socialism (especially in his later years); but conceded absolutely the electorate's right to vote in socialist governments if they wished. Thus stated, his views were altogether orthodox, in the sense of embodying the balance of normal textbook wisdom.

Murphy's liberal philosophy is summed up in an article he wrote in 1946 ("Problems of World Trade - V", *NZFT* July 10 1946 p.290):

> To those of us who are old enough to remember 19th century traditions when they were living realities, and who imbibed in youth its liberal philosophy in Economics and Politics, the present world outlook appears disturbing and disappointing. We were led, rightly I think, to regard the 16th century as marking the victory of reason in religion, the 17th century as the period of the triumph of reason in politics, and the 18th century as that of the application of reason in economic life. We felt that the 19th century was reaping the fruits of this preceding triple victory, which would be carried forward with increasing advantage to mankind. Now, however, the plant which appeared to be reaching youthful maturity a century ago has withered, and, if not actually dying, is badly blighted. Our confidence in the inevitability of human progress has been shaken.

Murphy's consistent advocacy of moves towards freer trade whenever an opportunity seemed open is exemplified by his comments on the 1937 Nash mission ("The Mission of Mr Nash", *NZFT* May 1937 p.350):

> An urgent requirement of the world today is to unfetter trade, and not constrict it further. No countries in the world stand to gain more by the widest possible extension of international trade than do the United

> Kingdom and this Dominion. If Britain wants to lead the way to freer conditions she must set an example herself; and if she wants to take the sting out of the demands of various land-hungry Powers for colonial possessions, she must avoid the very appearance of utilising her own Empire as a close preserve.

The basic recipe for Murphy commentaries on protectionism, however, is pragmatic rather than doctrinaire. The 1924 first edition of *Outlines of Economics* was confident that "as a purely economic question decided on purely economic grounds the case against protection is overwhelming" (Murphy 1924 p.502), and that protection could be justified, if at all, only on nationalistic political grounds.

In setting out the economic case Murphy conceded that "it is quite possible that what might be a gain to the world in general might involve a loss to a given nation, and statesmen can hardly be blamed, in the present condition of international relations, for limiting their vision to the protection and advanacement of the interests of their own countries" (1924, p.496), but he then went on to consider under nine headings the "principal protectionist contentions", rebutting each of them in turn. (1924, pp.496-502). Most of the nine are straw-man arguments, easily rebutted. The only three in Murphy's list with any strength are the argument for diversification as a concomitant of development; the argument for reaping economies of scale, and the infant-industry argument.

In response to the first Murphy appealed to market forces: (p.498)"The tendency to variation under the influence of competition and the desire for profit will inevitably produce such measure of economic diversification as is desirable and advantageous. Apart from this natural variation, mere variety for its own sake is no advantage". Efficiency arguments [though not the economies-of-scale version itself] were dealt with equally summarily (p.499): "Protection does not in practice usually lead to industrial efficiency or the adoption of improved processes, since it causes entrepreneurs and manufacturers to rely for their profit on the advantages conferred by the tariff instead of upon progress in technique and organisation"; furthermore, "Protection ... does not create additional national industries, it merely diverts the labour and capital of the community from one avenue of employment to another" (p.500).

The main thrust of Murphy's critique, however, was directed at the infant-industry case, which he described (p.500) as "theoretically valid, subject however to certain limitations which deprive it of much significance". The limitations are the difficulty of picking winners in advance, and the need to be sure that the later net social gains will outweigh the early losses, together with an appeal to real-world experience to show that infant industries never grow up, and face instead incentives towards inefficiency and monopoly. Taken together, in Murphy's 1924 view, these constituted grounds for rejecting this argument for protection.

Finally, conceding possible national-security grounds for protection (1924, p.502), Murphy emphasized (1924, p.503) that subsidies rather than tariffs should be used to support strategic industries, and stated that (1924, p.508) "while for reasons of national security or for general political considerations [free trade] may be departed from, this departure always involves some economic loss, thus constituting a presumption against the protective system".

The case for using tariffs for retaliation or bilateral negotiation also received short shrift. (1924, p.507). "If a free trade policy is suited to the circumstances and ideals of a particular nation, the mere fact thgat it does not suit the circumstances and ideals of another nation is no ground for its rejection; while in most cases it has failed when adopted and employed merely as a weapon of retaliation.."

Between 1924 and 1930 Murphy's views, as set out in his textbook, shifted towards some disillusionment with free trade and a more conciliatory approach to protection.

The 1930 edition saw the addition of the following passage on dependence (Murphy 1930, p.386):

> International trade has some ... disadvantages. It may sacrifice the interests of the future to those of the present; and , as is the case with New Zealand, may denude the land of natural fertl]ility or irreplaceable raw marterials and minerals... By over-developing sdome industries, further, international trade may make the prosperity of a country dangerously over-dependant on world conditions which she cannot control, as is seen by our dependance on the British market; and broadly, like all extensions of specialisation, it introduces a delicacy of structure and operation that is not present in less specialised conditions. New Zealand, because of its excessive dependance on foreign trade, is very sensitive to movements of the trade cycle initiated from abroad.

The 1930 edition (p.393) also gave more sympathetic presentation of the economies-of-scale argument, now subsumed under the infant-industry heading, and recognised that "social" as well as "political" [i.e. national-security] grounds could justify the use of tariffs (1930 pp.398-399; cf 1924, p.502), albeit Murphy still saw the use of tariffs as a zero-sum reallocation of resources (1930 pp.394-395):

> If under the shelter of a tariff we make locally what, in the absence of the tariff, we should have imported, then we are diverting our labour and capital from more efficient avenues of production to less efficient avenues. A tariff obviously cannot create new industry; that can be done only with labour and capital; and a tariff does not increase the amount or efficiency of our labour and capital, it only redistributes it, with friction, waste, and loss in the process... Imports of capital induced by tariff privileges cost much more than they are worth... The tariff cannot increase the sum total of available employment in a country. It can create additional employment at some points, but only at the cost of reducing employment, or preventing it from expanding, at some other points. All the tariff can do is to favour some industries, and some workers, at the expense of others. The attempt to give "all-round"

> protection is a contradiction in terms. It turns into a mere sordid political scramble of sectional interests to impose burdens on one another...

[These firmly pre-Keynesian sentiments remain in the 1935 edition (Murphy 1935, pp.402-403).]

Most important of the alterations to the 1930 edition, however, was the introduction of a new section recognising that the prior existence of a tariff conferred a property right which should not lightly be withdrawn (1930 p.398; also 1935, pp.406-407):

> Perhaps the strongest practical argument for a protective tariff is that it exists, and has created a situation that must be met. The vested interest argument is one that sensible people cannot ignore. If a community has allowed industries to grow up under tariff protection, on the reasonable expectation that protection will continue to be extended, such industries are entitled to the continuance of at least that measure of protection, and it should not be withdrawn, if at all, except after proper notice. Capital has been invested and labour employed on the supposition that the status quo would be maintained, and to interfere with legitimately formed expectations would disturb economic conditions and perhaps produce a collapse in the national economic life. This raises the difficult problem of what should be done when, under a tariff imposed solely for revenue purposes, but which must necessarily create incidental protection, firms grow up in circumstances in which they cannot exist but for the duty on foreign competing imports. In all cases, however, there should be close and continuous review of the industrial situation by a competent authority, and the onus should lie on the firms concerned to prove that they really need the continuance of the duty, and are not relying on the tariff rather than their own efficiency and enterprise for their profits. The difficulty is that what is adequate protection for one firm in an industry may not be necessary for others, and may be insufficient for still others. What firms are to be protected, the most efficient, those of average efficiency, or the marginal firms? Protectionists seldom squarely face this issue. It is not in the public interest that inefficient marginal firms should be saved by a tariff from extrusion by their more competent rivals.

The last sentence, of course, undercuts the entire argument of the beginning of the paragraph; indeed the last three sentences are really a *non sequitur* whose inclusion weakens the thrust of the case, which may indeed have been Murphy's intention. One suspects that while the lawyer in him found the property-rights view of the tariff compelling, the economist in him was apalled. Nevertheless, when confronted with the opportunity to participate directly in the formation of tariff policy, Murphy used the property-rights view as a basis for gradualism in pursuing tariff reduction. In the 1934 Tariff Commission report, drafted by Murphy, we find the following (*AJHR* 1934 H-28 pp.13-14):

> Perhaps the strongest practical argument for a protective tariff is that it exists, and has created a situation that must be met. If a community has allowed industries to grow up under tariff protection, on the reaqsonable expectation that protection will continue to be extended, such industries are entitled to a continuance of a measure of protection, and it should not be withdrawn, if at all, except pursuant to a considered policy.
>
> As Salter says:
>
>> "When the economic life of a country has been built on a basis of tariffs, it creates a situation which makes radical reform almost impossible. It is not just a matter of a few vested interests (as it is when new tariffs are first proposed): for a vast capital expenditure has been incurred which, if the basis were removed, might be largely lost. A mass of population has become trained and specialized in certain occupations, which they cannot easily change. A national psychology inimical to reform has been created. A prospect of greater but uncertain prosperity is weakler than the apparently certain loss of something already possessed." (Salter, "Recovery", p.178.)
>
> The same point is made by Taussig:
>
>> "... No rational person, even though he were the most radical free-trader, would propose to abolish at one fell swoop protective duties to which a great industrial system had accommodated itself. We may not like the result, but it

> is there, and not to be suddenly modified without widespread loss. Moreover, those engaged in the industries may plead with weight that they have entered on their operations with the sanction of the Government, nay, with its direct encouragement, and that the Government cannot in justice leave them in the lurch." (Taussig, "Free Trade, the Tariff, and Reciprocity".)

> Subject to these considerations, protection already granted should, we think, be the subject of periodic investigation, with a view to determining, in the case of each industry:-
>
> (1) That the protection is still needed;
> (2) That a tariff is the best and cheapest way to give it;
> (3) That the protection granted is not excessive;
> (4) That the industry is efficiently managed;
> (5) That the industry is suitable to New Zealand conditions; and
> (6) That the protection granted is not unreasonably injurious to other interests.
>
> An industry requiring continued protection is asking an economic favour from the State, which has the right and is under a duty to its citizens to determine the conditions under which the privilege shall be granted.

Confronting squarely the problem of industries protected incidentally by revenue tariffs (cf the quote above from Murphy 1930) the Commission was at pains to limit the applicability of this "vested-interest" doctrine to cases where the industry concerned had been explicitly protected in the past. This filled an obvious loophole in the *Outlines* passage. They stated (*AJHR* 1934 H-28 p.7):

> Some of the duties levied in New Zealand are clearly of a purely revenue type, since they are imposed upon goods not produced in the Dominion; while some others are primarily designed for protective purposes, and are substantially effective for this purpose. Many duties are in practice of the dual-purpose type, bringing in revenue and conferring incidental protection. In this way our revenue tariff in the past has led to the establishment of certain industries which have sheltered themselves in the protective vacuum incidentally created by a duty the primary purpose of which was revenue rather than protection.

> We think it should be made clear as a matter of future policy that the benefit of the so-called "vested interest" principle will enure only for those industries which come into existence under a tariff primarily and deliberately designed for protective purposes, and that industries which come into existence fortuitously, under the protection of duties primarily designed for revenue purposes, or as a result of currency depreciation, or otherwise, have no claim on the community in the event of the accidental protective factors upon which they have depended being eliminated. This is a matter of considerable practical importance, because it appears that New Zealand will continue to rely very largely upon Customs duties for revenue purposes.

The best way to characterise Murphy's position on protection is probably pragmatic conservatism. Even in his most free-trade phase (the 1924 edition of *Outlines*) he conceded the theoretical possibility of infant industries, scale economies and strategic industries, and based his anti-protectionist case on a careful weighing of arguments for and against, plus an appeal to everyday experience as showing that governments were prey to vested-interest lobbying and that a system of protectionist tariffs opened the door to an unproductive scramble for advantages. He adhered, thus, to the 1920s version of what we now know as the "rent-seeking" model of Krueger and Buchanan. This position was strengthened in the 1930 edition of *Outlines* (Murphy 1930, p.397):

> Protection ... may also cause the manufacturer to look for his profits to political angling for tariff favours rather than to technical efficiency. Trades once protected imagine themselves sacrosanct, and entitled to shelter from any change that may interfere with their present privileges. Protection thus becomes a blind scramble for the maintenance of the status quo, and an enemy to industrial progress.

As a pragmatist, however, Murphy recognised that a doctrinaire stance for free trade simply flew in the face of reality. "Economic liberalism went into cold storage with the first world war, and the time is not ripe for its emergence" he wrote in 1946

("Problems of World Trade - II", *NZFT* May 10 1946 p.224); and in any case protectionist policies, however misguided, were not fatal:

> [P]ast experience shows that it is possible to exaggerate the importance of trade policy, since important nations have lived and prospered side by side under policies of relatively liberal tariffs and trade policy on the one hand, and relatively high protection on the other.
>
> ("Problems of World Trade - II", *NZFT* May 10 1946 p.188)

> Experience seems to prove that the world can adapt itself to any trade policy, even when such policies are restrictive and opposed to the long-run interests of the consumer.
>
> ("Problems of World Trade - V", *NZFT* July 10 1946, p.290).

Faced with New Zealand's adoption of import and exchange controls at the end of 1938, therefore, Murphy was phlegmatic, while sounding the standard orthodox warnings. (He seems to have abandoned by this time the confident message from *Outlines* (all editions) that unilateral free trade was a viable strategy in a protectionist world.)

> It is a pity that this rigid and intricate network of inhibitions on world trade and commerce has come into existence; but we have to live in the world as we find it, and not as we should like it to be. To a great extent, in matters of this kind, we must do as others are doing. Trade restrictions, like monopoly and the measles, are highly contagious diseases, and the adoption of a restrictive policy by one powerful country in a measure forces others into like courses in self-defence.
>
> Nobody disputes that if the world were under a regime of free trade ... the average return to human effort would be greater and the average standard of living would be higher than under a protective system. This, however, is quite an academic point, and always has been. Politically and economically the nations of the world grew up in relative isolation, and industry and populations have for centuries been distributed on a basis of restricted trade and protected markets, and not on a basis of free trade and maximum world

production. The major disturbance which would result from a sudden and drastic removal of these barriers cannot be contemplated as a practical policy in a world moving back steadily towards medieval isolation.

It would be decidedly unsafe for New Zealand to go on blindly increasing its export surplus of primary products. We are living in a world in which there are already too many farmers, and in which the world surplus of animal and vegetable raw materials tends normally to exceed effective demand. ....Too great dependence ... on the export of commodities so liable to violent oscillations of price disturbs our national economy to no small degree and leads to all sorts of wild-cat guarantee nostrums that are sources of disturbance and instability in our public finance.

The most effective insurance against these risks (and some of them are not risks but certainties) is a more balanced economic life, and that means a greater measure of industrial production within the Dominion. We shall have to pay the price for this policy, but you can't get insurance without paying a premium. A policy of manufacturing expansion should, it is submitted, be a relatively non-contentious issue, but there is room for considerable differences over details, procedure and priorities in carrying it out. Just as the Government describes its import policy as one of selection, it will have to be equally selective in its programme of industrial expansion.

This question will demand much thought and investigation. It cannot be solved by Ministers of the Crown making goodwill visits to factories, watching the wheels go round, and having their boots kissed (metaphorically) by obsequious manufacturers, and their faces kissed (literally) by enthusiastic female employees....

Remote as we are from great manufacturing centres, and sluggish and unenterprising as we may be in economic life, there is a real danger that our restrictive policy may isolate us not only from industrial competition, but from industrial improvement as well.

We shall also have to pay the price in the form, initially at least, of poorer goods in many lines (but not in all) at a higher real cost. We may have to reorganise our taxation system, and we may have difficulty in securing the capital necessary for rapid industrial expansion. We shall have to see marginal land going out of production without too much dismay, and we may

> bump up against unexpected reactions in popular psychology by colliding with the traditional freedom of consumers' choice.
>
> ("Our Industrial Growing Pains", *NZFT* June 1939 pp.836 & 842.)

> [Under protection] we must get our commodities, in many instances, at a higher real cost than if we import them. Whether we should do this or not is a matter of general policy upon which an economist, as such, has no special authority to speak.
>
> ("Our Secondary Industries: Limitations of the New Economy", *NZFT* February 1939 p.676.)

With this background, Murphy's position on the 1934 Tariff Commission becomes readily understandable. While sceptical of all claims for protection, he felt bound by precedent to maintain protection once granted (while aiming for the bare minimum required). His aim was therefore to cut tariffs where possible and to resist increases when these were proposed. Given that the power of precedent was a major underpinning of the tariff structure, he did not press hard for a radical simplification or restructuring of the tariff, despite token recognition in the Report of the virtues of simplicity, more ad valorem tariffs, and so on. Murphy's contribution to policy advice was captured perfectly by M.J. Savage's plaintive complaint in the Parliamentary debate on the Comission report: (*Hansard* 1934 p.429):

> The Commissioners agree that industries should be developed in New Zealand. Then they make recommendations for the reduction of protection.

4.2. Murphy on British Imperial Preference.

Given his predilection for free trade as a basic principle, it is not surprising to find Murphy sceptical of British Preference. This theme remained consistent throughout his writing from the 1924 edition of *Outlines* on. He had three main criticisms to offer of the notion, as it was conceived of in New Zealand. First, while a secure bilateral relationship with Britain might well be in the interests of New Zealand and similar Dominions, it was not in Britain's interest - both because Britain depended on a wider world market, and because the Dominions were busily industrialising and thereby pushing British manufactured goods out of their markets. Second, there was a fundamental contradiction between protection and Preference. Third, any bilateral arrangement which moved the world as a whole away from free trade represented a loss for the world as a whole.

The 1924 edition of *Outlines* set out Murphy's views in the following terms (1924 pp.503-505):

> Protection is at the present time being advocated in the form of a Customs Union of the constituent members of the British Empire. Those who think that a closer federation of the Empire is desirable on political grounds usually consider that such a federation would be promoted by a system of preferential tariffs as against foreign countries, and cite in support of their opinion the analogies of the United States and the German Empire, the political consolidation of which was greatly facilitated through a customs union. ...
>
> From an economic point of view the project is open to serious objections. Since inter-empire trade has hitherto been only a minor constituent in the aggregate trade and commerce of Britain, British merchants can hardly be expected to imperil their foreign markets, on which the economic prosperity and indeed the existence of theirn country depend, for the sake of a somewhat intangible imperial sentiment. As, moreover, the Dominions produce for export mainly food stuffs and raw materials of industry, the only tariff that would be of any assistance to them would be one placed on such commodities, which would raise the cost of living and of manufacture in Britain, and seriously affect her competing power as an exporter of manufactured commodities. It is not easy, moreover, to see what compensating advantages would accrue to Britain from taking such a step, especially as the Dominions have adopted as their consistent and deliberate policy the fostering and protection of their own industries, not only against the foreigner, but where possible against the British manufacturer as well. The attitude of the Dominions to Britain, in asking her to imperil her industrial position by according them a preferential duty on food stuffs and raw materials imported from them into her markets, at the very time that they are striving to render themselves

> industrially independent, and cut her manufactures off from their markets by tariff protection of their own, is hardly one which a fair-minded man can regard with anything other than astonishment; while it is frequently overlooked that Britain has always accorded a very substantial preference to her oversea dependencies in the form of cheap capital and practically free naval defence. The policies of imperial preference and of protection to local industry are fundamentally inconsistent, in the sense that both cannopt be successfully pursued at the same time.
>
> .... The needs, products, and stages of economic development of the constituent members of the British Commonwealth differ so radically that a practicable tariff to reconcile their various interests could hardly be devised or administered; while the jealousies and claims for differential treatment arising out of it would breed such bad feeling among the members as to destroy or at all events seriously to impair the measure of imperial sentiment now subsisting. Imperial unity must, like all the greater things of life, be based on some firmer foundation than a bargain among competitive hucksters.

The 1930 edition strongly reaffirmed Murphy's scepticism, adding the following (1930, p.401):

> Geographically and historically Britain is part of the European system, and notwithstanding the present vigorous agitation to the contrary, it is not probable that she will sacrifice the advantages of that position, as she necessarily must do if she enters into an Empire Customs Union....
>
> There is not the slightest probability of the formation of an effective Empire Customs Union. Britain will not tax her food and raw materials, and the Dominions want to build up large manufacturing industries. An Empire Customs Union would require a reversal of policy on both these points, and that can be ruled out even as a remote contingency.

Faced with the Ottawa Conference of 1932, Murphy was sceptical. In his "Scrutator" column he wrote (*NZFT* July 11 1932 pp.7 & 10)

> ... it is unfortunate that excessive expectations and extravagant hopes have been founded on the outcome of this conference... It is of course possible

> that Ottawa may in the retrospect prove to have been of crucial importance; but if so, it will differ materially from every Imperial Conference, and every International Conference, that has been held in the last generation...
>
> ... If [the conference] pursues an idea of intra-empire trade bonds it will follow a delusive mirage and get nowhere, in spite of passing many pious resolutions incapable of specific application.

The Ottawa agreement having intervened, Murphy's 1935 edition perceptibly shifted its ground to take account of new developments, without abandoning his view that Imperial Preference flew in the face of Britain's real economic interests (1935 p.409-411):

> ... British manufacturers can hardly be expected to imperil their foreign markets, on which British prosperity has so long depended, for merely sentimental reasons. This type of objection has however lost some of its weight in recent years, because the volume and value of intra-Empire trade with Britain has tended relatively to expand, while foreign markets for British manufactured goods have shrunk as the result of the spread of policies of Economic Nationalism.....
>
> ...The Dominions produce for export mainly foodstuffs and the raw materials of industry, so that the only tariff that would be of material value to them is one that would tend to raise the cost of living and of manufacture in Britain, and seriously affect her competing power as an exporter of manufactured commodities. It is true that at present Britain seems disposed to take some risk in this direction, in view of present restrictive trends in world trade, but it is not probable that she will proceed much further along this path. To the extent that British farming interests require protection, moreover, they need it just as much against producers in the Dominions as against producers in foreign countries, and this is an additional complication.
>
> If Britain places obstacles of a too serious character in the way of imports from foreign countries in which, in the past, she has made heavy capital investments, South America for example, she will run the risk of losing

> both capital and interest on these investments, since payment can be made only by export of raw materials and foodstuffs. If moreover Britain excludes foreign raw materials in favour of the produce of the Dominions, these foreign raw materials will be forced into foreign markets at lower prices, and will thus lower industrial costs of production in favour of Britain's trade rivals, and further handicap her products in the markets of the world.
>
> It is not likely that an effective Imperial Customs Union will be formed. Britain is not likely to imperil further her international competitive power, or shut herself off from foreign sources of supply, while the Dominions are likewise not likely materially to reverse their existing policies of protecting local manufactures.

The idea that Preference and protection were mutually contradictory was the real core of Murphy's critique of Preference. As he put it in his 1930 edition (Murphy 1930, p.401)

> If Dominion preference to home industries is sufficient to exclude British imports, it is no consolation to Britain that even heavier disabilities have been imposed on imports from foreign sources of supply. To take an analogy, if you are drowned in four feet of water, what advantage is it to you that your rival is drowned in eight?

The point was one to which Murphy returned repeatedly - for example ("Problems of World Trade - IV", *NZFT* June 10 1946, p.259):

> [T]wo old lions still stand in the path [of Empire Preference] and they are the interests of the British farmer and the Dominion manufacturer. If British farming needs protection, it needs it just as much against the New Zealand farmer as against the foreign farmer; and of course, the only items on which we seriously desire or need preference in the British market are farm products. On the other hand, the Dominions have advanced far in the process of industrialisation, and Canada and Australia are, and will remain, important manufacturing nations. Their manufacturing industries are considered to require protection as much against Britain as against foreign competition.

> This brings us to the core of the difficulty inherent in Empire preference. It is not possible simultaneously to pursue an effective policy of protection to home farming and industry, and at the same time a liberal system of Empire preference. As far back as 1897 Chamberlain put his finger on the weak spot, when he said something to the effect that as long as Dominion tariff duties were high enough to exclude British goods in favour of home production, it is no advantage that even greater disabilities have been imposed on foreign sources of supply. If you are drowned in four feet of water, it is no consolation that your competitor is drowned in eight.

It is possible to appreciate Murphy's point, while still feeling that something important is missing from his account. Condliffe observed in 1930 that (1930, p.424)

> Canada had established the principle of imperial preference in 1897... In 1903 New Zealand followed Canada's lead, and at the next revision of the tariff in 1907, went further still along the line of imperial preference.
>
> There has been undue magnification of the importance of this gesture. It is true that foreign goods are in many cases charged higher rates of duty than British goods; but this has not meant any reduction of the rates on British imports, but merely an addition of extra duties on those of foreign origin. An inspection of the tariff makes it difficult to resist the conclusion that the reason for the additional duties has been the fact that foreign imports threatened a local industry quite as often as the feeling that that they interfered with British imports. In other words, imperial sentiment has sometimes been used as a stalking-horse for local protection.

Murphy's mental image of the world economy seems to have been a general-equilibrium model in which the Law of One Price held, so that a uniform "four feet of water" would either suffice or not suffice to exclude British and foreign goods alike. If the duty rate on British imports provided protection for local industry from British goods, then it equally protected it against foreign goods, and the additional duties on foreign goods were redundant. If the British duty rate did not provide protection, then exclusion of foreign goods by the higher duty rate implied no relief for local producers, who remained exposed to British competition. Murphy's "fundamental contradiction" between preference and protection thus rested upon the twin foundations of the law of one price and the assumption that British and "foreign" goods were perfect substitutes for each other.

Condliffe's story, in contrast, envisages a protective effect arising from additional duties on "foreign" goods even with the duty rate on British goods remaining unchanged. This clearly implies that British and non-British goods were not perfect substitutes, so that a higher duty on foreign goods would raise the local price, benefiting both local and British suppliers of competing goods. Under these conditions, a substantial degree of overlap between "preference" and "protection" was possible. The real issue is the shifts in relative competitiveness amongst various trading partners in a period when tariff policy changes occurred against a wider background of exchange-rate changes. In the final section, therefore, we attempt to sketch some of that wider picture and to fit our tariff story into it.

5. Postscript: Tariffs, Exchange Rates, and Competitiveness

At the heart of most twentieth-century debates over tariff policy lies the relative competitiveness of traded-goods producers in the local economy. In a country where tariffs were moderate by international standards, with rates above 60% only for alcohol and tobacco products, exchange-rate changes of the magnitude experienced in the 1920s and 1930s had an impact on relative competitiveness at least as great as (and probably greater than) changes in the tariff structure. Murphy was a believer in stable currencies and an opponent of exchange-rate devaluation as a means of securing competitiveness, but he was very much in a minority both professionally and politically in the New Zealand of 1932.

Given that the really important problem for New Zealand farmers and manufacturers was to gain and hold markets for their products, the twin obstacles which they faced were first, to maintain price competitiveness, and second to overcome other countries' protectionist barriers - especially the quotas of the 1930s. Tariff changes could perform the function of compensating, to some extent, for the effects of shifting exchange rates in a world in which the New Zealand currency was tied to sterling - at par until 1930, and at a discount from 1932.

One interpretation of tariff policy in the 1920s and 1930s would thus be that as the pound sterling moved back towards its Gold Standard par by 1925, New Zealand's competitiveness vis-a-vis Britain and other sterling-area economies remained unchanged, but competitiveness vis-a-vis other economies - notably the USA, Japan, and Continental Europe - was eroded. The increases in General tariffs in the 1920s served to compensate for this real-exchange-rate appreciation by leaving unchanged the tariff on British (sterling-area) goods but tightening-up on imports from non-sterling-area suppliers. In the 1930s, the 1931 devaluation of the pound sterling and the (Australia-driven) premium on the New Zealand pound, followed in 1932 by New Zealand's formal devaluation against sterling, gave local traded-goods producers a massive competitive gain against US and Japanese producers, as well as against British imports from 1932. Exchange-rate devaluation thus allowed tariff protection to be scaled down because existing traded-goods producers in New Zealand were not under pressure in terms of their price competitiveness. These tariff reductions, of course, performed a useful function as bargaining levers to offset the other major problem of quotas and tariffs imposed by other countries against New Zealand goods.

From 1932 on, in summary, because of exchange-rate devaluation New Zealand could well afford tariff cuts so long as they could be traded-off against increased (or at least, not reduced) market access overseas. Experience in the period 1925-1935 convinced New Zealand's policy-makers of the dangers of excessive reliance on primary-product exports to a single market, and the benefits from increased economic diversification and self-reliance - all themes signaled well in advance by the 1919 Industries Committee Report. The unswerving British loyalism of Massey and the more calculating British-New Zealand bilateralism of Coates gave way in the late 1930s to growing irritation with Britain in matters of trade and finance, and a change of strategic focus away from British Preference towards a more deliberate and undiscrimminating mercantilism, for which the 1938 import controls and the Second World War provided the launching pad.

It might be argued that periods when preferentialism is a central priority for politicians and officials will tend to be periods when tariffs are more appropriate than quantitative restrictions; this was the case with British Preference from 1903 to 1938, and seems likely to be the case again now that Australian (and Canadian?) Preference is in favour. In both cases the objective was/is to establish long-run, predictable, non-discretionary measures recognisably favouring the main trading partner(s), with a clear eye to expanding New Zealand's exports to that market.

In the intervening period (roughly 1938-1980) when it was difficult or impossible to "pick winners" amongst our trading partners and when the USA was the dominant force in the world marketplace, the less discrimminating but more discretionary instrument of import licensing was used to pursue goals other than trade reciprocity. Although the import licensing system introduced from 1938 embodied elements designed to favour British goods, this aspect of licensing was of diminishing importance in practice.

It may be that the introduction of licensing in 1938 had more to do with restructuring the New Zealand economy and sustaining a high-wage full-employment enclave economy in the Pacific than with the much-touted foreign-exchange crisis of 1938, which provided the opportunity rather than the motive. The permissive factor of most importance was New Zealand's effective abandonment of tariff policy as a key means of securing export markets, and the switch to a strategy of geopolitical bilateralism which bartered political/military suport for the Western Alliance for continued access to key markets. With the banning of nuclear ships and weapons since 1984 this strategy has in turn become inoperative, which has contributed to the renewed importance of trade and tariff policy.

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APPENDIX: DATA AND SUPLEMENTARY CHARTS

TABLE A1

Data on Gross Tariff Incidence for Figure 1

Year	NZ Imports £ CIF	NZ Customs Revenue £	Ex-post Gross Tariff Incidence %
1892	6,742,544	1,625,271	24.10
1893	6,494,279	na	na
1894	5,990,177	1,655,503	27.64
1895	6,115,953	1,619,970	26.49
1896	7,035,379	1,765,073	25.09
1897	7,994,201	1,912,161	23.92
1898	8,211,409	1,961,726	23.89
1899	8,613,656	2,042,002	23.71
1900	10,207,326	2,170,354	21.26
1901	11,353,416	2,191,798	19.31
1902	10,958,038	2,285,043	20.85
1903	12,075,959	2,501,896	20.72
1904	12,900,030	2,650,189	20.54
1905	12,481,178	2,652,666	21.25
1906	14,303,170	2,899,103	20.27
1907	16,539,707	3,079,422	18.62
1908	17,247,162	2,903,086	16.83
1909	14,817,462	2,653,617	17.91
1910	16,748,223	2,954,989	17.64
1911	18,782,608	3,165,657	16.85
1912	20,576,579	3,335,719	16.21
1913	21,653,632	3,425,426	15.82
1914	21,144,227	3,354,616	15.87
1915	20,658,720	3,190,883	15.45
1916	25,045,403	3,823,011	15.26
1917	20,742,130	3,368,403	16.24
1918	24,131,792	3,586,164	14.86
1919	30,309,167	4,502,354	14.85
1920	61,553,853	7,953,477	12.92
1921	42,744,122	5,671,715	13.27
1922	34,826,074	5,431,402	15.60
1923	43,363,983	7,187,061	16.57
1924	48,527,603	7,461,553	15.38
1925	52,425,757	8,287,288	15.81
1926	49,811,763	8,398,537	16.86
1927	44,782,666	8,110,497	18.11
1928	44,844,102	7,648,747	17.06
1929	48,734,472	8,582,393	17.61
1930	44,339,654	7,776,103	17.54
1931	26,498,151	5,282,510	19.94
1932	24,646,006	5,035,913	20.43
1933	25,581,366	4,920,593	19.24
1934	31,339,552	5,724,504	18.27
1935	36,317,267	6,353,911	17.50
1936	44,258,886	7,795,011	17.61
1937	56,160,695	8,983,033	16.00
1938	55,422,189	9,066,470	16.36
1939	49,387,183	8,437,197	17.08
1940	48,997,669	7,079,396	14.45
1941	49,167,010	6,354,667	12.92
1942	53,856,012	5,020,946	9.32
1943	95,242,330	5,514,165	5.79
1944	86,397,212	6,322,272	7.32

1945	56,987,882	6,626,000	11.63
1946	81,795,677	9,843,000	12.03
1947	128,724,841	19,151,000	14.88
1948	128,200,692	13,140,400	10.25
1949	119,713,138	14,957,000	12.49
1950	157,942,876	16,931,000	10.72
1951	206,534,000	25,462,000	12.33
1952	276,215,000	20,084,000	7.27
1953	192,180,000	18,863,000	9.82
1954	245,820,000	20,087,000	8.17
1955	287,134,000	22,886,000	7.97
1956	268,415,000	21,781,000	8.11
1957	297,098,000	24,250,000	8.16
1958	285,077,000	28,106,000	9.86
1966	393,500,000	24,418,881	6.21
1967	362,800,000	23,472,046	6.47
	$	$	
1968	805,300,000	41,892,534	5.20
1969	895,600,000	48,462,424	5.41

Source : Figures assembled from *New Zealand Official Yearbook*, various issues. Imports are in £sterling to 1929, £NZ thereafter. Both import and revenue data are for calendar years to 1944; thereafter, imports are for calendar years until 1958 and June years 1966-68, while revenue data are for years beginning April 1.

TABLE A2
Data on Duty-free Imports for Figure 2.

Year	Imports Free of Duty £million	Imports Subject to Duty £million	Total Imports £ million	Duty-free %	Customs Revenue £ million	Customs Revenue as % of Dutiable Imports
1894	1.9	4.1	6.0	31.3	1.7	40.2
1895					1.6	n.a.
1896	2.3	4.8	7.0	32.2	1.8	37.0
1897	2.7	5.3	8.0	33.5	1.9	36.0
1898	2.8	5.4	8.2	34.1	2.0	36.3
1899	2.9	5.7	8.6	34.2	2.0	36.0
1900	3.7	6.5	10.2	36.5	2.2	33.5
1901	4.7	6.7	11.4	41.3	2.2	32.9
1902	4.1	8.1	12.2	33.5	2.3	28.2
1903	4.4	7.7	12.1	36.4	2.5	32.6
1904	4.8	8.1	12.9	37.2	2.7	32.7
1905	4.6	7.8	12.5	37.2	2.7	33.8
1906	5.5	8.8	14.3	38.3	2.9	32.8
1907	6.4	10.2	16.5	38.4	3.1	30.2
1908	8.7	8.6	17.2	50.2	2.9	33.8
1909	7.5	7.3	14.8	50.5	2.7	36.2
1910	8.4	8.3	16.7	50.4	3.0	35.6
1911	9.4	9.4	18.8	50.1	3.2	33.8
1912	10.7	9.9	20.6	51.8	3.3	33.6
1913	11.3	10.4	21.7	52.1	3.4	33.0
1914	11.4	9.8	21.1	53.7	3.4	34.3
1915	11.8	8.8	20.7	57.2	3.2	36.1
1916	12.8	12.3	25.0	51.1	3.8	31.2
1917	11.3	9.4	20.7	54.5	3.4	35.7
1918	13.3	11.3	24.5	54.1	3.6	31.9
1919	16.3	14.4	30.7	53.2	4.5	31.4
1920	30.0	31.6	61.6	48.6	8.0	25.1
1921	23.9	19.2	43.1	55.5	5.7	29.6
1922	17.2	17.6	34.8	49.3	5.4	30.8
1923	19.6	23.8	43.4	45.2	7.2	30.2
1924	23.0	25.6	48.5	47.3	7.5	29.2
1925	24.8	27.6	52.4	47.4	8.3	30.0
1926	22.3	27.6	49.8	44.7	8.4	30.5
1927	18.8	26.0	44.8	42.0	8.1	31.2
1928	20.2	24.7	44.8	44.9	7.6	31.0
1929	20.9	27.8	48.7	42.9	8.6	30.8
1930	20.3	24.1	44.3	45.7	7.8	32.3
1931	12.3	14.2	26.5	46.4	5.3	37.2
1932	11.6	13.0	24.6	47.2	5.0	38.7
1933	12.4	13.2	25.6	48.6	4.9	37.4
1934	15.0	16.3	31.3	47.9	5.7	35.1
1935	17.4	19.0	36.3	47.8	6.4	33.5
1936	20.6	23.6	44.3	46.6	7.8	33.0
1937	25.9	30.3	56.2	46.0	9.0	29.6
1938	27.0	28.4	55.4	48.7	9.1	31.9
1939	26.2	23.2	49.4	53.0	8.4	36.3
1940	31.9	17.1	49.0	65.1	7.1	41.4
1941	34.5	14.7	49.2	70.1	6.4	43.2
1942	40.5	13.4	53.9	75.1	5.0	37.5
1943	79.1	16.1	95.2	83.0	5.5	34.2
1944	68.4	18.0	86.4	79.2	6.3	35.2

Source: Assembled from annual data in *NZ Official Yearbook* .

TABLE A3

Tariff Incidence with Alcohol, Tobacco and Oil Products Excluded

Year	Imports excl. alcohol, tobacco and oil products				Duty	
collected	Revenue as a % of		Total	Dutiable	Duty-free	£ Total Dutia
	£	£	£		(Col.1)	
	(Col.2)					
	(1)	(2)	(3)	(4)	(5)	
(6)						
1914	19,860,515	8,479,645	11,380,870	1,852,556	9.3	21.8
1915	19,800,012	7,633,304	12,166,708	1,592,894	8.0	20.9
1916	23,659,333	10,440,136	13,219,197	2,126,158	9.0	20.4
1917	18,804,834	8,164,192	10,640,642	1,729,031	9.2	21.2
1918	21,007,182	8,891,676	12,115,506	1,947,769	9.3	21.9
1919	27,667,210	12,103,421	15,563,789	2,531,249	9.1	20.9
1920	54,723,900	27,437,337	27,286,563	5,220,820	9.5	19.0
1921	37,957,673	16,380,588	21,577,085	3,276,231	8.6	20.0
1922	30,636,741	15,337,815	15,298,926	3,228,088	10.5	21.0
1923	38,435,347	20,886,526	17,548,821	4,418,072	11.5	21.2
1924	42,660,507	22,553,877	20,106,630	4,465,379	10.5	19.8
1925	46,119,978	24,331,293	21,788,685	5,514,917	12.0	22.7
1926	43,204,642	24,414,423	18,790,219	5,615,997	13.0	23.0
1927	38,917,381	20,904,213	18,013,168	5,158,389	13.3	24.7
1928	39,702,460	20,317,899	19,384,561	5,261,082	13.3	25.9
1929	43,212,535	23,018,767	20,193,768	6,060,577	14.0	26.3
1930	44,339,654	24,084,635	20,255,019	5,368,602	13.8	27.4
1931	21,558,897	10,582,445	10,976,452	3,300,997	15.3	31.2
1932	20,018,298	9,682,609	10,335,689	2,916,146	14.6	30.1
1933	19,043,162	8,736,505	10,306,657	2,470,415	13.0	28.3
1934	28,187,143	13,816,925	14,370,218	3,117,890	11.1	22.6
1935	32,848,631	16,224,019	16,624,612	3,581,459	10.9	22.1
1936	39,935,167	20,141,404	19,793,763	4,389,437	11.0	21.8
1937	52,106,558	26,565,723	25,540,835	5,250,152	10.1	19.8
1938	50,228,250	24,372,110	25,856,140	5,064,471	10.1	20.8
1939	44,087,249	19,107,655	24,979,594	3,759,700	8.5	19.7
1940	43,238,939	12,986,713	30,252,226	2,600,951	6.0	20.0
1941	44,373,062	11,618,270	32,754,792	2,151,935	4.8	18.5
1942	49,618,532	10,872,624	38,745,908	2,067,694	4.2	19.0
1943	na	na	na	na	na	na
1944	80,366,691	14,412,152	65,954,539	3,233,601	4.0	22.4

SOURCE: Assembled from *New Zealand Official Yearbook* .

TABLE A4

British and Foreign Imports

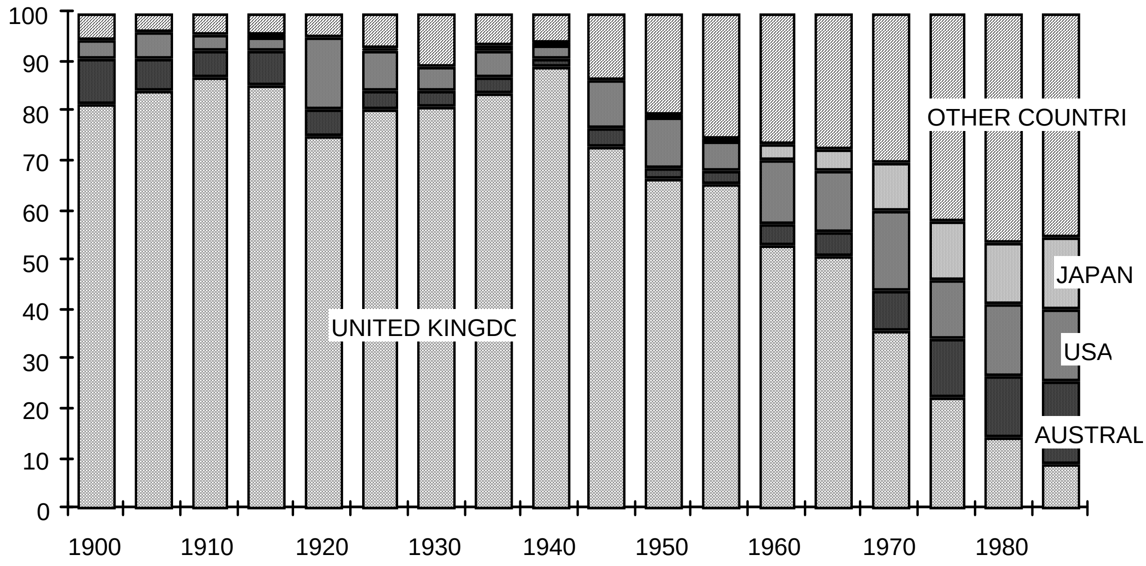
Year	"British" Imports £million	"British" Imports %	"Foreign" Imports £million	"Foreign" Imports %	Total Imports £million
1903	10.6	83.3	2.1	16.7	12.8
1904	11.0	83.0	2.3	17.0	13.3
1905	10.7	83.5	2.1	16.5	12.8
1906	12.9	84.7	2.3	15.3	15.2
1907	14.9	86.4	2.4	13.6	17.3
1908	14.8	84.6	2.7	15.4	17.5
1909	13.6	86.5	2.1	13.5	15.7
1910	14.5	84.8	2.6	15.2	17.1
1911	16.5	84.4	3.0	15.6	19.5
1912	17.1	81.4	3.9	18.6	21.0
1913	18.3	82.3	3.9	17.7	22.3
1914	17.7	80.8	4.2	19.2	21.9
1915	17.7	81.6	4.0	18.4	21.7
1916	20.8	79.1	5.5	20.9	26.3
1917	15.6	74.5	5.3	25.5	20.9
1918	16.0	66.1	8.2	33.9	24.2
1919	19.5	63.6	11.2	36.4	30.7
1920	43.9	71.2	17.7	28.8	61.6
1921	31.2	72.6	11.8	27.4	42.9
1922	26.0	74.3	9.0	25.7	35.0
1923	31.9	73.5	11.5	26.5	43.4
1924	35.8	73.8	12.7	26.2	48.5
1925	38.3	72.9	14.2	27.1	52.5
1926	34.1	68.3	15.8	31.7	49.9
1927	30.7	68.6	14.1	31.4	44.8
1928	30.8	68.6	14.1	31.4	44.9
1929	33.1	67.8	15.7	32.2	48.8
1930	29.6	67.8	14.0	32.2	43.6
1931	17.4	68.3	8.1	31.7	25.5
1932	16.6	69.9	7.1	30.1	23.7
1933	16.0	70.1	6.8	29.9	22.8
1934	23.1	73.8	8.2	26.2	31.3
1935	26.6	73.3	9.7	26.7	36.3
1936	32.2	72.7	12.1	27.3	44.3
1937	41.3	73.5	14.9	26.5	56.2
1938	40.8	73.6	14.7	26.4	55.4
1939	36.6	74.2	12.7	25.8	49.4
1940	37.7	77.0	11.3	23.0	49.0
1941	36.6	74.5	12.6	25.5	49.2
1942	36.7	40.5	53.8	59.5	90.5
1943	na	na	na	na	na
1944	55.4	64.2	31.0	35.8	86.4

Source: Assembled from New Zealand Official Yearbook..

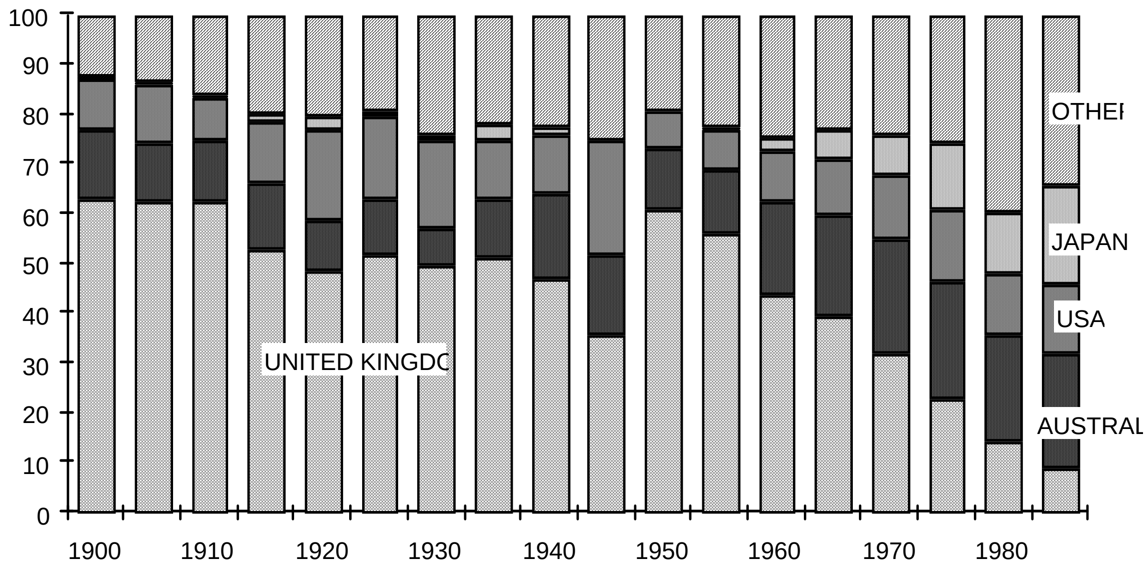
FIGURE A1.

New Zealand's Main Trading Partners, 1900-1985

New Zealand Exports by Country, 1900-1985: Perce nt

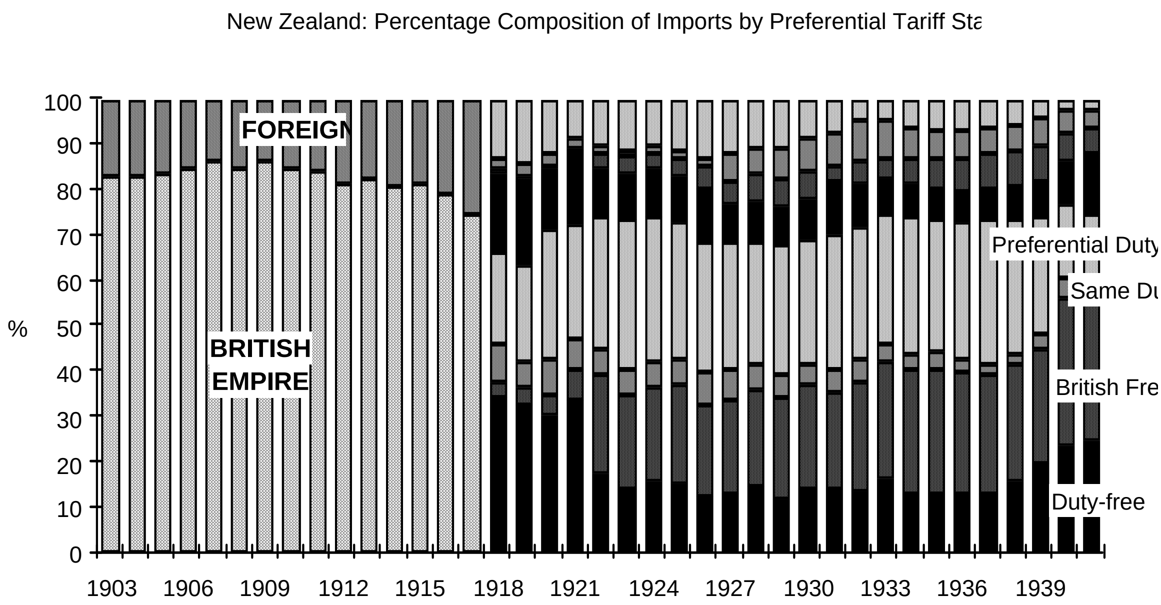


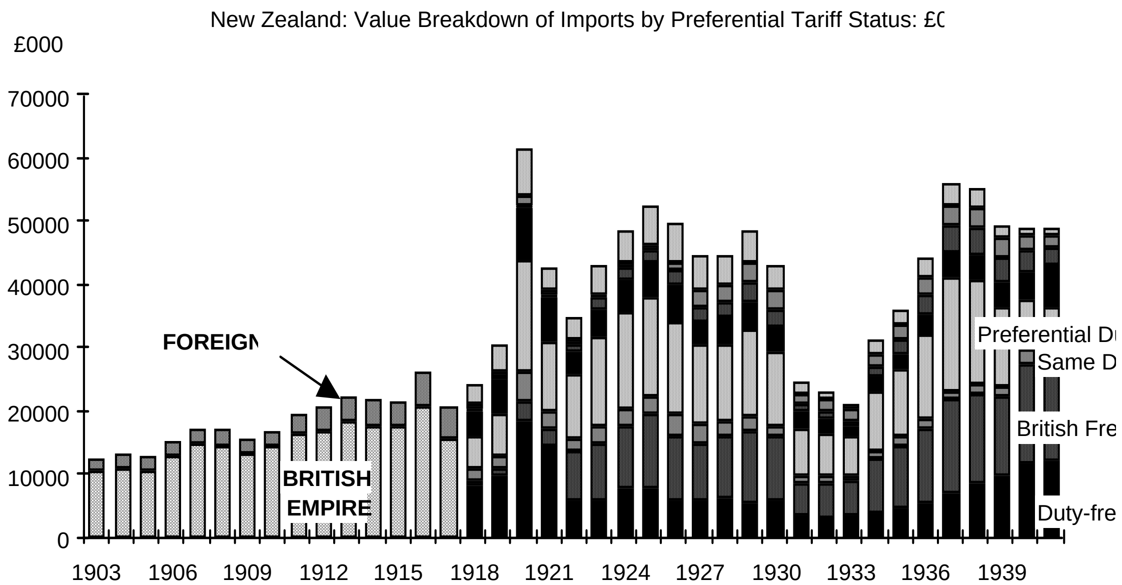
NZ Imports by Country of Origin: Percentages



Source: Department of Statistics, *Statistics of Foreign Trade* .

FIGURE A2





SOURCE: *Official Yearbooks* .

Notes: These graphs are drawn from an annual table which appeared for years from 1918 to 1941, showing for (a) British and (b) Foreign imports their breakdown amongst four duty categories. "Duty free" in the graph above refers to goods which were free of duty regardless of origin. "British free" goods entered duty-free only if of "British" origin, which came to mean in practice at least 50% "British" content. "Same duty" goods paid the same (positive) duty regardless of origin, while "Preferential duty" goods paid lower duty if of British origin.

The existence of foreign imports in the second and fourth categories is *prima facie* evidence that either British and foreign goods were not perfect substitutes, or "foreign" suppliers could undercut British prices by more than the preferential margin, or both.