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URBAN AFFAIRS IN NEW ZEALAND

by

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ABSTRACT

This thesis is an analysis of the decision-making processes from which emerge the pattern and form of New Zealand's "growth and development". Involving three distinct but interrelated sections the analysis examines the nature of the relations which exist between "government" and "private" interests and the effect of decisions taken in both spheres for areas of concern such as regional development, local and regional planning, and the provision of housing. Decisions are seen to reflect processes whereby competing centres of influence negotiate with one another while, at the same time, attempting to manoeuvre into positions of competitive advantage.

The first section involves an examination of the monetary policies of successive National administrations during the nineteen sixties and early seventies. This provides a framework within which to understand not only the effects of central government financial policies on private institutional investment decisions but also the repercussions of these decisions for New Zealand's "growth and development". The section also compares the respective economic and financial philosophies of the Labour and National Parties and their differing views on the extent to which central government should intervene in "private" decisions.

Subsequent sections examine Labour's attempts to implement its "social" policies between 1972 and 1975. This involves a detailed account of the measures adopted by Labour to implement its housing policies. This empirical material is examined by a case study of a Hamilton City boundary extension proposal. It provides insight into the "strategy" adopted by one local authority

to strengthen its negotiating position in relation to both central government and "private" interests. By using its statutory powers and position in the Hamilton Regional Planning Authority the Council attempted to pressure the Labour Government to commit itself to local and regional planning policies and to provide additional financial assistance to the City for the provision of services.

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LIST OF ABBREVIATIONS

1. A.M.P. Society - Australian Mutual Provident Society.
2. A.P.C. - Agricultural Production Council.
3. Auckland Star - The Auckland Star.
4. B.I.A.C. - Building Industry Advisory Council.
5. D.F.C. - Development Finance Corporation.
6. F.H.A. - New Zealand Finance Houses Association.
7. H.A.S. - Hamilton Area Study.
8. H.C. - Housing Corporation.
9. H.R.P.A. - Hamilton Regional Planning Authority.
10. H.R.P.S. - Hamilton Regional Planning Scheme.
11. I.B.S. - Industrial Buildings Home Development.
12. I.M.F. - International Monetary Fund.
13. L.A.L.B. - Local Authorities Loans Board.
14. L.G.C. - Local Government Commission.
15. L.O.A. - Life Offices Association.
16. M.E.C. - New Zealand Monetary and Economic Council.
17. M.O.W. and D. - Ministry of Works and Development.
18. N.B.R. - National Business Review.
19. N.D.C. (NDC) - National Development Council.
20. N.P.F. - National Provident Fund.
21. N.R.B. - National Roads Board.
22. N.Z.F.P. - New Zealand Forest Products.
23. N.Z. Herald - New Zealand Herald.
24. N.Z.I.E.R. (NZIER) - New Zealand Institute of Economic Research.
25. R.E.I.N.Z. (R.E.I.) - Real Estate Institute of New Zealand.

- 26. R.P.S. - Regional Planning Scheme.
- 27. S.A.C. - State Advances Corporation.
- 28. S.I.L. - Superannuation Investments Limited.
- 29. Waikato Times - The Waikato Times.
- 30. W.V.A. - Waikato Valley Authority.

CHAPTER ONE

INTRODUCTION

The original topic of this thesis was a comparative analysis of urban processes between Canada and New Zealand. In this respect it would have been a continuation of work completed in Canada and published under the titles Urban Affairs in Alberta and The Politics of Canadian Urban Development.¹ The start of New Zealand field work in November 1972, revealed that the country's libraries contained a wealth of studies, conference reports etc. on a variety of urban matters but no comprehensive elucidation of the processes whereby the country's "growth and development" are brought about. This created difficulties for a comparative analysis. After attending several conferences and meetings of public authorities the decision was taken to make a detailed analysis of those aspects of "public" and "private" decision-making that are both integral to, and have a determining influence on, the pattern and nature of New Zealand's "growth and development".

This "growth and development" was occurring particularly conspicuously in the early 1970's. It was largely an urban and industrial phenomenon despite New Zealand's traditional reliance on agriculture for export income. The scale of company organisation, the sophistication of local authority planning operations, the identification of increasing regional deprivation as problematic were among the issues encouraging conspicuousness. The start of the study coincided with speculative increases in land and house prices, an increase in the velocity of sales, public concern over accommodation shortages, and other events that generate popular concern for decision-makers and the public alike.

The Labour Party was returned to the government benches in 1972. Labour's legislative proposals stimulated a seemingly perpetual round of meetings and conferences

involving local authorities, central government, and a wide variety of businesses, organisations, and interest groups. Being based at the University of Waikato, Hamilton, and thereby restricted to some extent in geographical movement, the author decided to concentrate his field work on Hamilton City and the immediate regional environs of the King Country, Thames-Coromandel, and the Waikato. Occasional visits were made in the early stages to Wellington to procure further evidence on matters of local and regional relevance and to make a variety of contacts in private organisations and government for subsequent use. Concurrently the author accumulated all published and available material, including newspaper items, press releases, conference reports, departmental and company annual reports, that reflected or referred to the national decision-making process.

Increasing familiarisation with the issues confronting councils, boards, administrative officers and other decision-makers on the one hand, and with the avenues or channels through which issues were processed both formally and informally on the other, allowed a gradual piecing together of events and an increasingly refined appreciation of their interrelatedness. This appreciation facilitated the field work by permitting a close identification with prominent local and regional personalities in major offices - mayors, planning staff, company directors, lawyers etc. - and the obtaining of personal views or images of the situations they were handling. In turn, this identification permitted an integration of "official" acts with personal interpretations. While this enhanced, and complicated, the value of local and regional observations no such facility was available at the national level. At that level methods of field work were somewhat uncertain as the author had to rely for the most part on secondary sources.

Interviews were arranged with key informants to check

the conclusions the author was reaching from all levels of activity - national, regional and city - as the total pattern of interaction became evident. Most interviewees were co-operative once the author had demonstrated his knowledge and the relevance of the interview to it. In most cases the principle of confidentiality prevailed, particularly for governmental officers. The author has been careful not to provide in written form details that might cause embarrassment to individuals. The search was not for details as such - except in so far as they may reflect on the issues being interpreted and decided by some authority or other - but rather for the mode of political and administrative expression the interviewee was party to, or manipulating in the ongoing processes of decision-making.

The conclusions - in the sense of a mental identification of or insight into the processes under observation - were checked by reference to historical and published material on events occurring prior to the commencement of the field work. There needed to be some appreciation of the past for an understanding of the present if an element of certainty was to accompany continually intensifying field work.

At the regional and local levels the author travelled extensively among local authorities, attending meetings, collecting documentation, and conducting interviews. The latter were particularly important to gaining an accurate picture of the context within which decisions were being made. Throughout, the author received generous assistance from local politicians and their staffs. This extended, after a period, to being permitted to attend in-committee meetings (where the public is excluded) and having access to confidential files. With such assistance it became possible to "understand" events and decisions as part of an on-going unitary process.

The methodology of this thesis is influenced by phenomenological and existential approaches to social enquiry. The author endeavours to present the "everyday world" of those people in the community whose decisions and actions, within a broad compass, come to guide and direct what eventuates as material structures in the urban setting.¹ The work consciously and deliberately departs from the positivistic (or absolutist) tradition of conventional sociological analysis which has its roots firmly in an equally conventional (or Newtonian) understanding of natural science method and what it means "to do scientific work". An attempt is made to avoid conveying, and indeed perpetuating, that assumedly causative understanding of the social world within which man is treated not as an active "world creator", but as though he were an object, or thing-like "facticity", whose activity is determined by "forces" conceived as having an autonomous existence of their own. The author has attempted to avoid the positivistic fallacies of treating the subject matter of the natural and social sciences as if they were of the same character and thereby turning "society" into an objective reality existing, as it were, almost apart from human activity. As David Walsh states:

...the social world is a subject, not an object world. It does not constitute a reality sui generis divorced from the human beings who constitute its membership. Rather, the social world is the existential product of human activity and is sustained and changed by such activity.(2)

To argue that the social world is man-made and constituted by meaning is not, however, to deny its dialectical character. This point finds explicit formulation in the writings of Berger and Luckman who observe that unreflexive man experiences the products of his activity as having an objective reality independent of himself as producer.³ Man acts towards and responds to a world he

has himself created. However, while this objective reality can be perceived by an individual as the social reality, the phenomenologist views it as a "moment" in a dialectical existence within which man also consciously "appropriates" and produces his world. The positivist, by positing ab initio the world as something existing "out there", distorts the social world at the very premise of his enquiry. He is engaged in a "mistaken enterprise" and remains, as Edmund Husserl has argued, in the domain of the "natural attitude" i.e. where an individual experiences the world as "taken for granted", and having the quality of "...an a priori resistive, recalcitrant, and massively organised structure into which he must gear himself".⁴ The individual assumes - and must do so in order to engage in social activity - that the world he takes for granted is experienced by others within the same "natural attitude" as he himself experiences it.⁵ "Intersubjectivity", for the phenomenologist, is the central attribute of the "life world" and "...points to the inherent sociality of consciousness and to the experience of the world by self and others as a world in common".⁶ This experience provides the basis for all human activity including the production of positive science and phenomenology. Consequently, as Zimmerman and Pollner observe, conventional sociology honours "...the same preconceptions about the social world that lay investigators honor", and is "...directed to the presumptive order of fact to which lay members direct their investigations".⁷

In contradistinction, phenomenology focuses on these "everyday" preconceptions and the processes of consciousness by which such preconceptions come to constitute for man the order and meaning of his world. Its method is "a matter of describing, not of explaining or analyzing".⁸ It explicitly rejects the empirico-analytical method of the natural sciences as the only appropriate vehicle for understanding the social world. Its imperative is a return

to the "things themselves" through "a direct description of our experience as it is, without taking account of its psychological origin and the causal explanations which the scientist, the historian, or the sociologist may be able to provide".⁹ Thus, in contrast to conventional sociology, phenomenology provides an avenue for studying meaningful social phenomena on their own grounds.

Phenomenology is a method for doing something which positivism cannot do for itself: "formulate for us how we could observe positivism to have been done".¹⁰ Indeed, such an exercise is unlikely even to emerge as problematic to those persons of our society whose "everyday world" is to be scientific, to be positive, or to administer "society". Alan Blum remarks:

Positivism's positivity consists in the fact that it affirms, and in so doing, follows the path which affirmation lays down for itself. The affirmation announces (brings into appearance) a subject, and in this enunciation authorizes the subject as that which determines all subsequent speaking. (11)

The adoption of a phenomenological emphasis to the study implies what some readers may construe as disadvantages. The length of the study may be considered as one, but there would have been others of more serious consequence which would have emerged had a positivistic approach been taken by this writer.

This thesis does not attempt a "reflexive" investigation of the "traditions" and "grammars" of social or political theorising. It is recognised that much of the material contained in the thesis could have been treated as discrete areas of concern "analysable" within various "communities of discourse" from, say, urban economics to community power studies. Further, it is not

the author's purpose to engage in any over-lengthy examination of what it means "to theorise". As Michael Phillipson and others point out, among the major problems that continue to bedevil social scientists is the lack of agreement over what is meant by "theory".¹² Nonetheless, work undertaken in recent years on the general question of "theorising" has raised two issues of direct relevance to the methodology of this thesis and provides some insight into the reasons why the author chose to proceed in the way he did.

The first issue concerns what has been called the "theorising power" of conventional (or consensual) analysis. By "conventional" is meant that form of analysis which, because it conforms to communally held "rules of procedure" (or method), aspires to the status of being "scientific". Typically, the "evaluation" that follows such analysis focusses on the "rules" which apply to, and go to comprise, the analyst's "community of discourse". That is to say, the "truth-value" of the knowledge produced, insofar as it relates to the "reality" theorised upon, is ignored in favour of concern for the method itself. "Truth" is revealed through method rather than through the acts and consciousness of persons forming the subject of the study and upon whom that method has been applied by the enquirer. Consequently, argument among "communities", as Stewart Clegg observes in his examination of the "elitist" versus "pluralist" debate, "...involves the investigator's procedural rules, rather than the 'real' nature of the thing itself".¹³ It is in this context that Clegg points to the "theorizing power" of "conventional and consensually shared rules".

These conventional and consensually shared rules thus exercise a 'theorizing power' over the theorist, in that he has first to submit to the collectively recognised 'grammar' before whatever he produces can be 'warranted'.(14)

The theorist is concerned with "a display of mind" by which he openly declares his "...commitment of his self, as a manifestation of the activity of theorizing within a tradition".¹⁵ In so doing, he attempts to achieve and/or reaffirm his "membership" in, and deference to, a "scientific" or particular community. The enterprise of understanding phenomena as "things-in-themselves" is made increasingly subservient to "explanations" which may be "evaluated" in accordance with the rules of positivistic logic. This leads to "scientism" (or "reductionism") and a denial, in Merleau-Ponty's words, of the essential "unifying" attribute of the "true world".¹⁶ In essence, the rules, or internal logic, used by the participants themselves (including the observer) are displaced by an imposed "scientifically" constructed, external logic. This external logic is in turn conceived as being "non-social" or "objective". The result, as Phillipson succinctly states, is the construction of "...vast edifices which bear unknown relationships to the social world they purport to describe".¹⁷

The second issue is that to engage in theorising is at the same time to involve ideology. As Brian Fay has observed, there is much more to the positivistic tradition than the aim of making social knowledge more "scientific".¹⁸ Positivism, because of its success in providing man with knowledge to control his natural world, is seen within the "natural attitude" to hold out similar promise in relation to his social world. Not only this, but as a consequence of "...the displacement, the conflicts of interest and need, the rapid change in the forms of social organisation and individual private fortune that characterise a technological society", the social world in turn must become more scientific "...if social life is going to continue in an uninterrupted and unchaotic way".¹⁹ The positivist is engaged in producing not only "science" but also the instruments of social control. Summarising, Fay argues: "...we understand a state of affairs scientifically only to the

extent that we have the knowledge of what to do in order to control it, and it is thus that the ability to control phenomena provides the framework in terms of which scientific explanation proceeds".²⁰ (emphasis original)

In referring to those social scientists who "wish to establish a natural science of society" and thereby pave the way for technical mastery over social existence, Anthony Giddens has observed that they "...are not only waiting for a train that won't arrive, they're in the wrong station altogether".²¹ Yet they have not been without influence. Jack Douglas notes: "...these experts have increasingly used their scientific rhetoric to control our lives through their growing effect on government policies".²² Furthermore, it may be argued that the positivist's lack of responsibility is translated into the practical world of politics itself. Policymakers are concerned not only with the possibility of using the positivist's product but also the objectivist view of the world it affirms. This view provides the "scientistic rationalisations" that may afford policymakers the opportunity to avoid political accountability for the consequences of their decisions. Instrumentalism, T. Schroyer observes, leads us to "...avoid a public re-examination of the standards for political judgment and force(s) individuals who see the necessity for this to become criminals...".²³ And:

...we are wedded to an instrumental concept of reason whose one-sidedness blocks our capacity to recognise the sociocultural significance of our acts and lowers our ability to act intelligently in novel situations. Consequently, as a people we are becoming less able to reformulate our identity and less capable of recognizing the need for re-examination of our values, actions, and institutions.(24)

This methodological perspective needs to be defended from some points of criticism. In avoiding the

articulation of any specific theoretical framework (or recipe) through which "to analyse" or "to explain" the interactions observed, or about which documentary evidence was obtained, the author is not working on the positivistic assumption that it is possible to achieve a presuppositionless understanding of everyday life. Further, it is not suggested that it is possible to evolve a "neutrally abstract category" of language which would enable the values in "everyday" perceptions to be transcended. Nor is the author attempting a "free dialogue" for the purpose of emancipating man.²⁵ The absence of an explicit explanatory framework reflects, rather, the decision to adopt a "theoretic stance", which, in accord with the phenomenological principle of suspension or epoché, involves the conscious attempt to "bracket out" those "second order expressions" (scientific abstractions) which, because they are part of the taken for granted perceptions of the author as "scientific" analyst, may interpose themselves between himself and those aspects of "reality" he is observing.²⁶ In short, it involves a deliberate effort to eliminate preconceptions about the phenomena being researched, to approach phenomena with as open a mind as can be achieved, and to allow actors to define themselves within the context of their own situation. This, as Jack Douglas observes, represents a "...fundamental methodological commitment ...to study the phenomena of everyday life on their own terms, or to make use only of methods of observation and analysis that retain the integrity of the phenomena".²⁷ It also allows the author to sustain a degree of "integrity" between himself and the phenomena he is observing and to avoid engaging a "method of re-forming society" either for purposes of "membership" or "market" consumption.²⁸ However, an author's "integrity" is always in jeopardy. A phenomenological approach can only assist in this matter for the thesis itself - and it would be naive to believe otherwise - will be evaluated (and in the process transformed) on the basis of criteria which reflect

in themselves and in their application a "market" mode of existence.

The above is not to suggest that the study itself occurs within a theoretical vacuum or is without abstract content. Clearly this cannot be so as any statement is bound by, and rooted in theoretical assumptions - if only those contained within the language of thought itself. The study is influenced by a plurality of theoretical perspectives rather than being carried out within one systematic, theoretical understanding.

Among the perspectives that influenced the analysis were those of the people whose decision-making activities the author observed. Observation showed these perspectives were discrete and identifiable in their own right. Not infrequently they were derived from universities and the academic tradition, particularly that of orthodox economics. They formed part of the everyday repertoire of ideas used by the country's two major political parties and retained their theoretical nature for party leaders in the sense of providing explanatory frameworks for, and imposing order on an inherently complex and problematic world. In this sense, the ideas which influenced the analysis are often as much those of the people observed as of the researcher himself. It is by treating these ideas as both integral to, and objects of the analysis that it became possible to transform them into a more distant and abstract perspective.

The "everyday worlds" of a mayor, a company director and a Prime Minister differ; nevertheless, they interact over a broad range of activities and their respective decisions influence each other in relation to New Zealand's "growth and development". Thus, by attempting to integrate a variety of interacting "worlds" within the ambit of one study, the possibility of a more abstract perspective becomes closer to "reality". The term abstract means here

a composite statement that includes within itself a description of multiple realities i.e. of all interacting parties that is unlikely to be contained within the "everyday world" of any one.

The thesis takes for granted that the world is intersubjectively constituted. It does not attempt an analysis of the "natural attitude" of the actors whose interactions are described. This reflects the author's decision to focus on the "form" of interactions rather than their constitutive elements of meaning. The notion of "form" finds its derivation in Georg Simmel's writings where it has a wide variety of meanings and therefore interpretations.²⁹ As used here, "form" refers specifically to the nature or character of the interactions which emerged among the people observed and talked to. Thus it is not "theory" in the conventional sense of providing a framework within which "to explain" and "to analyse" social activity.

The "forms" of interaction which emerged were negotiation, competition for strategic advantage, and accommodation among centres of influence. It is within this context that it becomes possible to understand New Zealand's urban "growth and development". It is, at the same time, something that the actors themselves feel and are aware of doing. Thus not only is "form" purely descriptive of a set of interactions but also an expression of "reality" as experienced by the actors.

The research and analysis proceeded on three separate but interrelated fronts. Accordingly the thesis is divided into three distinct sections. The introductory section provides first, an analysis of the operations of "traditional" lending institutions and other financial intermediaries; and, secondly, an analysis of the economic and political interactions involved in the evolution of

central government, regional and national development policies. This section serves to provide an understanding of central government monetary and economic policies, and their effect on the country's urban "growth and development".

The second section undertakes a detailed examination of the interactions involved in the Labour Government's attempts to encourage regional development and planning, to evolve a national development strategy, and to implement its housing policies. This examination is made within the framework of Labour's monetary and economic policies, and in particular its housing policy. It attempts to elucidate the nature of the interactions through which "government" and "private interests" negotiate their affairs.

The third section, which begins with a brief political analysis of the legislative framework and wider constitutional significance of regional planning, is a case study analysis of the progress of a boundary extension proposal in Hamilton City. Though the Hamilton City's situation might be considered unique, in that the Mayor was among the most astute and farsighted of New Zealand's local authority leaders, the case study illustrates remarkably clearly the "forms" of interaction that occur and also the range of institutions through which the "forms" are played out. The study provides further insight into the nature of the interactions that emerge from and in turn encapsulate the activities of local authorities, central government, and private interests.

During the research for this thesis it became evident that the concentration of growth and development in a few New Zealand centres - particularly Auckland, Wellington, Hamilton, and Christchurch in the South Island - is directly linked to, and is a reflection of the investment decisions of large financial institutions, both public and private. Also evident was that these decisions, rather

than being free of government interference, were embraced by certain government controls that in turn have become entrenched components of monetary policy i.e. interest rate controls, government security ratios, and periodic directives to institutions concerning other aspects of their investment activities.

By circumscribing the scope of financial decision, central governments have had an indirect but determining influence on the way in which the country's resources are distributed geographically. In order to compensate for the losses they experience as a consequence of government regulation, financial institutions have felt obliged to seek out and to create opportunities for high returns on that portion of their funds they may freely invest. Invariably these opportunities are found in the country's largest metropolitan centres in the form, for example, of high rise office complexes, industrial estates, and prestigious subdivision developments. Such investments, together with central government's own resource allocation policies, have had a direct effect on the nature and form of urban growth throughout the country.

The significance of monetary policy for an understanding of urban growth is not limited to its influence on institutional investment. Controls have had an impact on the character of the financial system itself by creating the conditions for the evolution of two distinct sectors of investment activity, commonly referred to as the "controlled" and "uncontrolled" markets. Investment through the "uncontrolled" market, the major instruments of which include solicitors' "nominee" companies, commercial bills, and contributory mortgage schemes, have had a major contributing influence on the rapid growth of a few centres. Speculative investment in urban property, for example, is a product of this market's operations.

But, perhaps more importantly, the "uncontrolled" market, by providing the means for circumventing government controls, has increasingly come to threaten the effectiveness of governmental monetary policies. The implementation of monetary measures has, as a result, become a matter for negotiation rather than imposition. In other words, monetary measures reflect not so much the policy commitments and ideological orientation of the party in office as the relative positions of financial and political power between "government" and those interests which comprise the "financial system". Seen in this context the pattern and nature of New Zealand's "growth and development" are neither the product of deliberate public policy nor the result of a free market economy. They are rather the expression of the "form" of interaction through which two spheres of decision-making, or "nodes" of power, achieve accommodation regarding the utilisation of the country's financial resources. While this has been true for successive governments, both National and Labour, only Labour may be seen to have given explicit recognition to the central government's influence in the investment patterns of financial institutions. National administrations have preferred to avoid similar accountability by conveying the impression that these institutions operate free of government interference and that their decisions are determined by the "market".

The "form" of interaction through which accommodation is reached is one of competition and manipulation for strategic advantage. "Government" attempts to bring "growth and development" within the scope of national and regional planning and economic development policies have been compromised by this interaction and by its results "on the ground". At the level of "government", competition and manipulation involves the conflicting interests, primarily financial, of central and local government. Legislative initiatives in areas such as the re-organisation

of local government, regional development and planning, local body finance and so on, are assessed by local authorities within the context of their ability to retain control over their financial affairs, especially rating; to maintain their competitive positions relative to one another regarding access to various forms of central government assistance and private investment; and to secure their freedom to negotiate with and apply pressure on central government and private interests. Local concern to retain "autonomy" has made central governments reluctant to press forward with the types of legislative and constitutional changes that would promote "regionalism". Equally, this reluctance, and the unwillingness to formulate national planning and development policies, have been consequential upon central government's interest in sustaining sufficient manoeuvrability to negotiate and reach accommodation with private interests over a wide range of matters. This accommodation, frequently involving the circumvention and undermining of local interests and policies, has made local authorities reluctant either to trust, or to co-operate with legislative changes likely to limit further their freedom to control their own affairs.

Thus, the nature of existing planning and development legislation, the constitutional structure of local government, and the absence of clearly formulated policies for either the nation or the region, are in themselves a reflection on the one hand of the interactions among competing interests, and on the other their respective desires to secure the freedom to manoeuvre into, and strengthen their respective positions of competitive advantage.

For private interests the "form" of interaction taken by central and local government, and among local authorities, is to their strategic advantage. It provides them with possibilities for manipulation and negotiation. Their control over resources, access to finance, and freedom over

location decisions enables them to exploit the wish of local authorities to attract private investment and the social and economic objectives of central government. Companies may work local authorities off against one another in order to obtain from them financially attractive locational propositions. And they may enter arrangements with central governments that have the effect of circumventing local policies.

The study, by observing the interactions whereby significant institutions come "to do business" with each other and the situations or contexts within which their leaders decide on appropriate courses of action, aims at elucidating how the "growth and development" of New Zealand is brought about. The study is limited inherently by the limits of research by one observer and by the use of Hamilton and its hinterland for intensive observation. Nevertheless, the "forms" of interaction and the implications of policies applied by formally constituted authorities and private interests must have some reference to the national scene.

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Bettison, D.G., Kenward, J.K., Taylor, L., Urban Affairs in Alberta, Edmonton, The University of Alberta Press, 1975.
- 1(a). The meaning of the expression "everyday world" is taken from Alfred Schutz. Speaking of man as a social being, he observes:

Born into a social world, he comes upon his fellow men and takes their existence for granted without question, just as he takes for granted the existence of the natural objects he encounters. The essence of his assumption about his fellow men may be put in this short formula: The Thou (or other person) is conscious, and his stream of consciousness is temporal in character, exhibiting the same basic form as mine.
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5. By "natural attitude" is meant "...the 'naive' attitude of the situated ego and is characterized by the mundane practical reasoning of everyday life in which his worlds, social and natural, are indubitable, simply there, and taken-for-granted:.
(Phillipson, P., "Phenomenological Philosophy and Sociology", in Filmer, Paul, et al., op.cit., p.127.
6. Phillipson, P., "Phenomenological Philosophy and Sociology", in Filmer, Paul, et.al., op.cit., p.125.
7. Zimmerman, Dan E., and Pollner, Melvin, "The Everyday World as a Phenomenon", op.cit., p.83.

8. Merleau-Ponty, Maurice, "What is Phenomenology?", in Bettis, Joseph D.(ed), Phenomenology of Religion, SCM Press Limited, London, 1969, p.14.
9. ibid., p.13.
10. For discussion of this point see Walsh, David, "Sociology and the Social World", in Filmer, Paul, et.al., op.cit., pp.15-35.
11. Blum, Alan F., "Positive Thinking", Theory and Society, Vol.3, Fall 1974, p.247.
12. Phillipson, Michael, "Theory, Methodology and Conceptualization", in Filmer, Paul, et.al., op.cit., p.80.
13. Clegg, Stewart, "Power, Theorizing, and Nihilism", Theory and Society, Vol.3, Spring 1976, p.70.
14. ibid., p.66.
15. ibid.
16. Merleau-Ponty, Maurice, "What is Phenomenology?", op.cit., p.19.
17. Phillipson, Michael, "Theory, Methodology and Conceptualization", op.cit., p.77.
18. Fay, Brian, Social Theory and Political Practice, George Allen and Unwin Limited, London, 1975, pp.18-48.
19. ibid., p.19.
20. ibid., p.40.
21. Giddens, Anthony, New Rules of Sociological Method, Hutchinson Publishing Group Limited, London, 1976, p.13.
22. Douglas, Jack D.(ed), "Preface" in Understanding Everyday Life, op.cit., p.x.
23. Schroyer, Trent, The Critique of Domination: Origins and Development of Critical Theory, George Braziller, New York, 1973, p.21.
24. ibid.
25. In the tradition of the Frankfurt School the phenomenological critique of consciousness is seen as the tool for promoting "conscious emancipatory activity", becoming in the process "humanity's self-knowledge".
 \ For a discussion of this tradition refer to Schroyer,

Trent, The Critique of Domination: Origins and Development of Critical Theory, op.cit.

26. For a discussion of the phenomenological reduction refer to Phillipson, P., "Phenomenological Philosophy and Sociology", op.cit., pp.127-129.
27. Douglas, Jack.D.(ed), 'Understanding Everyday Life, op.cit., p.16.
28. Scholars such as Sandywell and Silverman argue that positivism, in whatever form, is an affirmation of the "market mode of discourse", and the positivist's existence in "a capitalist mode of life". At this level "evaluation" may be understood to be the intellectual expression of the "market" conducted in accordance with "natural laws" of "scientific" procedure.
(See: Sandywell, Barry, et.al., Problems of Reflexivity and Dialectics in Sociological Inquiry, Routledge and Kegan Paul, London, 1975.
29. For detailed discussion refer to Levine, Donald N., "Some Key Problems in Simmel's Work", in Coser, Lewis A., Georg Simmel, Prentice-Hall, New Jersey, 1965, pp.97-115.

SECTION I

MONETARY AND ECONOMIC POLICIES - "GROWTH AND DEVELOPMENT"

This section of the thesis is comprised of two chapters. The first provides an analysis of monetary policies under successive National administrations during the nineteen sixties and early seventies. Particular attention is paid to the effects of these policies on the investment decisions of insurance and finance companies, and on the evolution of "uncontrolled" financial intermediaries. While making use of the work carried out by orthodox economists, this analysis goes beyond a "market" interpretation of the implementation and consequences of various monetary measures. It attempts to examine central government policies from the viewpoint of deliberate human decisions. At this level the "market" is seen to take an ideological significance as the framework within which the "forms" of a negotiated order are sustained and through which decision-makers publicly justify their actions and reinforce their claims to a correct understanding of the relationship which ought to exist between "government" and the "private sector". This provides the context within which it becomes possible to interpret New Zealand's "growth and development" as the product of a process of negotiation involving both "private" and "public" decision-makers.

Towards the end of the first chapter Labour's economic and political philosophy, as expressed in the 1973 Budget and a variety of legislative measures, receives brief examination. This serves to highlight the differing approaches of the country's two major political parties to the conduct of monetary and economic policy. The importance of this difference

for understanding the processes whereby New Zealand's "growth and development" have become increasingly concentrated in a few centres emerges in chapter two. This chapter focuses on the concept of regional development and covers the period from the 1960 Industrial Development Conference to the introduction of the 1975 Labour Government's regional development policy.

CHAPTER TWO

CONTRASTING MONETARY AND ECONOMIC POLICIES

The importance of paving the way for a more sophisticated banking and financial system was highlighted after World War II by the New Zealand Organisation for National Development. In an Interim Report on Post-War Reconstruction and National Development, (1944) to the Prime Minister, it was observed with regard to the provision of financial services to both industry and commerce that:

...the present resources of the banking and financial sections of the community are not fully adequate ...neither the banks, insurance companies, nor any other form of financial institution at present organised in the Dominion appear to be adequately equipped for the work of financing industrial expansion as such.(1)

This, coupled with the prospect of economic disorder resulting from the uncontrolled spending of accumulated war-time savings, pointed to the urgent need for new financial and economic policies. Action was required to prevent the country falling backwards into the conditions of the pre-1939 era and to lay the basis for "The physical development of our industrial resources in conditions of full employment of the labour force...".² The insurance industry was to become, as a matter of deliberate government policy, one of the main instruments for achieving this objective.

Successive governments assured life offices of rapid growth by applying special rates of taxation and allowing premiums to be deductible by individual taxpayers for tax purposes. By the middle fifties they had become a major source of loan monies. However, while influenced in their investment decisions during

this time by such considerations as public opinion and government policies, fears of undermining their competitive positions in relation to one another made it increasingly likely that low-yield investments in other areas of finance would suffer. This was especially so for government securities. The interest rates applying to them, as a result of government controls, were not as attractive as for many other forms of investment.

In September 1961, the Monetary And Economic Council (M.E.C.) published its first report and made clear its concern about the Government's use of interest rate controls as an instrument of monetary policy. The Council questioned the Government's approach to its own borrowing, noting that, "To attract significant amounts, the Government must be prepared to offer rates of interest substantially higher than those offered in recent loans".³ In 1962, it commented:

...it would seem that these policies have, by and large, failed. Some slowing up in the rate of increase of interest rates has been achieved but, as a result of Government's reluctance to increase interest rates sufficiently, public subscriptions to Government loans have been meagre and this has been a major cause of budgetary weaknesses, given the unwillingness of Governments to increase taxation or restrain expenditure.(4)

Government was in a dilemma. It was neither prepared to revoke interest rate controls, and thereby lose a source of cheap loan money, nor was it willing to violate the freedom of decision of life offices by directing them to invest in government securities. The solution came in 1965 when the National Government organised "voluntary agreements" between itself and life offices whereby the latter "agreed" to hold approximately twenty per cent of their total assets in government securities.

Apparently successive National administrations found this "voluntary" form of government intervention in the affairs of life offices acceptable. In return,

the companies were reasonably happy so long as the "rules of the game" applied equitably throughout the industry and no individual company got an unfair competitive advantage over others. Summarising the position, Professor F. Holmes noted that government intervention had "...taken the form of 'requests', resulting in 'agreements' which appear to be regarded as of a temporary nature".⁵ The percentage of funds exempt from the "agreements" could be freely invested to the best interests of policyholders. In 1969 the National Government began to "require" life offices to achieve a certain ratio between their investment in government securities and their total assets, and in 1973 the Labour Government introduced the "Life Insurance Companies Investments Order" which gave statutory expression to the "voluntary"/"required" agreements. The principle was extended to building societies and private superannuation funds in 1970. Government was ensuring by this means both a supply of funds into its own coffers and an instrument to influence the supply of investment money through the private sector.

As the country's economy moved towards urban manufacturing, importing/exporting and other non-agricultural pursuits, an increasingly sophisticated finance industry was required. As early as 1962, older finance companies entered arrangements with powerful overseas participants, such as Lombard Banking and United Dominions Trust. Small under-capitalised companies with high administrative costs were encouraged by the abolition of capital issues control, in 1962, to expand their operations or amalgamate. The M.E.C. recognised the beneficial implications of the move.⁶

However, in 1967 capital issues control was re-introduced. What had appeared in 1966 to be a satisfactory level of co-operation between the Government and various financial institutions had not lasted. In re-introducing capital issues control the Minister of Finance said:

The voluntary co-operation of lending institutions has materially assisted the Government in its policy of restraining internal demand. However, the arrangements made with finance companies and hire purchase and trading organisations created administrative problems and were not entirely satisfactory. As a consequence in February this year, capital issues control was extended to finance companies, and hire-purchase terms were made more stringent.(7)

Negotiations between finance companies and Government continued with the result that in 1969 capital issues control was once again abolished. The Minister of Finance explained in the 1969 Budget:

These controls were effective in the period after they were imposed in achieving a restraint on the expansion of credit in the private sector. They are becoming less effective as a regulation of the growth of credit to the private sector now that the economy is expanding more rapidly. They also prevent the financial system from developing in ways which would be in the long-term interest of the country.(8)

The controls were replaced by a "Government stock ratio requirement under which finance companies will have to hold a percentage of their borrowings in the form of Government securities".⁹ Elaborating on the application of, and principle behind, this new instrument of monetary policy the Minister of Finance said:

This ratio, which will be 10 percent initially, will be varied if necessary from time to time. It will thus be a flexible instrument of monetary policy while allowing the finance companies freedom to expand their activities with a minimum of external control.(10)

Government was intent on retaining control over the availability of credit within the financial system without unnecessarily curbing the operations and expansionist activities of finance houses. Increasingly, finance houses were being seen as an integral component of the type of financial system required by a country intent on economic diversification and expansion. Not only this, but these institutions were crucial to the effective application of monetary policy. Without them there would be an increasing tendency towards the growth of financial intermediaries able to operate beyond the scope of central government policy. As the Minister of Finance observed: "The Government considers that at present there are elements in the monetary system which reduce the effectiveness of monetary policy and encourage the flow of funds through expensive and inefficient channels".¹¹ It was not long, however, before further measures were required.

The Interest on Deposits Order, which had been introduced in 1960 to control the rates of interest paid on deposits, had been revoked in 1962. The National administration had found it to be largely ineffectual with respect to the operations of finance companies and had created difficulties for other companies. In March, 1972, the "Interest on Deposits Regulations (1972)" were introduced. These specified maximum deposit interest rates on various terms for all deposit-taking institutions and were introduced as part of a comprehensive price and incomes

stabilisation package that also included the limitation of dividends under the "Companies (Limitations of Distributions) Regulations 1972". The M.E.C. disapproved of the interest rate controls pointing out that they would "...accentuate the diversion of credit flows to uncontrolled sections of the financial system where interest rates remain free".¹²

The Council had, since 1962, opposed controls over interest rates. Many of the country's leading economists had expressed similar views.

There remains a deep-rooted suspicion of interest rates in New Zealand: some politicians are wholly sceptical about the advantages of flexible interest rates and firmly believe that all rates should be held at relatively low levels, while others are aware that political and economic forces pull in different directions on the subject.(13)

In its 1973 Report the M.E.C. commented:

...the interest rate controls have had an effect on the monetary system by diverting funds away from the controlled financial institutions into uncontrolled areas where rates are more realistic, especially the commercial bills market and the contributory mortgage market, where interest rates approaching the rate of inflation (and for brief periods even exceeding it) have recently been paid.(14)

In a similar vein, Dr Deane commented:

New channels for credit may also open up because there is a strong incentive for borrowers and lenders to make direct contact with each other, foregoing the services of a financial intermediary. Thus, control over the monetary system is gradually weakened. It is probable too that the efficiency of the system is impaired insofar as the expertise of the financial institutions is less fully utilised in directing credit flows

to the best advantage, and the average cost of credit to borrowers is higher.(15)

The monetary policy that evolved, rather than giving central government sufficient influence over the financial system to secure its policy objectives, gradually led to the reverse situation developing. The growth of the "uncontrolled" market, Dr Deane remarked, resulted in "...the encouragement of socially less desirable activities at the expense of stated official social objectives...".¹⁶

Not only have interest rate controls tended to make government securities an unattractive form of investment, but Government's borrowing policies have undermined the competitive position of financial institutions in relation to the uncontrolled sector. While central government enjoyed low rates of interest on its borrowed funds, "...the diversion of such a large proportion of their funds into Government securities weakens the ability of the controlled deposit-taking institutions to compete with other flows of credit".¹⁷

Borrowing and interest rate controls have also been charged with differentiating between rich and poor to the latter's disadvantage:

In New Zealand, an interest rate on Government securities below the market level is equivalent to a tax on those individuals who deposit funds with the so-called captive institutions. Ironically enough, these people are likely to be the low income earners.(18)

Elaborating on this matter Dr Deane noted that, "A high proportion of depositors with savings banks in New Zealand seem likely to be relatively low to middle income earners".¹⁹ These depositors, because of the controls, "...receive low interest rates on the funds, the bulk of which are in turn

invested in low yielding government securities". In addition, these same individuals experience borrowing problems:

...personal lending by the trading banks is regarded as a low priority category and, similarly, savings banks are encouraged to lend for housing while only a tiny proportion of their funds can be allocated to other personal loans. Accordingly, the individual borrower, is frequently forced to resort to high cost avenues for his personal finance. Typically, he would use hire purchase finance, at effective rates of 15 percent and above, to purchase durable goods and automobiles. He is also likely to have to pay high rates for second and third mortgages on his house.(20)

Continuing, Dr Deane observed:

In essence, this means that the low income earner received a low return on his savings and may pay a high cost for his borrowings. For the wealthy individual or the large corporation, the opposite is the case...

The high income earner is likely to have sufficient funds available to warrant investment in property, equity shares or solicitors' trust fund deposits. These avenues are all likely to be more remunerative than savings banks deposits, especially in inflationary circumstances. When borrowing the wealthy individual or a commercial enterprise can more often meet the criteria for a bank advance than can a low income earner. Accordingly, the wealthy and the powerful can earn high returns on their investments and yet may pay relatively low rates for their borrowing. The rich are not only probably larger net borrowers than the poor, but are also likely to be more adept in meeting the problems raised by inflation.(21)

Similarly, the Chief Economist of the Bank of New Zealand has said:

...it is not generally realised that attempts to hold down interest rates predominantly benefit the higher income and wealth owning groups since they hold shares and property whose values are inflated by a low interest rate policy. Conversely the lower income and wealth owning groups are the predominant holders of fixed interest assets and as such suffer from interest rates controlled at levels well below the rate of monetary depreciation.(22)

And the M.E.C. observed: "We doubt if those concerned appreciate the irony of their position in being victims of the very controls designed to help them".²³

In addition, the Council pointed out that "...the small companies which typically derive much of their financial support from finance companies, and which have limited access to funds from the commercial bills market...", have found it increasingly more difficult to obtain the finance they require.²⁴

Some Implications of Monetary Control

Apart from the market distortions and anomalies which central government monetary controls create in the financial system there are two additional and interrelated questions which are of concern to this analysis: one centers on the reasons why successive governments have found it increasingly more difficult to devise workable controls; and the other pertains to the political environment within which controls are formulated and implemented, and their effects on the nature and form of New Zealand's growth and development. The first matter was alluded to by the M.E.C. in 1972: "Our financial system is now a complex hybrid and this makes it more difficult to understand and devise efficient means of control".²⁵ Referring to short term monetary policies the Chief Economist of the Bank of New Zealand has observed:

...such policies if used regularly will increasingly be anticipated and frustrated by the diversion of funds to uncontrolled channels - and uncontrolled overseas borrowing (i.e. suppliers credits). Necessity breeds financial innovations, particularly as financial markets become developed.(26)

The ability of financial institutions and large companies to anticipate and benefit from Government decisions was aptly illustrated during the period when the decision was taken to revalue the New Zealand dollar by 10% on September 9, 1973. The chairman of the Finance Houses Association reported:

The timing of this adjustment to the parity of the N.Z. dollar had a profound effect on liquidity. The experience of our members would suggest that many commercial firms recognised the capital gain, and remitted funds overseas. Prior to the announcement of revaluation there had been considerable speculation on such a move, and it is believed there may have been some build-up in overseas trade accounts (i.e.. a holding up of remittances in payment of imports etc) and that these liabilities were brought up to date immediately after revaluation of the dollar.(27)

Over the years companies have deliberately exploited, and successfully so, their freedom to enter into financial arrangements with their overseas parents and partners. In 1971 the M.E.C. reported:

A significant amount of private capital, a large part of it short-term Euro-dollars, flowed into the economy and the effect of this has been to ease to some extent the tight liquidity conditions the authorities were attempting to impose.(28)

Elsewhere it stated:

...it appears that New Zealand has now entered a phase already experienced by a number of overseas countries where the impact of tight domestic credit policies

has been partly circumvented by companies which are able to raise finance from overseas sources.(29)

This was not the first time such comments had emanated from the Council. As early as 1966 it had remarked that, "The ability of some overseas companies to obtain finance from their overseas parent when credit is difficult to obtain in New Zealand may well limit the impact of a local credit squeeze on their activities".³⁰ Covering similar ground, Dr Sutch observed that "...firms owned abroad could raise finance from their parent company at a time when New Zealand-owned firms were being financially squeezed by the policy of the Government", and that "...in 1971, influential New Zealand firms were borrowing Euro-dollars and thus avoiding credit control in New Zealand to such an extent that some even met annual income-tax payments by such short-term foreign borrowing".³¹ Attempts on the part of Governments to protect their monetary policies frequently proved ineffectual. Referring to exchange controls, the Deputy Secretary (Industries) of the Department of Trade and Industry commented:

Despite exchange controls, it is quite possible for a foreign company to offset the balance of payments, at least in the short term - and the short term can be the crucial term in balance of payments situations - by its internal credit policy. By this I mean that, especially with companies with multinational operations, credit terms for raw materials, shipping and so on, can be adjusted so that the capital availability to the New Zealand company can be very substantially varied, in some cases from six to nine months' credit a year or two ago, to ninety days or shorter today.(32)

As well as having the capacity to circumvent the country's credit policies, financial institutions are often given encouragement to pursue lines of investment which

may run contrary to specific Government monetary policies and directives. It is a relatively simple matter for overseas financial operations to extend guarantees of financial support to New Zealand subsidiaries or associates involved in various types of "uncontrolled" investment activity. This occurred, as will be analysed in section two, when the commercial bill market was used as an instrument for avoiding central government directives regarding property speculation.

The evidence suggests that the increasing complexity of the domestic financial system plus the presence of a larger number of people with financial expertise and the growing participation of large overseas investors have made it easier for financial institutions to find ways, when they wish to, of circumventing Government policies. In short, the "ineffectiveness" of monetary policy and, concomitantly, the diminishing influence of the Government in the financial system may be attributed not only to the existence of a "dual market", but also to the quite deliberate decisions taken by those in positions of financial power to manipulate this market to their own advantage. While it may be useful, for certain analytical purposes, to use the abstract model of the market and to talk of such entities as the "dual market", the "controlled sector", the "uncontrolled sector", "captive" versus "non-captive" or "fringe" institutions and so on, the concern of this analysis is to understand the processes involved from the standpoint of human decision-making.

Those who hold positions of financial power in the "controlled sector" are often the same individuals who are instrumental in manipulating the "uncontrolled sector". Moreover, those operations which fall within the category of "uncontrolled" are frequently organised by, and integrated with, so-called "controlled institutions".

Within the controlled sector there has evolved a labyrinthine pattern of inter-locking relationships between a variety of different classes of financial institution, including mutual directorships and shareholdings. Significantly, the Monetary And Economic Council, Dr Deane and others have expressed concern about the way in which the country's financial system has developed in recent years.

There are increasing signs of the development of financial "Supermarkets" providing a much wider range of services than in the past. Not only are individual institutions initiating new forms of investment and lending where they are permitted to do so, but the fragmentation of the financial market is to some extent being overcome by the development of chains of associated companies. For example private savings banks are owned by trading banks who also have substantial interests in finance companies and merchant banks. This type of development can provide considerable benefits to consumers of financial services in terms of cost savings, expertise, and the range of facilities available. Nevertheless, it also contains the seeds of monopolistic developments which can militate against consumers' interests. Such developments, therefore, should be subject to supervision on behalf of consumers in the same way as any other potentially restrictive practice.(33)

Most commentators have argued that monopolistic practices are, in fact, a consequence of government controls. However, although observing that "collusion in the past has been associated with governmental restrictions", Dr Deane pointed to "...the possible need for adequate Government policy with respect to restrictive trade practices where these are judged to be not in the public interest. This is equally applicable to industries beyond the financial sector".³⁴ He saw the opportunity for central government to "...exert pressures to eliminate collusion by appropriate directives to the state-owned

institutions which operate in the financial sphere". Similarly, the M.E.C. observed: "The Government's own institutions can prove most valuable in promoting competition and are a very secure alternative service to the public".³⁵

The Nominee Company

Nominee companies are among the major financial instruments that comprise the "uncontrolled" sector of the financial system. In essence, the nominee company is a device through which solicitors may combine the funds of their clients into one larger amount for investment purposes rather than administering each individual amount separately. In law the company is not classified as a money lender but is considered merely a nominee acting on behalf of clients. Consequently, solicitors do not come within the definition of money lenders. Their responsibilities are confined to ensuring their clients' funds are properly administered in trust accounts and to collecting payments from borrowers through the nominee company. The solicitor charges for the latter service and it is only at this stage in the transaction that he benefits financially.

Thus, solicitors bring together, under the umbrella of a nominee company, those clients who have funds for investment and those who wish to borrow. In this situation there is no clearly identifiable money lender in terms of Government legislation, consequently the transactions that take place do not come within the scope of controls applying to institutional money lenders. Whereas various classes of financial institution are required to abide by central government directives regarding the setting of interest rates, nominee companies can demand as high an interest rate as the market will

bear. Typically therefore, during times of tight liquidity and stringent monetary control, nominee companies have been able to offer a return to investors far greater than that available elsewhere.

Because the benefit which accrues to the solicitor is limited to a collection charge, law offices are quick to describe the operations of nominee companies as nothing more than a "convenience" which facilitates the "traditional" and "ordinary" practices of solicitors with respect to the investment of their clients' funds. Nevertheless, these charges provide an extremely attractive source of income and business for legal practices. As a result, many solicitors have tended to confine their practices to the business of advancing the activities of their nominee companies. Generally speaking, people prefer to have their legal affairs handled by a firm that administers a large trust fund. There is also an expectation that solicitors should be able to assist their clients in finding loan money should they require it. The presence of a nominee company, while providing no guarantee of such assistance, does increase the possibility of getting access to some finance. One solicitor observed: "Every firm has to have a fund if it is to survive".

There is often a close association between the legal services rendered to commercial concerns and responsibility for securing attractive investment outlets for the latter's surplus funds. In addition, responsibility for a large accumulation of trust funds and a reputation for financial expertise often leads to senior appointments in the commercial world, such as directorships. In effect, solicitors provide an important link between the "controlled" and "uncontrolled" sectors of the financial community and can act as the means for circumventing central government monetary policies.

In 1972, the M.E.C. noted: "Hundreds of millions of dollars are channelled through solicitors and their nominee companies each year, often at high cost to borrowers".³⁶ The large sums that a number of law firms have in their trust accounts enable them to negotiate arrangements with banks and other financial institutions regarding interest rates and other matters. If these institutions are prepared to offer competitive terms then clients' funds are deposited with them. The M.E.C. observed: "...solicitors who have monopolistic privileges in carrying out conveyancing are in an advantageous position to act as brokers or intermediaries in the channelling of mortgage finance".³⁷ There has evolved through these "monopolistic privileges" complex networks of business associations which include bankers, financiers, solicitors, accountants, and other professionals. Investment funds are moved through the financial system with great speed and skill. Law firms with large trust funds maintain a careful watch over changing market conditions on a daily basis and have the expertise and connections to take quick advantage of new investment opportunities. One Hamilton firm, responsible for funds in "the seven figures", provides among other things specialised short-term investment services. The market is analysed before 10 o'clock in the morning and clients' funds placed in high-yield investments. Depending on the wishes of clients, funds can be withdrawn at shortly after three o'clock in the afternoon. In this way money moves rapidly through the financial system yielding substantial returns to investors. These activities are virtually uncontrollable from the point of view of Government regulation and primarily benefit wealthy clients and large companies. While this type of operation is common there is no detailed information about the amounts of money involved, the types of financial arrangements entered into, and so on. In 1970 the M.E.C. observed:

Information is not available on the growth of direct transactions between lenders and borrowers without the intermediation of financial institutions, but the Council believes that it has been substantial.(38)

As well as administering nominee companies a number of solicitors, often in partnership with accountants, manage private mortgage guarantee companies that operate virtually on the same principle as the nominee company. Investigation reveals that these individuals are often not reticent about advertising their professional occupations in promotional material aimed at attracting funds to their private operations. Some solicitors observe that this may give these operations an "aura of respectability which is thoroughly unjustified". Large financial institutions are also active in this field, having equity interests in contributory mortgage subsidiaries. Marac Nominees, a subsidiary of the Marac Group, for example, has the following shareholders: The Commercial Bank of Australia Limited, Security Pacific National Bank of Los Angeles, The Fletcher Group, and A.A. Mutual Insurance Company. The company only "arranges" investments for contributors and is thus able to avoid the controls applying to institutional lenders.

The significance of "non-institutional lending" in the private mortgage market, which includes not only the "loan arranging" activities of the solicitor's nominee companies but also an increasing involvement of institutions in "uncontrolled" investment activity, was examined by the "N.D.C. Study Group" in 1973:

It is not generally realised how important non-institutional lending is as a proportion of total mortgage lending or how trends in this respect are markedly different from those occurring in other English speaking countries. Equally important is the extent to which these trends are detrimental to the efficiency of the mortgage market and increase government's difficulties in controlling the availability of mortgage

funds for building.(39)

The report contained the following table of the sources of "finance for urban mortgages registered (i.e. residential and non-residential)".

<u>Percentage Distribution of Annual Registrations</u>								
Year Ending March	Govt.	Banks	Trustee Banks	Bldg Soc	Ins Coy	Private Individ- uals	Other	Total
1963	33.1	0.6	3.1	10.6	15.9	21.8	14.9	100
1973	18.6	1.2	8.6	10.4	8.0	21.9	31.1	100

"Other" includes some financial institutions, but is basically non-institutional funds. "Private individual" and "other" registrations rose from 36.7% of the total to 53.0% in 1973.(40)

The Study Group explained that, "Regrettably there are no New Zealand statistics of total residential mortgage debt outstanding with appropriate subdivisions"; however, "If available they would show that the proportion of total residential mortgage debt held by non-institutional lenders is relatively large".⁴¹

The growth in importance of "uncontrolled" institutions as sources of mortgage finance paralleled a decline in mortgage lending by life offices. In 1971 the M.E.C. reported:

It is clear that life insurance companies reduced their mortgage lending in 1970 and it has only been the strong increase in finance from the Government sector and the non-institutional sector that has sustained the high level of activity in the housing market.(42)

The insurance companies had reduced their lending by 9% during the 1970 period. The statistics used by the Council covered all types of mortgages - industrial, commercial and housing - and it felt that "a greater than usual" proportion of private funds "...will have been directed to a commercial rather than housing use during the past year because of the nature of demand for funds, higher commercial interest rates and development of new forms of mortgage lending, such as contributory mortgage schemes".⁴³ The trend continued in 1972:

In the year to December 1972, total assets of the major life insurance companies rose by 10½%. Within this total investment in land and property increased 18% but mortgages only 4%. These varying growth rates have resulted in a shift in the composition of assets away from mortgages towards land and property investments.(44)

As the "N.D.C. Study Group" noted, central government was having increasing difficulties in controlling the availability of mortgage funds. These difficulties lessened its "...ability to regulate the flow of private finance to the building sector".⁴⁵ The significance of this lay not only in its ability to accomplish its housing objectives but also in the nature and pattern of urban development in New Zealand. This issue is taken up in detail in section two of the thesis. At this juncture it is sufficient to note that the Study Group's recommendation was the same as that forwarded by the M.E.C., Dr Deane and others i.e. a flexible interest rate policy. The Group commented:

It would mean a much more efficient and controllable private mortgage market. Small savers in particular would benefit by receiving higher deposit interest rates than at present, whilst borrowers would obtain much larger first mortgages thus wholly or largely eliminating the need for second mortgages. This would probably require an increase in first mortgage interest rates but mortgage servicing costs could be less than the combined costs of current first and second mortgages.(46)

The National Administrations' Perspective

National's approach to the implementation of monetary control's varied between classes of financial institution. Life offices, which were well established and conscious of public opinion and the expectations of their

policyholders, were not difficult to negotiate with and often welcomed "arrangements". In contrast, finance houses were a loose-knit assortment of independent financial enterprises. Not being a class of institution with an understanding of the "rules of the game" which pertained to their activities in the financial system, finance houses were seen to require, and got, firmer handling. Their lack of cohesion and tendency to manipulate the "market" to their own advantage, often with the support of their overseas connections, made negotiation difficult and provided justification for control.

Thus, while National administrations preferred to negotiate, they frequently resorted to direct controls as was the case with the introduction of the "Capital Issues (Finance Companies) Regulations 1967". When difficult economic conditions prevailed and the "national interest" was at stake, National proved quite prepared to intervene directly in the financial system through legislative action. However, such measures as capital issues control were not, as far as National was concerned, an abnegation of the principle of non-interference in the market. Quite the contrary, the measures were introduced to safeguard the market - and thus the "economy" - from those institutions which took advantage of its laws rather than conforming to them. For the central government to provide a "management" function aimed at protecting the "economy" from abuses to its market mechanism was not considered an infringement of market principles. In this sense, controls were justified as a response to demands from the "economy" for action against those institutions operating in disregard of the "rules of the game". Other measures were interpreted in much the same way. Interest rate controls, for example, were viewed as a means for

securing economic stability. In responding to repeated representations from the Finance Houses Association for the revocation of the Interest on Deposit Regulations, the Minister of Finance said the following in 1972:

You will be aware that I have deliberately opted for a low interest rate policy at a time when international interest rates were hitting very high peaks and that I remain unconvinced that the interest rate as an economic weapon would be effective in the New Zealand economy unless it was to swing over a range that would be intolerable. It is not possible to argue from this that rates of interest are therefore unimportant.(47)

And:

The Interest on Deposit Regulations have, as their primary purpose, the reduction of borrowing rates and as a secondary purpose, the steadying down of the flow of funds into deposits which in many cases are unsecured.(48)

Control over borrowing rates, it is important to emphasize, were to be understood to result from an appreciation of economic necessity. For such action to have been taken for social and/or politically expedient reasons would have amounted to unjustifiable Government intervention in the market. As the M.E.C. observed, in speaking of National's controls: "...many of these requirements and prohibitions are not to ensure stabilisation or consumer protection but to maintain competition or viability...".⁴⁹

During a speech to the F.H.A. about the function of finance houses in influencing the "allocation of real resources to those sectors producing goods and services", the Deputy Governor of the Reserve Bank made the "rules" quite explicit:

If you perform this function wisely you will help the whole economy to grow and you will grow with it. If you do not do the job well, then the economy may grow less quickly and you will follow suit; either because ^{of lack of demand} the constraint of ^{for creditor because} the balance of payments will force Government to restrain demand by restricting the credit you give to the private sector.(50)

The "rules", which gave practical definition to the "needs" of the "economy", were not to be viewed as an imposed limitation by Government of the natural laws of the market. National wanted them to be seen as having emerged from the market itself and having the voluntary acceptance of financial institutions.

In 1968 an attempt was made to give these rules concrete formulation through the work of the National Development Conference's "Targets Committee". This Committee comprised individuals who had extensive experience as instruments of the market and could be trusted to act in its interests and those of the economy.⁵¹ By definition there was no inherent problem of conflict here. The market was the force of which the "economy" was its natural and substantive expression in the practical world. A "healthy economy" was one which resulted from conditions within which the market's natural laws could assert themselves. The political problem and sphere of Government responsibility, as National perceived it, was one of obtaining voluntary acceptance from private institutions of those "rules of the game" which would provide the conditions for a "self-regulating market".

The Deputy Governor reminded the F.H.A. of the work done by the "Targets Committee" and suggested that this should be their guide in decisions concerning the allocation of resources, and ensuring "...that to the maximum extent possible the financial savings of the community must be channelled into capital formation".⁵²

Continuing on, he said:

If financial savings are diverted by intermediaries back into consumption expenditure then the task of increasing capital formations will be that much more difficult.

I recognise that the large finance houses have an increasing proportion of their investments in the financing of capital assets but the importance of accelerating this trend should not be overlooked.(53)

The F.H.A. soon made suggestions about possible areas for negotiation:

In order to encourage members to play an even greater part in assisting export markets it has been suggested to the Minister of Finance that advances made in this sphere should entitle the lender to corresponding relief under the Capital Issues Regulations. Written submissions along these lines were made, and, with the permission of several member companies, a list of actual cases of assistance was given to the Minister to peruse. The Minister has since replied stating that there has been no change in Government policy, and that no concessions can be made.(54)

In 1969 the chairman was able to report that as a result of submissions on the "Capital Issues (Finance Companies) Regulations 1967" these "restrictive Regulations have now been removed".⁵⁵ Pointing out that the Association was "...disappointed at the fact that monetary controls are still kept on finance companies through the present ratio of Government stock" he went on to observe:

Having played the game, and assisted the Government to right the economy, we were expecting and hoping for complete freedom. Instead, a certain portion of our funds must now be taken up in Government Stock, but we earnestly look forward to the day when this and all measures of control can be abolished.(56) (my emphasis)

The above provides insight into the nature of the negotiating process between National administrations and private institutions. To abuse the "rules of the game", and thus to disregard the "national interest", was to risk penalties in the form of controls. To "play the game" brought with it the expectation of rewards in the form of greater freedom.

But while National preferred to see its monetary policies as responses to the "economy's" demands and generally having voluntary acceptance within the financial system, private institutions typically viewed them as an unjustifiable intrusion of Government in the "market" and the cause of undesirable "distortions" in the financial system. Their willingness to reach agreements was motivated not so much by economic as political considerations. In other words, the experience of controls, and the knowledge that they would be introduced if considered necessary, encouraged negotiation. For them it was more sensible to seek accommodation than to invite the imposition of blanket controls or to place National at risk by creating the environment for greater public interest in the Labour Party's economic policies. The M.E.C. observed:

Even without legislative or regulatory powers Government may influence the decisions of financial institutions by indicating to them what it considers to be desirable in the interests of the national economy. In most cases institutions will 'toe the line' under such circumstances since the possibility of enforcing a request of this kind by legislative means is always open to Government.(57)

As for National, it was more sensible to work within a framework of negotiations that would produce agreements likely to be adhered to than to create a climate in which private interests deliberately circumvented policies. Direct controls carried with them the threat of being

made unworkable or of causing unintended "distortions" in the financial system.

The M.E.C. itself saw National's policies in political terms. The policies were, it argued, the root cause of, rather than the solution to, distortions in the financial system. Attempts "to maintain competition or viability" were made necessary "because some previously introduced control has created an offending distortion".⁵⁸ Continuing, the Council observed: "Needless to say, such a policy can never be successful, and some restrictions on institutions inevitably create situations of privilege for others which they can use profitably".⁵⁹ Indeed, the fact that controls could be manipulated to give privileged opportunities in the "market" had encouraged institutions to view them as a source of competitive advantage and thus to invite even greater control. The M.E.C. noted:

Financial institutions themselves have contributed to the limits on their freedom to provide services to their customers. Too often the approach of some institutions to direct controls has consisted of endeavours to ensure that competing institutions are equally if not more constrained than they are.(60)

National was also reluctant to be seen to be directly intervening in the financial decisions of State owned institutions.

It was National's repeatedly stated view that State owned institutions competing with similar institutions in the private sector should operate in the same manner, and in accordance with the same market principles, as their private counterparts. They were expected to "supplement" the services already provided rather than to "supplant" those offered by private institutions. The furtherance of the "national interest", National argued, depended entirely on the evolution of a self-regulating market free of Government intervention and unnecessary "encroachment"

by State institutions. As the Right Honourable J.R. Marshall was fond of pointing out in opposing Labour proposals: "The National Party is dedicated to resisting the encroachment by the State into the area that is properly reserved for competitive enterprise".⁶¹ Under no circumstances was it permissible to place State institutions in a preferential competitive position with regard to those services provided by private financial intermediaries. This would have the effect of disturbing the "natural" order of the market upon which the "national interest" depended.

To further secure their independence, the directorates of State institutions were to be free of Government interference in their financial decisions. As in the case with private institutions, the relationship between National administrations and State institutions, such as Government Life and State Insurance, was not supposed to involve Government direction. An informant with Government Life informed the author that his life office views itself as being an "independent" organisation and not "State owned". There are no "government privileges" attached to its operations and it is expected to be financially self-sufficient. It is not in receipt of any Government financial support. The informant also observed that while the office is answerable to a Minister, who is also a member of the office's investment board along with the Government Insurance Commissioner, the Valuer General, the Secretary of the Treasury, the Public Trustee, and a retired Government Insurance Commissioner, in practice the "Minister has not sat on the Board in the past fifty years". One of the major functions of the life office, he explained, is to provide competition for private institutions. It was established initially to ensure that "overseas concerns would have to transact business competitively". That these concerns have lower premiums for their

policies in New Zealand than elsewhere in the world reflected, in his opinion, the office's success in providing competition of a kind that does not involve Government support.

Despite these comments there is evidence to suggest that National administrations were in the habit of interfering in, or "influencing", the financial decisions of State institutions. The M.E.C. has observed:

Government can...directly influence the activities of some institutions by reason of the fact that senior officers of the Treasury are members of the directorate, for example, the National Provident Fund, the Government Superannuation Fund, the Earthquake and War Damage Fund, the State Advances Corporation, the Reserve Bank, the Government Life Insurance Office, and the State Insurance Office.(62)

"Encouragement" rather than "direction" was the word often used on occasions when National administrations publicly admitted that they were attempting to "influence" the financial decisions of State institutions. In practice, however, overtures of "encouragement" were likely to be perceived in much the same way as "requests" were perceived by private institutions i.e. as directives. The use of such words as "encouragement" made central government interference no less real. Nevertheless, by choosing its words carefully and exerting influence covertly through certain members of directorates National was able to reinforce and to perpetuate the public myth of a free and competitive market as regards the activities of certain State institutions. This helped further to secure it from being held accountable for decisions taken in the financial sector. National administrations were no more anxious to be held publicly accountable for the decisions and activities of State institutions than to be in a position of having publicly to justify the consequences of "voluntary arrangements"

reached with private institutions.

Periodic "encouragement" reflected National's practice of foregoing the principle of non-interference whenever it became politically expedient to use State institutions to remedy "temporary" economic difficulties. Difficulties of a more permanent nature, such as investment in government securities and the availability of mortgage finance, led National to impose requirements on some State institutions. Analysing the approach taken to public debt policy the M.E.C. commented in 1972 that:

...almost half of the total internal public debt is held by government agencies

And :

Government-owned financial institutions ...are competing with other similar institutions and there is little reason why their government security holdings need to be any different from those of their competitors. However, the P.O.S.B. is required to invest in only government or S.A.C. stock, and the S.A.C. reserve is hardly comparable with the ratios applied to private sector institutions".⁶³

Elsewhere the Council observed: "The Government directly sets interest rates charged and paid by some of its own financial institutions, for example, the Public Trustee's Common Fund deposit rate, the Government Life Office's personal loan rate, and the State Advances Corporation's lending rate".⁶⁴ And:

Control of the three major savings banks has been exercised in great detail. The Post Office Savings Bank is directed by the Government in respect to the most important aspects of its activities. Because it must hold all of its assets in government securities it provides a large amount of the Government's loan funds and the authorities appear reluctant for this reason to remove from control the conditions of operation of the other

savings banks. These banks are able to make loans to the private sector and are thus more attractive to many depositors who may be concerned with their future prospects for borrowing.(65)

Privileges were allowable and provided for in cases where regulations worked to the detriment of State institutions in regard to their ability to compete in the market. The Council noted that "...they may be given certain privileges, such as lower tax rates or exclusive rights to offer particularly attractive services and assets".⁶⁶ The P.O.S.B., for example, "...has exclusive rights to offer bonus and national development bonds, to offer school savings facilities widely, and to credit some social welfare payments direct to deposit accounts". State institutions were also allowed to transact business with one another in much the same way as private institutions. In 1966 the M.E.C. observed that "...the State Advances Corporation requires its mortgage borrowers, when the loan exceeds two-thirds of the valuation, to insure their property with the State Insurance Office".⁶⁷

In the Council's view the necessity to provide privileges to restore equality of competition in the market was created in the first instance by government policies. Their effect was "inevitably" to create new distortions. These, in turn, were often the subject of further remedial action. Private institutions frequently expressed concern about the way in which this process ended up favouring State institutions. For example, in 1971 the chairman of the F.H.A. drew attention to what the finance houses saw as being National's reneging on assurances given at the time of the Development Finance Corporation's establishment:

...the Minister gave positive written assurance that it was not intended that the D.F.C. on a privileged and subsidised basis would operate outside the specific criteria of financing businesses unable to obtain funds on reasonable terms from the private sector. Nevertheless, it was not long and, in fact, amongst its earliest transactions that the D.F.C. refinanced loans already made by members of this Association.

From 1965 to June 1970 the Development Finance Corporation has made loans totalling \$9 million, a number of which I know could and would have been financed by the Finance Houses Association. This small volume of activity seems to have caused disappointment in the National Development Conference and official circles so that under pressure of demand to activate the D.F.C. last year Government by amending legislation removed the restrictive criteria upon which an earlier Minister of the Crown had given us such specific assurances.(68)

In addition to creating distortions in the market and causing concern among private institutions, National's efforts to right the competitive balance and to keep faith with the market had the effect of reducing the value of State institutions as instruments for promoting competition in the market. The M.E.C. commented:

...successive Governments have had a tendency to correct imbalances and structural problems in financial and other markets by directing their financial institutions to perform certain services that may temporarily solve the problems but which introduce further complications and distortions into the financial system.(69)

In other words, instead of using State institutions to encourage greater competition in the financial market, National administrations employed them as instruments for politically expedient solutions to financial problems. These problems in turn, the critics argued, could often be traced back to Government monetary policy.

In short, the existence of the self-regulating market was a myth. The perpetuation of the myth, however, had political value for both National administrations and private interests. National administrations were reluctant to assume overt responsibility, or to be held even partially accountable, for changes occurring within the country's financial system in regard to private investment decisions. Justifying its supposedly "non-interventionist" approach to private investment decisions on the basis of its responsibility to safeguard the "private enterprise system", National interpreted changes in investment patterns for public consumption in the context of such abstract notions as "market forces". Problems which these changes brought for people, as in the case of periodic shortages of home mortgage finance, were not to be understood to result from Government action or non-action but to be the consequences of a still immature market economy. Solutions would gradually and quite naturally emerge as the self-regulated market became, with National's encouragement, more sophisticated. That its policies amounted to direct intervention in the market and had considerable implications for investment decisions, were conveniently ignored. So also was the responsibility of individuals in positions of financial power, in both Government and the private sector, for making the country's investment decisions. The latter were to be seen merely as the passive instruments of the "market".

The market myth had the effect of enabling the Government and these institutions to reach points of accommodation with respect to the country's investment priorities without either party appearing to be ultimately responsible for the decisions taken. While the Government could use the ideology of the "market" to

remove itself from responsibility for the consequences of its monetary policy, the private institutions could answer their critics by pointing to interest rate controls etc. as the causes of changes in their investment patterns. On other occasions the latter found it good public relations value to be able to point to their commitments to such low-yield investments as government stock as a sign of their public conscience.

In effect, Government controls and "agreements" provided financial institutions with a ready justification for changing their investment priorities. These changes were paralleled by the transformation of their role in the "market" from being one of an almost passive investor to one of being an active creator of investment opportunities. In 1966 the M.E.C. observed:

Life offices adopt the practice of restricting their investment in any one company to a relatively small proportion of the total shareholding. Following overseas practice, New Zealand life offices have not played an active part in the affairs of companies in which they own shares.(70)

By the early seventies this had changed. It was clear that life offices were deeply involved in, and had decisive influence over, the financial decisions taken by companies in which they owned shares and for which they provided investment finance. Large conglomerates, such as the Fletchers Group, were coming increasingly under the financial control of their "funders" and being used as the instruments for furthering that type of investment which would reap large financial returns for life offices and supposedly their policyholders. This control was consequential not so much upon being a shareholder in a company - often the holding was quite small - but upon the company's dependent position as

regards finance. Speaking of the A.M.P.'s responsibility "to protect policyholders' interests", the chairman of this life office's parent board said: "This responsibility also includes the development, where necessary, of new investment opportunities...".⁷¹ Life offices, this and other evidence suggests, were no longer prepared to be a merely passive source of finance. In 1973 it was observed in the public press, in regard to their growing involvement in leasing and lease back, that: "The insurance companies and other institutional lenders want ownership rather than the lower return offered by mortgage investment".⁷²

The increasing scale and the diversity of financial institutions, coupled with the willing support of central government, contributed over these decades to the expansion of the major cities. It was in these centres, the experts argued, that economies of scale could be achieved that would make N.Z. products competitive on overseas markets, and act as an inducement for overseas investment. Industrial, commercial and domestic facilities could be achieved without appearing to involve deliberate Government policy. Public complaints and calls for Government action to control city growth could be brushed aside as being the talk of those wishing to subvert the "free enterprise system" or who lacked sufficient intelligence and/or knowledge to understand that the market, left to regulate itself, would perform in the "national interest" and thus to the benefit of all New Zealanders.

Life offices were unwilling to disclose information concerning their investment decisions. This reflected their desire to keep the public at large, and policyholders in particular, in the dark about changes in their investment policies. By favouring secrecy the offices

managed to avoid creating that sort of public outcry and disenchantment that would place themselves and the central government in a position of having to identify the public implications of their policies. Withholding information forestalled pressures and new investment decisions could take place surreptitiously. In 1972 the M.E.C. observed:

Undoubtedly, a proportion of policyholders saw the possibility of a future housing loan as a benefit of acquiring a life insurance policy. Until now the life insurance industry has not published figures showing the trend in growth of all its various investments. Had it done so investors acquiring policies with future housing finance in mind might have seen their diminishing prospects and gone elsewhere. Individual companies might choose to indicate the proportion of their assets they intend to keep in house mortgages should they think it commercially advantageous to do so. Bonus rates for such companies might be lower but more investors would have their own equity investment as an offset to a lower policy bonus. Currently, potential policyholders who want house loans in preference to higher bonuses have inadequate information to enable them to decide which life insurance company to choose.(73)

Mr R.I. Barker, Q.C., commented:

The chief justification claimed for the welter of real estate transactions into which most of the companies enter, is that, real estate investment is the best way of countering inflation, of thus keeping the policy holders abreast of inflation and of thus returning him better bonuses on his policy. This philosophy is cold comfort to the man whose policy does not mature until he dies and who is currently facing the problem of housing his family. Surely he would prefer a loan now to a few extra dollars bonus for his heirs.(74)

This situation, he believed, provided justification for some degree of central government control;

...there could well be some provision in the legislation that some minimum proportion of funds for investment be invested in homes or farming loans, such proportion being fixed in an endeavour to resolve the conflicting demands on the one hand of the immediate need of policy holders for housing finance and on the other, the need for a prudent and inflation-proof investment.(75)

As more people become aware that having a life policy provided no guarantee of mortgage finance, life offices managed to turn this knowledge to their own advantage. In addition to blaming the Government for exacerbating the mortgage finance shortage by imposing unreasonable security ratio requirements, the offices were able to project an image of financial responsibility during a time of rampant inflation by pointing out that their reduced commitment reflected a concern for the interests of all policyholders. They argued that the returns from the placement of funds in high-yielding investments, such as property and commercial mortgages, provided a much needed "hedge against inflation", and were evidence of sound financial management. The "hedge" came in the form of bonuses. Increasing yearly bonuses became the concrete expression of the life offices' success in carrying out their "trustee responsibilities". To service the needs of a "sectional interest" requiring mortgage finance, would result in lower bonuses all round and would run contrary to the principle of mutuality. In 1974 the Life Offices' Association observed:

Life companies are, in fact, major providers of home finance but their ability to supply this finance has been restricted to some extent by

their requirement to invest 30 per cent of their funds in Government and local body securities and to make investments that show sufficiently high returns to provide, in the interests of policyholders, a hedge against inflation.(76)

In summary, the attitude of life offices was that the investment losses incurred through their government security holdings had to be made-up, in the interest of policyholders, in high-yield investments. If the Government wanted more mortgage finance to be made available then it would have to reduce its security ratio requirements. Those policyholders in financial difficulties could always surrender their policies as the chairman of the A.M.P. Society observed in 1975: "Policyholders who elected to solve their personal liquidity problems by surrender of their policies, discovered that our motto - 'A Sure Friend in uncertain Times' - is just as valid today as it was in the beginning of our long history".⁷⁷

National administrations considered it neither necessary nor appropriate to involve the public in the complex exercise of economic management. Once elected they expected to be allowed, and to be trusted, to get on with the job of acting in the "national interest" without interference. In a similar manner, life offices expected to be thought of as "trustees" and to be depended upon to act in accord with the best interests of policyholders. Neither the voter nor the policyholder was regarded as well enough equipped to make considered judgments about what was in the "national interest" or for that matter in his own interest. This attitude certainly did not find favour with Labour. The difference in viewpoint over this matter was made explicit in a parliamentary debate on "The Reserve Bank of New Zealand Amendment Bill, 1973". In reply to remarks made by National's (Opposition) spokesman on finance Mr Muldoon, the Prime Minister said:

...there is no question where he stands. He stands with the private financial institutions. No wonder the I.M.F. wanted him as an employee; no wonder he has been sought by private financial interests as an employee, because he is dead opposed to the people of the country having a say in the financial destiny of the country.(78)

While the responsibilities and functions of Government were, in National theory, quite different from those of private concerns the supposed final adjudicator on decisions in both spheres was the same - the market. Under the circumstances it is perhaps not surprising that those in Government were expected to act in the interests of the market and found it not unreasonable to retain their positions on the boards of companies, and to secure their own private interests in the financial system, while carrying out their duties as elected representatives. In announcing the take-over of Superannuation Investments Limited by Broadbank Corporation Limited and the appointment of Sir Arnold Nordmeyer to the Board, Broadlands Dominion Group provided the following account of the Company's history:

S.I.L. started operations in Christchurch in 1959 and at present has 1100 members with a total investment of \$3 million. A former Prime Minister, the late Sir Sidney Holland, was the company's founding chairman and his son, the present Minister of Energy Resources, was also its chairman for a period. The Prime Minister, Mr Muldoon, retired as chairman in May last year.(79)

Certainly Labour was highly suspicious of the apparent conflicts of interest which existed among certain elected representatives of the National Party. During the debate referred to above the Prime Minister also drew attention to Mr Muldoon's chairmanship of S.I.L. and his opposition

to Labour's superannuation proposal.

The people ought to know how much faith they can put in the words of a man who has been travelling the country condemning another Government proposal while he holds an official position in a private company with a similar interest - namely, superannuation. He has not been running about the country talking about his chairmanship of the Superannuation Investment Fund. No, he wants to use the House to serve his and the party's private interests.(80)

To which Mr Muldoon replied:

A point of order, Mr Speaker, I did not think it would take the Prime Minister long to refer to my private interests, and he is now breaking the rules of this House by doing so. However, they have been disclosed on every occasion I have spoken on the matter to which he refers. They have been stated, publicised and reported.(81)

The potential for a conflict of interest is, apparently, removed when the connection is made public. The propriety of the arrangement is assured by its public knowledge. This personal exposure contrasts with the secrecy with which financial institutions and equivalent State owned organisations were making decisions directly affecting the country and the interests of citizens. Secrecy, rather than the so-called complexity of the financial system, precluded public scrutiny and understanding of the decisions taken with respect to the country's economic affairs. The principle of confidentiality in business decisions, which was very much a part of market ideology, applied to public corporations, such as the Development Finance Corporation and the Government Life Office, as well as to private institutions. This, plus the networks of relations among various classes of financial institutions, and

between these institutions and the Government, produced a small governing elite and a seemingly ignorant public.

The system of "agreements" which became the principal basis of the Government's monetary policy was the overt expression of this network's operation. As informants observed, active participation in the capital's "cocktail party circuit" and frequent informal contacts with businessmen and financiers - including so-called competitors - and politicians alike were important facets of "doing business" and influencing decisions which would later be announced as "agreements". It was hardly an environment conducive to active competition in the market place or to objective and open government. It was precisely this situation that led the Monetary and Economic Council, Dr Deane of the Reserve Bank, the Labour Party, elements within the National Party and others to call for policies to discourage monopolistic practices and to promote greater competition.

Given their belief in the competitive market as the most rational and efficient mode of economic organisation, the assessments and recommendations of orthodox economists could be taken as quite damning criticism of National's conduct of monetary and economic policies. However, their readership was largely limited to the Government itself and to private financial institutions. It had little more effect than to reinforce the ideology of the market place. They offered few insights into the political aspects of the country's financial system. Their comments tended to be restricted to some rather simplistic views about the possible effect of the Depression experience on those responsible for formulating and implementing financial policy and to the political difficulties inherent in the introduction of flexible

interest rate policy. The possibility did not, apparently, occur to them that the existing system was being deliberately perpetuated to secure the power position and financial interests of a small elite. Given their own positions within the system it was hardly prudent for them to be more explicit. It was more efficacious to offer criticism within the framework of orthodox market analysis and hope this would have some impact on the Government's conduct and formulation of monetary policy.

The public utterances of experts that, rather than a competitive market economy emerging in New Zealand, the trend was increasingly towards monopoly situations involving cases of collusion did not seem to worry National administrations. So long as it was possible to negotiate agreements having the effect of furthering the Government's economic objectives, monopoly and collusion really did not matter. They appear to have been accepted as a necessary stage in the evolution of a more diversified economy. In other words, to enact legislation with the purpose of enforcing competition and open business practices might make the financial system more fragmentary and less able to respond to the "needs of the economy" as perceived by the Government. Such would certainly have been more difficult to negotiate with. This, plus the shortage of people with the expertise necessary for financial management, was frequently used as a justification for not introducing legislation likely to halt the trend towards the consolidation of financial power in the hands of a few.

If any one thing characterised National's economic management it was the reluctance to conduct monetary policy on the basis of open intervention in the market. Changes in the availability of home

mortgage finance and so on were to be considered the product of skilful negotiation rather than direction. The reality of its interference and the absence of a competitive financial system were not acknowledged by National. Rather than evolving a coherent and co-ordinated economic policy that gave overt expression to the necessity for it to have a regulatory role over the financial system, National was more concerned with reinforcing the myth of the existence of a market within which all institutions competed free of direct interference, and through which the "national interest" would continue to be promoted. That the market was perceived as being real in the public mind, and in the minds of certain politicians, served to make National's economic decisions understandable, reasonable, and thus politically acceptable. The injustices created by these decisions went generally unrecognised, at least from the viewpoint of Government responsibility.

In short, under National the country had neither the advantages of a competitive financial system nor those of a more directly regulated one. While National's role in the financial system in respect of both private and State owned institutions was elusive, the likely consequences of its "requests", "encouragement", and so on, were apparent to the Monetary and Economic Council and to other economic analysts. The most serious of these consequences was seen to be the steady growth of monopoly control and concomitantly the decline of competition in the financial system. Ad hoc interference in the system, which became known as "fine tuning", did little more than perpetuate the conditions to necessitate further interference. In effect, National found itself enmeshed in a vicious circle. This is not to suggest that National was insensitive to

its position. In 1968 it attempted to extract itself and to set in place a policy framework, based on "co-operation" from all sectors of the economy including financial institutions, within which "national development" could be both planned and promoted. However, National's resistance to the type of planning that involved Government direction of the economy and the financial system, and its reluctance to acknowledge the impact of Government decisions on the nature and direction of economic development, made the exercise a difficult undertaking. The National Development Conference was set-up to get agreement on an approach based on the concept of "indicative planning". This, National hoped, would provide the framework for planned growth, while, at the same time, not violating the freedom of decision of the private sector. More will be said of this in the next chapter dealing with regional development.

The Labour Administration's Perspective

Upon taking office in 1972 the Labour Government began to lay the foundations for an era of "dynamic progress". Progress - by which was meant "social advancement" and increasing personal "well-being" - was to be consciously pursued within the framework of Government policy rather than assumed automatically to result from economic growth. Labour argued: "While stressing economic growth as the foundation for its social programme, the Government recognises that the desirability of high rates of growth is no longer unquestioned as a true measure of progress".⁸² Instead of being left to evolve and to operate according to its own laws, the "economy" was to operate within the

regulatory framework of specific Government policies aimed at advancing social objectives. In contrast to National - which had attempted through regulation to create the conditions within which the "natural laws" of the competitive market could freely assert themselves and generate the "national interest" - Labour intended to use the "economy" as the instrument or "servant" of the "public interest". "We are determined, therefore, that growth should be regarded as the servant of our social needs and not as the master of our environment".⁸³ This meant that the market's potential for self-regulation was to be treated as a fiction and the reality of Government interference given overt expression in the form of concrete social direction.

The substitution of the expression "public interest" for "national interest" reflected more than political convenience. While both expressions were equally abstract and nebulous they were not synonymous in what they reflected of the fundamental philosophies of the two parties concerning the relationship that should exist between "Government" and the "economy". With Labour, social objectives expressed in Government policy were no longer to be entrusted to, and made an accessory of, the market mechanism. Concomitantly the Government, rather than the market, was to be held accountable for the consequences of its monetary policies. Financial privileges and hardship were not to be rationalised as the anomalies of an imperfectly working market mechanism but to be treated as the product of deliberate human decision that required action by Government legislation in the interests of social justice.

One of Labour's first significant initiatives came in the form of "The Reserve Bank of New Zealand Amendment Act, 1973". Certain specific amendments are relevant to this

analysis as they were calculated both to strengthen and add to the functions of the Reserve Bank, making this institution a more effective instrument of the Government's monetary policy. Section 8 (i) (C) of the Act provided the Reserve Bank with the additional responsibility of "...ensuring that the availability and conditions of credit provided by financial institutions are not contrary to the public interest".⁸⁴ This gave statutory expression to the Government's intention to control credit conditions for the benefit of New Zealanders and to place the Reserve Bank in a position "to enable greater use to be made of New Zealand's real resources and to assist in the pursuance of Government's social and economic objectives".⁸⁵

Section 8 (3) expanded the Reserve Bank's sphere of regulation and control on behalf of the Government to embrace "any class of transactions of financial institutions" and "the borrowing and lending of money". An additional amendment to this section made the Minister's decisions mandatory by substituting the word "shall" for the permissive "may". The final draft of Section 8 (3) read in the following way:

- (3) The Bank shall, as directed by the Minister, regulate and control on behalf of the Government -
 - (a) Money, banking, banking transactions, any class of transactions of financial institutions, credit, currency; and the borrowing and lending of money.
 - (b) Rates of interest in respect of such classes of transactions as may from time to time be prescribed:
 - (c) Overseas exchange, and overseas exchange transactions. (86)

Thus the changes to the Act extended the powers of the Reserve Bank over trading operations to include all classes

of financial institution. The Minister of Finance explained the need for the changes in the following manner:

It is evident from the increasing strength and importance of those institutions operating in the non-banking area that a proper measure of overall surveillance is now required.(87)

Two additional sections to the Act delineated the controls the Reserve Bank was to have over non-bank institutions.

Section 34 A (i): The Reserve Bank may make recommendations to any class of financial Institutions in respect of their business.

Section 34 A (2): With the consent of the Minister of Finance the Reserve Bank may give them directions as to the policy to be followed in relation to lending and investments.(88)

It was explained that, "These recommendations and directives can only be made in respect of a class or classes of financial institutions and not to particular institutions".⁸⁹

An Amendment to Section 34 (4) gave the Government the authority to "specify the rates of interest to be paid to or by financial institutions" and a further change provided the authority to "require financial institutions to hold specified assets".⁹⁰ With respect to the former change:

...the Orders specifying interest rates already made under other Acts (such as those applying to savings banks and building societies) were deemed to carry on but the power to continue to specify interest rates was removed from these other Acts. Any changes to the rates set out in existing Orders will, in future, be made under the Reserve Bank of New Zealand Act.(91)

Regarding the latter change two orders were issued soon after the Act was passed. One, the "Life Insurance Companies Investments Order 1973", had the effect of formalising the previous Government's system of voluntary agreements with life offices. The other was the "Building Societies Investments Order 1973" and:

...prescribed the investments to be held by building societies which are the same as those previously prescribed by The Building Societies Amendment Act 1970. (The Building Societies Act 1965 continues to be administered by the Registrar of Building Societies). The main requirement is that each society must hold at least 5 per cent of its specified assets in qualifying public securities, of which Government securities must comprise at least 3 per cent of its specified assets.(92)

The term "financial institution" was also defined to make the intention of the "Amendment Act" explicit.

The definition was intended to be all-encompassing and is consequently very detailed. Broadly it covers any person who in the course of business borrows and lends, (including the accepting and granting of credit other than normal trade credit) and extends to persons who act as agents or intermediaries in the types of transaction referred to in the definition. It specifically includes trustee savings banks, private savings banks, life insurance companies and building societies.(93)

The Minister of Finance observed:

By introducing a comprehensive definition of financial institutions under the general surveillance of the Reserve Bank it will be possible for the Government to exercise a monetary policy, the effect of which will be evenly spread across the whole of the financial sector. It will on the one hand allow for a proper measure of control, and on the other hand offer a proper measure of equity.(94)

The Reserve Bank was clearly pleased with the changes to the Act and, it may be assumed, had been instrumental in bringing them about.

The 1973 amendments to the Reserve Bank of New Zealand Act fulfill a number of important purposes; to enable the administration of the financial system to be better co-ordinated by bringing credit policy for all institutions under one authority; to give the Government better control over the direction of credit and to improve the Bank's knowledge of the financial system through access to a wide spectrum of information and statistics. Overall, the amendments place the Bank in a better position to offer sound and constructive advice to the Minister of Finance and to carry out a comprehensive monetary policy.(95)

During the Labour administration it was normal practice for the Bank to confer with the Life Offices Association, The Finance Houses Association, and other representative bodies before making recommendations to the Government regarding monetary policy. In fact the communication was virtually continuous. For their part, the private institutions considered a willingness to co-operate and negotiate as being essential to the exercise of achieving a reasonable level of accommodation with the Government.

As well as being the vehicle for negotiation, the Bank had sufficient discretionary power with respect to the actual implementation of policy to avert any major disruption to the financial system or serious inconvenience to individual institutions. For instance, the Bank might find it advisable to permit institutions to have extra time within which to meet their stock ratio requirements. Research during the Labour Government's term in office indicated that the Reserve Bank developed the reputation, among private institutions, for having a "responsible

attitude" and for using its new powers sensibly. Only during the earlier period of the Government's administration, when the "Reserve Bank Act" was amended, did difficulties appear to exist. These were apparently caused by the Prime Minister's (Norman Kirk) reluctance to take economic experts into his confidence. His suspicion of financial institutions in general, and economic experts in particular, resulted, it has been argued, in a lack of clear direction and has been identified as one of the reasons for the economy "getting out of control" or developing a "hot house atmosphere" during 1973. Once Mr Rowling became Prime Minister a much more orthodox approach was adopted. The latter summed up his Government's attitude towards consultation with the private sector in the following way:

Naturally, Government policy cannot be framed in isolation of private sector views. A substantial exchange of information and ideas already takes place between the private sector and Government Ministers and heads of departments. However, there are limits as to what can be made public; moreover, given the selective nature of any consultation, the Government must naturally take care to avoid divulging privileged information. I believe the exchange of information between public and private sectors has increased considerably in recent years, helped, for example, by the Government's willingness in the economic sphere to organise and prepare papers for discussion meetings for economic leaders. The closer linking of sector advisory Councils to Cabinet has also had a beneficial effect in getting Ministers into close and regular contact with the private parties most interested in policy development.(96)

Thus, under the Labour Government the responsibility for administering monetary policy was centered in the

Reserve Bank. This institution was to be not only the instrument of Government policy but also a major source of advice on the formulation of policy and the vehicle for arriving at satisfactory agreements with private institutions over the way in which Government decisions could be implemented without disrupting the financial system or the operations of any class of financial institution. In other words, greater legislative control did not remove the need to act judiciously with respect to financial institutions as a group or to negotiate with them on matters likely to have significant impact on their operations.

Concern for their public image and the knowledge that the negotiating system would continue were partly responsible for the seeming willingness of private institutions to acquiesce in what appeared to be increased Governmental power to interfere directly in their investment decisions. But, more importantly, the Labour Government's move to translate the system of "voluntary agreements" into legislation had the effect of meeting requests from some institutions that steps be taken to enforce the "rules of the game". Not all institutions had conformed in their investment decisions to the "agreements" reached under National administrations. The effect of this lack of co-operation was to give the latter an unfair competitive advantage over those who were purchasing their share of low-yield government stock and investing in other comparatively unattractive areas such as home mortgages. Thus the move to statutory control was welcome in certain quarters. The Reserve Bank also observed:

While the 'voluntary' arrangement had worked reasonably well, it had been ignored by some companies and needed to be placed on a formal basis. A statutory requirement is more effective as a control measure from the point of

view of the monetary authorities and more equitable from the point of view of the life insurance industry.(97)

In addition, there was concern within the industry that some life offices were abusing the mutual principle and bringing the entire industry into public disrepute. One informant observed that: "It is possible to develop a balanced investment programme which provides a reasonably high bonus return and satisfies other demands as well". Some companies, he observed, were far more concerned with high yield investments than providing money for more immediate needs such as mortgage finance. During the research two companies in particular were identified by informants to fit into the latter category; namely, the A.M.P. Society and to a lesser degree National Mutual. Their activities, it was argued, were forcing other life offices to change their investment priorities in order to maintain competitiveness in the market. The Order was welcomed as a means of tempering this situation.

"The Reserve Bank of New Zealand Amendment Act", following as it did the "Life Insurance Companies Investment Order 1973", however, was not welcomed by certain leaders in the financial community. The chairman of the Commercial Union Assurance Company said the following in the Company's 1973 annual report:

I see in all these measures increasing Government interference in the rightful functions of the investment committees of Life Offices. As trustees for policyholders, the directors of a Life Office have a clear obligation to invest in such a way as will bring maximum benefits to each policyholder. These restrictions are making it increasingly difficult to faithfully discharge these responsibilities.(97)

In addition to passing amendments to the "Reserve Bank Act", the Labour Government legislated to control overseas investment. In July, 1973 the "Overseas Investment Act" was passed. This legislation provided for the establishment of an Overseas Investment Commission with the responsibility of examining investment applications and making recommendations to the Government. Pointing out that the Act would "...ensure that overseas investment contributes to the maintenance of a satisfactory rate of economic growth in New Zealand, while making certain that ownership and control of New Zealand resources is not unwisely or unnecessarily transferred to overseas residents",⁹⁸ the Minister of Finance provided the following general outline of how applications would be dealt with:

The prime consideration in assessing overseas investment proposals will be the nature of the contribution which the investment would make, both quantitatively and qualitatively, to New Zealand's development. The Government will also be concerned to see that the level of overseas ownership and control in particular industries is not excessive in relation to the benefits which New Zealand receives from this investment and that no overseas company is able to operate against the national interest. Where the interest of the applicant is merely to gain profits from property speculation or other forms of speculation, no approval will be given and where a proposal involves overseas ownership of land, decisions will be consistent with the Government's general land ownership policies.(99)

A few months later he explained to the F.H.A. how the new Act would affect the operations of finance houses.

First, any overseas owned finance company which is not currently operating in New Zealand will require consent to do so. In terms of current policy this consent would not be forthcoming.

Secondly, overseas owned companies will, as they do now, require consent to raise money in New Zealand. Present policy is for this to be given provided the funds are to be on-lent in New Zealand and are not for investment in real assets.

Thirdly, all finance companies operating in New Zealand will still require approval to borrow money overseas. As indicated in my Budget speech, conditions had reduced considerably the demand for overseas finance. However, some of the financial intermediaries were still showing some interest, and in view of the level of our overseas reserves and high internal liquidity, it was decided that in future applications to borrow overseas by finance companies would be approved only in exceptional circumstances.(100)

The Act represented no real departure from existing policy. This the Minister of Finance acknowledged during the second reading of the Bill:

In introducing this Bill in March I indicated that there was no essential change in the criteria under which the commission would work as opposed to criteria that operate at present and have operated since 1964.(101)

However, the Minister implied that under a Labour administration there would be a more responsible and discriminatory approach taken to applications made by foreign investors:

The Government intends to ensure that these criteria are applied with firmness, and also that any decision reached will be reached only after a very careful weighing of all considerations, and the advantages and disadvantages in each case.(102)

In effect the new Act did little more than replace a clause in the "Reserve Bank Act". The willingness of the Minister of Finance to acknowledge that the Act was not a substantive change in the country's foreign investment

policy reflected, it may be conjectured, a desire not to cause any unease within the international financial circles about the Government's attitude towards foreign investment. The Government did not want to create the impression that such investment was unwelcome.

The Government fully appreciates the role which private overseas capital has played and can continue to play in this country. New Zealand has been a capital importing nation since the beginning of European settlement. Over recent years about 13 percent of our total private capital formation has been provided by overseas companies and individuals. The present range and depth of our industry could not have been attained without the participation of overseas companies.(103)

On the other hand, the Minister's remarks made it clear that the Government intended to use the new legislation to protect New Zealand's interests. The N.B.R. observed:

...the chopper is in fact made of more than rubber, that whereas the National Minister of Finance, Mr Muldoon, generally let an application go through unless it was patently undesirable, Mr Rowling is insisting that the application does not go through unless it is patently desirable.(104)

Further to consolidate the country's position on overseas interests the Government moved to loosen the grip of overseas - owned shipping companies over the country's export trade by establishing the New Zealand Shipping Corporation. During the debate the Prime Minister observed:

Notwithstanding the very high dependence New Zealand has on shipping for its prosperity, we have always remained, in terms of our export trade, in the hands of overseas-owned shipping companies, and of shipping companies that also have

control of the purchase and processing of the products they ship to another market in which they also have substantial interest. This determination to break out and to have some means of protecting New Zealand's interests and establishing a competitive factor through this Bill is an important step forward.(105)

The Opposition attacked the Bill on grounds that applied to all the Labour administration's initiatives with the objective of greater Government involvement in New Zealand's economic affairs. The Leader of the Opposition, the Right Honourable J.R. Marshall, said: "The National Opposition is opposed to this Bill in principle, and we will oppose it because we do not believe that the State should take any greater activity in a sphere which is properly one for private enterprise".¹⁰⁶ To which the Honourable J.A. Faulkner replied, "Sell out to the overseas interests".

Further, the Government acted to obtain a foothold in the export-import area. On February 22, 1973, the Minister of Overseas Trade introduced the "New Zealand Export-Import Corporation Bill". He explained that the new Corporation would "...have the initial responsibility of co-ordinating and expanding overseas trading opportunities",¹⁰⁷ and would assist many of the country's smaller companies to export their products and become competitive in overseas markets. It was "intended that the new corporation will supplement, and not supplant, the efforts of the very many organisations currently engaged in exporting".¹⁰⁸ The Bill also aimed to encourage a greater diversity of exports.

The Opposition interpreted the Bill as supplanting a profitable private enterprise organisation, the Overseas Trading Corporation, with a "State trading organisation". The Bill's provision to allow the

acquisition of shares or stock in any incorporated company was particularly objected to. The Opposition Leader remarked: "This is an ominous provision because it empowers the State trading corporation to encroach on the field of private enterprise, not only by setting up the corporation itself but also by taking over established companies. We consider that it is an excessive power".¹⁰⁹ These criticisms and others aimed at exposing Labour's intention to destroy the private enterprise system failed to impress the Government. Mr O'Brien summarised the general feeling in the following succinct comment: "The State has been interested in health, insurance, transport, communications, banking, shipping, education, housing and forestry for a long time, and it is just sheer nonsense and idiocy for Opposition members to say now that the State should not enter into a field which is the heartbeat of New Zealand - overseas trade".¹¹⁰

To strengthen its position in the general area of economic expansion and in particular regional development, the Government moved to purchase all the shares of the Development Finance Corporation then owned by private companies. The Minister of Trade and Industry explained the purpose of this move in the following way:

The reconstitution of the Development Finance Corporation as a wholly Government-owned institution has been undertaken with the intention of strengthening the existing structure of the corporation to enable it to become a principal channel through which assistance can be given to industry on a selective basis. Considerable emphasis is placed by the Government on development and expansion of industry. It particularly wants the corporation to play an active role as a development bank in assisting new projects, promoting regional development, actively encouraging business, and increasing exports of manufactured goods.(111)

Labour's concern was whether the Corporation would be allowed to continue giving - as it had been suspected of doing - precedence to private interests over the "public interest". The "effectiveness" of the D.F.C. in the field of regional development and the issues surrounding its operation will be the subject of analysis in the next chapter.

The introduction of the "Commerce Bill" on March 28, 1974, made clear the Labour administration's intention to bring the business community under much closer scrutiny. The Bill's long title was: "An Act to make provision for the development of commerce through the encouragement of competition, the prevention of the mischiefs that may result from monopolies and mergers and takeovers, the fixing of prices in fields where competition is not present in sufficient strength, and the regulation of trade practices of all kinds".¹¹²

The Bill provided for the establishment of a Commerce Commission to take over the functions of the existing Trade Practices and Prices Commission and the Price Tribunal, and serve in an advisory capacity to the Minister of Trade and Industry on matters concerning monopolies, mergers and takeovers. In respect of the latter, the Minister would have the authority to take action where, in terms of the "public interest", they were considered to have "objectionable features". In addition, all mergers and takeovers, where the assets involved exceeded five hundred thousand dollars, had to receive clearance from the Minister.

The Bill also made hoarding, black marketing, and profiteering prohibited practices. Prices that exceeded 15% of the limits laid down constituted profiteering. In cases where full price control was not in force, profiteering was construed as occurring when prices were 15% or more in excess of the ruling prices for such goods and

services. Collective pricing arrangements were also to be brought under tight control.

The Minister of Trade and Industry argued:

The whole emphasis is on thorough, reliable, steady development through true competition. The very scale of commercial life in New Zealand, the very scale of our population, the scale of industrial enterprises and their production are such that they are more limited than is the case in many large countries; so it is important, in such a small, restricted, commercial environment, that there should be the full exercise of competitive rights. We should not allow a situation to develop where artificial restrictions are placed upon competition, promoted by some individual traders to their own advantage. Where competition is not present in sufficient force, and price control has to be resorted to, the Act should ensure that the rewards flowing from improvements in efficiency and productivity are fairly shared between consumers, traders, and all who have contributed to their production.(113)

These comments reflected the Government's determination to have the statutory authority necessary to regulate the increasing tendency towards monopoly domination in the market place. However, while the Minister referred to "true competition", the Bill was not aimed at securing competition for its own sake. Perfect competition, in the theoretical sense of the orthodox economist, was not the objective of this legislation. Its purpose was rather to provide the Minister of Trade and Industry with the power to investigate mergers and takeovers and to decide whether they would have the effect of lessening competition to the detriment of the "public interest".

The Opposition did not question the basic principle of the Bill. It restricted its comments to criticism of certain clauses and to innuendo about the "real" socialistic intent behind its introduction. The

Opposition's spokesman on trade and industry observed that his party had no objection to the consolidation of the two Acts or to the setting-up of a Commerce Commission. Neither was there objection to "...the commission being given authority to survey monopolies and in some instances to exercise control...".¹¹⁴ However, the Opposition would:

...scrutinise very closely the provision of Part III, dealing with monopolies, mergers, and takeovers. Some of these provisions are bureaucratic, some are unworkable, and some are not in the interests of the genuine development of competitive enterprise and the encouragement of competition. They are not in the public interest, or in the interests of the small businessman if he wants to retire or to sell his business. They are powers about which the Opposition is suspicious, and it will question the Minister and the Government very closely indeed.(115)

In response, the Government observed that the changes desired by the Opposition reflected both a misinterpretation of what was being proposed and an attempt to make the legislation ineffectual.

The National Party could not ignore increasing public concern about monopolistic control in the market, particularly during a time of widespread suspicion that rising prices reflected to some degree diminishing competition and "mischievous" practices. In an attempt

to degrade Labour's initiative without appearing to be in favour of monopolies some members of the Opposition raised, in an almost fatuous way, the spectre of imminent State control and accused the Government of creating mental anguish among "business people". The Right Honourable Sir John Marshall said:

It has long been known that the Labour Party is basically opposed to free, competitive, private enterprise, and in this Bill a number of features intrude upon and restrict private enterprise. It is well known that members of the Labour Party are basically in favour of socialistic or State intervention, and in many cases this Bill brings the State more into business than has previously been the case. All these trends come to light in the extension in this Bill to the law affecting commerce and industry.(116)

The spokesman for trade and industry observed: "Business people are worried about this Bill because it implies that they are not honest". To this the Minister replied: "Nonsense!".¹¹⁷ The Government had no other intention but to encourage competition he explained.

Let me make it perfectly clear that any manufacturer, importer, wholesaler, retailer, or supplier of services, or any other type of trader who believes in free and open competition and is determined to put his belief into practice, has nothing whatever to fear from the provisions of this Bill. He should, on the other hand, have the satisfaction of seeing the beliefs to which he adheres being accorded more specific recognition by the commercial community.(118)

The Government was as suspicious about the reasons for National's opposition as the latter was about the real intent behind the Bill.

One got the feeling that on more than one occasion the big boys had done a fair bit of leaning on their mates in the Opposition, and that the bigger, the greedier, the more powerful they were, the more they leaned. Be that as it may when a Government sets out to control prices and monopolies and provide ground rules for traders, those who show by the nature of their enterprise, that they have scant regard for principles are bound to get a little uptight.(119)

And:

They pretended in some instances that monopolies never act against the public interest, when everyone sees glaring examples of two big breweries chains doing just that in terms of the mad buying sprees of hotels, and the unscrupulous franchise dealing where they will only supply wines and spirits if you buy their beer. And then they have the audacity to seek price increases from the Price Tribunal.(120)

The subordination of the market to the "public interest" did not signal, as National warned it would do, the imminent destruction of the free enterprise system and the absorption of the "economy" under the umbrella of the "State". The "economy" was still to be accorded an importance and independent reality of its own with competition as its lifeblood. Equally the "Government" and the "social" retained their existence as separate real entities. The "economy" as illustrated in the following quote, remained the key to "progress":

Two conditions are necessary for faster progress. First, short-term economic management must keep the economy running close to full capacity. Secondly, there must be longterm economic policies which provide the incentives and the confidence necessary to maintain employment, production, and investment at a high level and which ensure that the nation's resources of capital and manpower are channelled into the most productive activities and enterprises.(121)

In practice Labour saw its role in the economy as one of "partner" with the private sector. "Partnership" meant providing an environment of "confidence" and encouragement for the "economy" while working in a mediating fashion to achieve a "balance" between the two forces of economic development and social progress.

There will be inevitably some conflicts between our social and our environmental objectives. Each such case must be carefully examined and fully debated if the country is to make the right decisions. The Government considers however, that it is quite possible to develop an economic pattern that serves our social needs yet still preserves an environment which enhances our lives.(122)

As will become clear in section two, Labour saw its role as "mediator" being dependent on its ability to negotiate with those centres of influence critical to its social policies. The strength of its negotiating position was, in turn, dependent on the emergence of a financial system free from the type of monetary regulation that encouraged monopoly and collusion and within which it could exert a strong competitive influence.

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110. Hansard, Volume 386, 10 October 1973, p.4335.
111. Hansard, Volume 386, 19 September 1973, p.3719.
112. Hansard, Volume 390, 28 March 1974, p.1280.
113. Hansard, Volume 395, 30 October 1974, pp.5425-5426.
114. ibid., p.5424.
115. ibid., p.5425.
116. Hansard, Volume 395, 30 October 1974, p.5423.
117. ibid., p.5426.
118. Hansard, Volume 395, 30 October 1974, p.5417.

- 119. Hansard, Volume 395, 30 October 1974, p.5436.
- 120. ibid.
- 121. 1973 Budget, Government Printer, 14 June, p.1.
- 122. 1973 Budget, Government Printer, 14 June, p.3.

CHAPTER THREE

CONTRASTING POLICIES - REGIONAL DEVELOPMENT

Regional economic decline, which had been a cause for concern after the Second World War and the reason for central government policy initiatives, sparked periodic investigations during the 1950's. Interest focused primarily on the circumstances of specific areas suffering from decline rather than on the formulation of national regional development policy. Among other acts, the central government initiated an enquiry into the economic potential of the West Coast in an effort to obtain advice as to the best way to assist this troubled region.¹

It is not intended to provide a detailed account of all the conferences, statements, and documents of various kinds which had as their topic the question of New Zealand's pattern of economic development. Much of it was highly repititious. An analysis of a few of the more important phases in the process of policy evolution is sufficient to identify the basic social, political, and economic principles which were seen to be at stake by policymakers and advisers.

An analysis of the evolution of regional development policy cannot be undertaken in isolation from larger and, in the opinion of some, more important issues. For example, national development of the country's overall economy was given top priority by both parties in the early sixties. As will become clear, the nature of the action taken to stimulate the national economy frequently had direct consequences for the central government's capacity to influence the pattern of development. Furthermore, it often reflected the governing party's philosophy regarding the extent to which central government should intervene in the economy. And, moreover, it sometimes suggested support for the opinion that, except in particularly unique cases, Government efforts to assist regions could thwart more important national objectives. The latter often appeared to influence the overt expression of philosophy concerning the idea of regional development.

The 1960 Industrial Development Conference is an appropriate point at which to begin this part of the analysis. Organised by the Labour Government, it had the objective of bringing the country's economy under examination. A series of economic crises, culminating in the very severe one of 1957-58, was given as the primary reason for seeking the co-operation of a variety of experts and representatives of interest groups in developing long term economic strategy. Some insight into the state of the economy can be gained from a statement made by the New Zealand Monetary and Economic Council in 1961:

The past 18 months have been a period of great prosperity for New Zealand. Production has increased substantially, and the consumption of goods and services has risen much more rapidly than production. This prosperity, however, is not soundly based. It has been made possible by an inflow of imports on a scale which cannot be sustained. Paying for these imports has already reduced overseas reserves to a quite inadequate level and made necessary substantial borrowing overseas. It is imperative that steps be taken now to reduce imports significantly, in order to bring them into closer balance with our overseas earnings.(2)

There was also the fear that Great Britain would shortly join the European Economic Community and no longer be able to give New Zealand exports preferential treatment. This threat, plus the desire to establish a strategy for long term economic planning presumably put such sectional interests as Federated Farmers and the manufacturers in a reasonably co-operative state of mind. As it was an election year it may be assumed that the Government was anxious to reassure the public that it was taking positive steps to evolve a strategy which, because it had the support of sectional interests, would have every possibility of protecting the country from further crisis situations.

In his opening speech the Prime Minister explained that the 1957-58 crisis had helped to pinpoint "the centre of our problem". He was recorded as saying:

Although New Zealand industry had developed, that growth had not been fast enough to diminish our reliance on imports. In some ways our economy was even more reliant on imports. Instead of depending on imports of finished consumer goods we were now dependent on imports of raw materials, machinery, and equipment. New Zealand industry, generally speaking, had done little therefore to reduce our vulnerability - our excessive dependence on the traditionally fluctuating prices of a small number of farm products.(3)

The Prime Minister noted that it was his Government's intention to enact policies to reduce New Zealand's vulnerability to fluctuations in the prices of its exports and its reliance on imports.

It is the Government's aim, therefore, to encourage the development of industries which can process New Zealand or imported raw materials in their crudest form through to their most finished stage. At the same time, the Government will encourage the exploration of new resources, including minerals, chemicals, and electric power, new uses for existing resources such as the products of our farms and forests, and the development of new skills. Only in this way can our scarce foreign exchange be used to the fullest advantage.(4)

From their discussions, Conference delegates arrived at the conclusion that New Zealand should formulate "... a national, co-ordinated policy, to increase export income, expand New Zealand's production, and decrease reliance on imports".⁵ In principle then, the Conference gave its full support to the Government's intentions. It also recommended that the major instrument for facilitating the country's new economic policy should take the form of a National Development Council with the following functions:

Carrying out a continuing review of the rate of economic growth necessary to maintain and improve the standard of living.

Advising on means by which this rate can be achieved.

Helping to promote the conditions precedent to the entry of new products into export markets.

Advising on regional development problems.

Advising on the improvement of productivity.(6)

It is important to note that regional development problems were considered important enough to merit inclusion in the list of functions. More will be said of this further on. First, a Conference recommendation to establish an Industrial Finance Corporation "to provide capital for development" deserves attention. A Conference committee concluded that such a corporation would be able to assist industries having "great difficulty in raising establishment and development capital".⁷ At the time trading banks were primarily providing working capital and were uneasy about moving into the riskier business of development finance. The Conference also supported the Committee's opinion "... that one of (the Corporation's) functions could be to divert finance into development rather than less essential ends".⁸ Furthermore, and significantly, the Conference gave strong endorsement to the Committee's view that, "Such a corporation could also be a useful means of ensuring that a substantial measure of control of overseas companies established in New Zealand remains in New Zealand hands".⁹ While planning for future economic prosperity was the dominant theme of the Conference, the goal of retaining domestic control over the economy was of equal concern. The country's autonomy was not to be sacrificed in the interest of economic development. This was not to suggest that the Conference was unwilling to accept the importance, and indeed the need, for overseas investment. Quite the contrary, it was recognized that such investment, bringing with it new technology and skilled people, would make a substantial contribution to the economy's growth. The point was rather that the form of overseas investment should be such as not to seriously weaken New Zealand's control over her own economy or place undue pressure on internal loan facilities.

The Conference considered that there should be the maximum possible participation from within New Zealand in the equity capital of companies established here from overseas. Otherwise the overseas companies may tend to raise only their loan capital from New Zealand savings at lower rates of return. If overseas companies can be encouraged to contribute as much of their capital as possible in the form of loans (which could also be arranged by the Government and through an industrial finance corporation), the commitment on New Zealand's overseas resources will be limited in time and extent, and New Zealand persons will have better opportunities to take part in the management of such concerns.(10)

Thus, an Industrial Finance Corporation was considered the mechanism through which overseas investment could be overseen and/or channelled in accordance with Government economic policies and priorities. Since the whole idea was basically a new one it did not receive detailed formulation by the Conference. Its potential in the areas of development finance and overseas investment had sufficient appeal for the Conference to conclude that the specific scope and functions of the proposed corporation deserved further investigation. One opinion, that "its operations should cover all economic activity",¹¹ serves to illustrate not only the rather general nature of the Conference discussions but also the feeling of certain delegates that the corporation should be given wide-ranging responsibilities. Considering this all took the form of an exploratory discussion it is not surprising that no specific mention was made of using the corporation to influence the country's geographic pattern of economic development. This idea was to evolve in later years and become a focus of political debate.

The question of decentralisation, while being treated as a separate issue, was given very serious consideration at the Conference. A committee chaired by a business executive from Dunedin noted:

The opinion was firmly advanced that there were advantages in decentralisation of industry, with a better balance of population, and with better employment opportunities in the smaller centres, allied with relatively freer supplies of skilled and competent workers.(12)

The Conference as a whole agreed with the committee's views that there were "advantages" associated with decentralisation. Exactly what these "advantages" were was not particularly clear. That communities suffering from economic decline or stagnation might benefit from new industrial growth seemed reason enough to pursue decentralisation. In other words, decentralisation was being looked upon as a means of assisting communities experiencing economic difficulties. No mention was made of the possible "advantages" that might accrue to the nation as a whole. For example, no reference was made to the problems developing in larger centres as a result of rapid growth and the likely beneficial effects of decentralisation for these centres. Discussions about the pattern of industrial development were, in effect, in their infancy stage and had yet to develop beyond a concern for the situations of certain smaller centres and a feeling that the country should move towards "a better balance of population". The Conference and the committee, however, were far more specific regarding the actual means of facilitating decentralisation. In its report the committee observed that "... incentives should be provided by local or Government authorities for industries to become established in smaller centres".¹³

These might take the form of preferential power charges, rate concessions, and the provision of special factory estates providing ready built factories for lease or sale. The railways, too, could extend the concessions they already offered in the way of bulk loading, freight reductions, and other incentives.(14)

It also noted:

The Committee considered, however, that perhaps the greatest incentive of all would be the provision of low-cost housing for workers. Where such housing was available, industries tended to establish themselves, and the Government and local authorities should make special provision of additional housing in areas where it was desired that industries should be set up.(15)

These are significant statements. They make it clear that the committee members were aware of the important influence the central government had over industrial location decisions through its policies on housing, freight rates, and so on. Consequently the Government was seen to have a major responsibility in the furtherance of any decentralisation policy. Secondly, they exemplified the committee's philosophy concerning the approach to be taken in stimulating growth in smaller centres. Incentives were recommended rather than the use of central government directives to industry. Thirdly, local authorities were expected to show initiative and shoulder a fair share of the burden of attracting private investment.

Continuing , the committee noted the importance of co-ordination between the two levels of government and recommended the setting-up of "an overall co-ordinating authority".

... an overall co-ordinating authority should be developed from the present facilities provided by the Department of Industries and Commerce for the collation of information on the industrial potentialities in various areas, which could be made available to inquiring industrialists. This central bureau could also give advice to regional communities on the best ways of providing incentives which could attract industrialists to their areas.(16)

This recommendation in fact arose out of the committee's discussions on town and regional planning. For the committee, the principle of planning had a direct bearing on the question of decentralisation and the state of planning at the local level was cause for concern.

It was pointed out that administrative problems were giving exceptional difficulty. It was stated that local government arrangements in some areas were out of date. There was no adequately constituted organisation for assembling and assessing facts and indicating solutions, and it was stated that the time had come for the setting up of a national development agency to assist local authorities with their planning problems.(17)

This statement re-emphasised the need both for local authorities to realise that often their development problems were of their own making and for Government to acknowledge that action should be taken to establish a co-ordinating and advisory body which would have as one of its functions assistance at the local level. It is important to note that the role of the proposed National Development Council would be to give assistance to local authorities, rather than to direct their activities. Presumably the Conference was as unwilling to propose direct intervention in the affairs of local authorities as it had been to suggest interference in industrial location decisions.

Planning, therefore, was not to be foresaken in the interest of attracting private investment, but to be included as an integral part of the regional development process. Without planning it would be virtually impossible to develop the co-ordinated approach required to assess and promote a region's resources and to identify where local authority initiative and/or central government assistance might be necessary. Rather than endangering a community's or region's potential to attract private

investment, proper planning could be a positive advantage. It may be inferred that local authorities were being urged to endorse a regional approach to development, rather than to act independently of one another. While each community was largely responsible for its own development, considerable benefit could be derived from a co-operative approach on certain matters. With respect to the capacity of local authorities to accommodate new industry, the Conference recommended that, "They should be given the power to acquire and develop land for industry, and helped to develop 'nursery factories' and workshops for sale or lease to small industries".¹⁸ Thus, in addition to providing assistance it was also necessary for central government to remove certain legislative impediments to local initiative.

Significantly, planning and co-ordination within and between both levels of government were considered essential to the job of bringing about national economic stability and a more balanced geographic distribution of development. The National Development Council, together with an Industrial Finance Corporation, would allow the central government to evolve a national development strategy. That the Conference's decisions and recommendations were sometimes disjointed, vague and inconsistent reflected their exploratory nature. Further investigation and thought were required before more definite advice could be given. What was clear was that the Government intended to embark upon a new approach to economic development. The author of a background paper,¹⁹ entitled "The Regional Distribution of Industry", put the new course succinctly with respect to regional development.

Whether we like it or not, and whether we want it that way or not, we live in an age of planned and managed national economies. That involves us in the planning and management of our national economy, and that, of course, involves us particularly in trying to arrange matters so that industry in New Zealand serves all our interests effectively from one end of the country to the other.(19)

It was also this person who most clearly summarised what would become the Conference's attitude towards central government involvement in the economy. Again speaking about regional distribution of industry he observed:

We must...consider it in the light of the powers and duties of Government. In other words, from the extent to which Government ought to or can influence this distribution. Influence seems to be the proper and exact word to use, as opposed to direction. In fact, direction in any detailed way is hardly practicable and would involve us in considerable difficulty. It would seem that inducement and support are the methods most open to Government in the use of its powers and the discharge of its responsibilities.(20)

To accept that industrial location decisions are of a natural self-locational kind would be, he argued, "...to come to the conclusion that by reason of their natural resources and advantages some areas of New Zealand will grow more quickly than others, and that growth will snowball".²¹

In other words, we would find ourselves accepting the conclusion that industry is dependent on local assets, and that industry attracts population and that population attracts industry. If we were to accept that conclusion we would also have to accept the proposition that a national economy is unmanageable and that, in effect, it must be allowed to manage itself.(22)

The fact that he rejected the latter argument in favour of the principle of the managed economy, placed him in conformity with the Labour Government's philosophy. The Prime Minister had made it clear in his opening address that the Government had no wish to introduce controls over economic activities.

It would be fair to say that the Labour Government and certain civil servants had had a decided influence over the deliberations of the Industrial Development Conference. The extent to which certain recommendations would be carried forward into policy, however, now seemed to depend on the results of the general election. As will become clear, the National Party was less than enthusiastic about the concept of a managed economy based on a more dominant government role in planning.

The Labour Government lost the 1960 election and the National Party was returned to power. The ensuing months were taken up with wideranging discussion about the new Government's intention to apply for membership in the International Monetary Fund. Warning that membership would result in detrimental interference in New Zealand's economy and policy-making, the Labour Party strongly opposed the application. It is sufficient for this analysis to note that the National Government's position regarding the importance of New Zealand becoming a member of the I.M.F. heralded a dramatically new approach to the problem of economic planning. Despite this change in direction, concern about balanced growth did not subside.

In 1962 a seminar on regional development was held in the City of Hamilton. One of the country's most senior civil servants, W. B. Sutch, Secretary of Industries and Commerce, was a guest speaker. It is worthwhile analysing some of his comments in order to gain an impression of the way in which one experienced Government adviser viewed regional development policy. In typical fashion, the Secretary reminded the seminar of the economic difficulties New Zealand had been experiencing since the Second World War. Continuing, he dealt with such questions as what defines a region, what factors make it an economic unit, and why certain regions may begin to decline economically and development increase elsewhere. Growth in manufacturing was responsible for greater

concentrations of growth he argued. This growth could become cumulative.

The establishment of manufacturing also causes a greater concentration of incomes, and provided the income is not spent outside the region this concentration attracts more servicing and other industries, and income tends to increase cumulatively.(23)

Regional decline, the Secretary pointed out, could result from a variety of factors including the type of farming in a region and a dependence on an extractive industry. The solution to decline lay in comprehensive regional planning.

The combination of the financial and material resources of a considerable number of local authorities can be much more effective than individual and generally unco-ordinated efforts of many small interests. Effective pooling of efforts and resources can allow the collection and collation of material to provide a blue-print of a region's resources, and to present a broad view of the problems affecting a region. It can form a balance grouping to keep central government aware of any special social or economic features of the region which may deserve aid from national rather than local resources.(24)

There could be no doubt that a continuation of parochial and conservative attitudes at the local body level would severely restrict the opportunity for economic growth. As the Secretary saw it, co-operation at the regional level was the key to stimulating development.

The pursuit of purely local interests and the inevitable conflict between localities which can result are not only against the interests of the region as a whole, but, in the long term, against the local interests themselves.(25)

The argument was clear. As single, competitive units, local authorities had little chance of attracting private investment or Government assistance. Together, working co-operatively within the framework of regional policy, they could develop the base for economic growth from which they could each expect to benefit. Not ignoring the prospect that this approach might simply result in a transfer of competition and parochialism from the local to the regional level, the Secretary noted the need for co-operation between regional authorities. Again the same principle would apply. Each region would benefit from the ensuing co-ordination of activities.

Significantly, the Secretary discussed the advantages of regional development for larger centres. The 1960 Conference, it has been pointed out, did not delve into this matter or assess the benefits of stimulating regional growth for the national economy. The Secretary noted:

Land costs in large centres are high for industry; the cost of service increases of housing and industry spread beyond a central area; valuable time and energy is spent commuting to and from work; and the cost of housing and cost of living in general increases as the rate of housing and servicing development fails to keep pace with the growth of population. (26)

Thus the goal of achieving more balanced growth was not to be treated as just worthwhile in its own right or as having benefit only to declining localities, but assessed in terms of its broader implications. These included concern for the stresses building up in larger centres which had direct financial consequences for industry and the centres themselves. A comprehensive regional development policy would serve to ameliorate the problems of decline and growth simultaneously. From the point of the national economy there was every likelihood of further benefits.

The point is that while a region, through co-ordination and promotion of its own facilities and resources, can become a more productive area, socially as well as economically, it should also be capable of making a significant contribution to expansion of the whole economy.(27)

Far from constituting a hindrance to national economic growth, regional development would ensure a greater utilisation of the country's productive resources. Despite the apparent good sense of this view, it was not, as will be seen later, held by certain politicians.

In his concluding remarks the Secretary drew attention to the "Town and Country Planning Act 1953". This piece of legislation, he observed, provided the framework within which regional planning authorities could be established. Such authorities were responsible for preparing schemes aimed at promoting the economic development of regional resources, and "... the co-ordination of such utilities, services and amenities as are not limited by the boundaries of any one local authority."²⁸ While, "Historically, the second purpose became important first",²⁹ the Secretary was apparently anxious to draw attention to the fact that the legislation did not limit an authority's role to that purpose only. Regional planning encompassed far more within the Act and incorporated planning for economic development as well. In other words, the legislation was there; it was up to local authorities to make full use of it.

Emphasis on local initiative within the context of a regional perspective was the chief theme of the Secretary's address. The question of central government responsibility was not pursued to any great extent.

Government can assist in many ways to help the development of a region. It has certain national responsibilities for the provision of roads, electric, power, schools, and so on, and it endeavours wherever possible to

work closely with the aims of individual regions. Government can assist in less material ways by providing information about regions, regional and economic surveys, expert advice on particular developments, but in essence the growth of a region depends on its resources, and how the public within the region can develop them.(30)

The Secretary made no reference to the need for a national development strategy, or of the ways in which the central government could be of specific assistance to regions. These omissions might be considered surprising in the light of his view of the potential benefits of regional development to the country as a whole. To be fair, however, he was not in a position to go beyond an assessment of the potentialities of existing legislation and Government policy.

By this time National had made it very clear that it did not view central government as having any responsibility for effecting changes in the national pattern of development or pursuing a national development strategy. The natural forces of the "market" were to be relied on for making local decisions and there was to be no incursion of Government into the financial system. The latter was emphasised in the approach taken to implement one recommendation from the National Development Conference and that concerned the establishment of an Industrial Finance Corporation to assist small and medium-sized firms with loan finance. In 1962 the Government announced that it would "... assist in the formation of an Industrial Finance Corporation, but private enterprise will be expected to supply the bulk of the capital and have majority control".³¹ Having said this the Government gave the Tariff and Development Board the responsibility of conducting a public enquiry into the proposal. The Board's report, dated May 16, 1963, recommended that a Development Finance Corporation

... should be established with the primary function of providing capital or assisting in the provision of capital where the interests

of the economy require that the particular industry or firm concerned should be established or encouraged to develop. Its activities should be directed wherever possible to those industries and businesses which are unable to secure adequate funds on reasonable terms suited to the circumstances of the industry or firm involved. It should supplement, not supplant, the activities of existing institutions and must seek to cooperate with them.(32)

In accordance with the Government's views, and those expressed by private institutions during the enquiry, the Board recommended that the new institution should not be State-owned, arguing:

...and it is undesirable for the Government to be too closely associated with individual investment decisions in particular cases, except in special circumstances, and for an institution designed to promote industrial development over a wide field to be subject to possible allegations of political influence.(33)

And:

It is considered preferable that whilst the Government should assist in industrial financing, any special organisation for this purpose should be so constituted as to attract private capital for its purposes. This would in our view be better achieved if the institution was not Government owned.(34)

The new Corporation was set up under the "Development Finance Corporation Act, 1964", along the lines of the Board's recommendations. Insurance companies and trading banks acquired seventy percent of the subscribed capital (forty-one percent and twenty-nine percent respectively) and the Reserve Bank acquired most of the remaining thirty percent. Out of a membership of ten, the private institutions were allocated seven representatives on the board of directors and the Government only three. Not

surprisingly, Labour vigorously opposed the way in which the Corporation had been constituted. Far from reflecting the views expressed at the 1960 Conference the Corporation represented, in its view, a sell-out to private overseas interests.

The Masterton Seminar

The Hamilton seminar was one of many such meetings held throughout the country during the middle sixties. One of the more interesting for the purposes of this analysis was sponsored by The New Zealand Counties Association in 1966.³⁵ Hosted by the community of Masterton it involved contributions from a variety of interested people and organisations. The record gives an insight into the National Government's policy regarding decentralisation and the opinions of experts in both government departments and the private sector. In addition, experts from organisations such as the New Zealand Institute of Economic Research (N.Z.I.E.R.) were also involved.

Before dealing with the opening address of the Minister of Industries and Commerce, it is appropriate to examine the contributions made by other guest speakers. In this way it will be possible to better assess the impact of the Minister's remarks from the point of view of the factors influencing Government policy.

The Secretary of Industries and Commerce and the Senior Research Officer of the N.Z.I.E.R. took the opportunity to assess some of the forces which affect national economic development patterns. Their presentations evinced not only a professional understanding and knowledge of the principle of decentralisation but highlighted some of the difficulties that policy-makers would encounter in attempting to reach the goal of balanced growth. The central government, it became clear, was not without thoughtful advice. For while the speakers tended to concentrate on economic matters, their analyses

revealed a willingness to treat general social considerations seriously.

Having pointed out that, "The regional distribution of population and of economic activity results from the interaction of many factors", particularly "human decisions", the Secretary of Industries and Commerce felt it important to give a brief explanation of the "tendency for industry to concentrate".³⁶ His analysis was similar to that of his predecessor, Dr. Sutch.

The tendency towards concentration reflects a number of influences. The existence of a market, of transport services, of power, of a pool of labour, of materials, of ancillary industries and of finance - all tend to attract new industrial development. Once operating, these factors are reinforced by the ability of large and wealthy centres to provide the social services, entertainment and education facilities which attract people.(37)

He further observed that, "Both economic theory and industrial experience tell us that economies result from large scale production".³⁸ Such production was often more easily accommodated in centres having a large and skilled labour supply and a variety of services. There are "important exceptions", he noted, pointing to resource-based industries and certain kinds of processing units associated with agricultural production. For his analysis their importance lay in no small part in providing support for his contention that, "The tendency toward concentration of activity is thus no more than a tendency. Many factors can override it".³⁹ So while "The influence of the market has been a dominant theme in New Zealand's industry",⁴⁰ there was ample evidence to show that it was not the only factor in the pattern of economic development.

Notably, the Secretary did not hold the view that a continuation of the "tendency" was inevitable and thus a more or less natural process immune ^{from} influence or direction by human decisions. Neither did the Secretary wish to convey the impression that change in the direction of development depended solely on decisions taken on economic grounds only. And, perhaps more importantly, consideration of social factors did not, for him, exist in isolation from or subordinate to, economic concerns. He observed:

... it is important to recognise that the internal and external economies achieved by large scale industrial activity are not achieved without cost. These costs usually arise outside the direct concern of industry. They are usually social and the reconciliation of the technical advantages of large scale production with broader social aims raises some of the major problems faced in forming regional policy.(41)

Granting that New Zealand had not reached the same level of centralisation as some countries had, he considered it useful to outline some of the deleterious socio-economic effects of a high degree of centralisation. The country could not afford to be smug in the light of overseas experience. Referring to stagnating areas, he mentioned the problems of "... under-employment in the less developed regions ...", and the "... often considerable waste of social capital investment in such areas as a result of unused capacity. For instance, roads, railways and power facilities may be used at less than capacity".⁴² On a general level he noted that:

Uneven economic development can cause centres which were important to stagnate and prevent others from developing. Stagnation can be cumulative and have a reciprocal effect on the centre's hinterland. Less money or finance flows from the surrounding country to the town and the town itself can provide fewer services for the rural population.(43)

On the other, hand growing centres also experienced difficulties.

In the high density areas ... over use of ... facilities can lead to diseconomies of another sort. High peak requirements for power may need large expenditure to increase power supply; congestion on roads involves extra costs either through the slowing down of traffic flows or the need to provide alternative routes; larger housing areas mean increased demand for a mass of related services such as shops and schools - a demand that can cause an added strain on facilities.(44)

It is noteworthy that the Secretary observed that while social costs are difficult to measure or to express in quantifiable terms, they "must be taken into account". He asserted bluntly: "The ultimate aim of increased production is an increase in human welfare. Such an increase will not result if increases in social costs outweigh the direct benefits of the increase in production".⁴⁵ The question of whether or not New Zealand's pattern of development was resulting in excessive social costs was to become a highly controversial issue.

In his presentation, the Research Officer from the N.Z.I.E.R. pursued a similar line of analysis, part of which dealt with the usefulness of economic theory. Observing that, "Most people ... would agree that an active policy aimed at limiting and if possible reducing the economic inequalities between regions of New Zealand is desirable", he went on to say that "... the opposite would follow from the well-known theorem of economics that if a perfectly competitive market is left to its own devices without interference, it will eventually settle down ...".⁴⁶ This particular theorem, the Research Officer explained, could be questioned on three counts. The first two concerned the impossibility of achieving economic equilibrium during times of rapid change and the

recognition that "...actual markets differ in important aspects from what economic theory describes as "'perfectly competitive'".⁴⁷ The third qualification, because of its relevance to the subject at hand, received greater elaboration. It dealt with the common observation of businessmen "...that the contribution of a firm to the welfare of the community does not consist exclusively in the return on the capital to its owners".⁴⁸ The point of the matter was simply that while it could be argued that firms generate a number of benefits for the community, "...some firms and economic activities may also cause 'external diseconomies'".⁴⁹ He gave as examples, traffic congestion and water and air pollution. In other words, to obtain a balanced assessment of the overall benefits to be derived from urban concentration external diseconomies had to be taken into account. However, the Research Officer suffered no illusions about what an assessment of this kind would show. Referring to external diseconomies he said:

While businessmen certainly know and often mention that their activities have these effects on the whole community, their decisions are by necessity overwhelmingly directed by private considerations, that is, by their aim to maximise profits. In a large and prosperous economy the sum total of private decisions to maximise private profit probably leads to an industrial pattern of use of the economy's resources that is not very different from what would arise if all the external social effect had also been explicitly taken into account.(50)

Thus, notwithstanding the social costs resulting from the industrial pattern of use which had evolved in New Zealand, an assessment of the overall costs and benefits would show that overall benefits outweighed the costs. However, this was not to suggest that there was reason to be complacent about the "geographical pattern of

resource use". The Research Officer observed: "...in this respect some of the divergences between the private and social yield of economic activity are substantial and beyond doubt".⁵¹ To substantiate his point he mentioned the lack of employment opportunities in declining areas and the under-utilisation of "social overhead capital" which may have to be duplicated elsewhere if people were forced to move from a community to seek employment elsewhere. On the latter point he noted:

Since these assets are owned either by the employees themselves or by the community as a whole, the waste of capital arising in this way does not enter the private calculations of firms either in the declining region or in the region to which the employees have to move; but its social importance is great. (52)

Thus, insofar as this person was concerned, there was considerable evidence to suggest industrial centralisation was producing social costs of an order to create concern. That private firms were able to maximise their profits did not justify ignoring the social costs their location decisions created for the community as a whole. This argument seemed to provide support for a regional development policy which would enable smaller outlying communities to accommodate industrial growth. However, the Research Officer made the additional observation that he expected "...a significant spreading out of industrial development from the main centres in the next ten years or so".⁵³ This would occur as the growth of manufacturing stabilised and industries based on exportable raw materials and energy sources began to grow. Even so, he saw the need for a regional development programme.

Thus, although the successful transition to this new stage of industrialisation will by no means be easy, from the specific point of view of decentralisation it may make our problems more manageable. By the same token, efforts to make non-central locations more attractive to industry will to some measure also help to induce the structural change that will be needed if satisfactory economic growth is to continue in this country.(54)

Decentralisation, it was being argued, would be facilitated through a programme of incentives rather than administrative regulation of location decisions by Government. The possible range of incentives included "...tax concessions, cheap credit, cheap transport, cheap building land, and outright subsidies on capital expenditure, on operating expenditures or on both". In addition the Research Officer suggested that "...location decisions which increase congestion in the established centres can be penalised by means of taxation"⁵⁵ and emphasised the advantages of industrial estates.

Despite the similarity of their analyses, the Research Officer had concluded on quite a different note from that of the Secretary of Industries and Commerce. Presumably basing his concluding remarks on detailed knowledge of the National Government's attitude towards decentralisation, the latter said:

In practice, overall policy is likely to remain much as at present. Policies will be directed primarily at ensuring national growth and this will include those special measures necessary to take advantage of new resources. However, if it becomes apparent that particular regions are not sharing in growth, attention will be directed to them and the necessary measures taken.(56)

It would thus appear that for the National Government industrial decentralisation was not a pressing problem. Far more importance was attached to national growth. The two issues, national growth and decentralisation, were seen to be separate. Apparently the Government was not inclined to agree with the view that the geographic distribution of industry was producing serious social costs for the country as a whole and an under-utilisation of its productive resources. Central government assistance to regions was limited to a special tax allowance for the West Coast and a legislative clause requiring the Development Finance Corporation to take account of regional considerations in its loan decisions.⁵⁷ The latter policy will receive analysis further on. Suffice to say that the D.F.C. as a "lender of last resort" was not seen to be a powerful instrument for furthering regional development. The particularly difficult economic circumstances of the West Coast made this area a unique case. So, in essence, the National Government could not be seen to be pursuing an active policy of decentralisation. It had refused to entertain the idea of a programme of incentives that might influence industrial location decisions. Except for situations where there was ample justification for taking the initiative, as sometimes might exist in the case of potential natural resource development, or decentralisation of government operations, the Government preferred to keep its distance. Its investment in the development of the forestry industry in the Bay of Plenty region was given as an example of the kind of "major investment decision" the Government was prepared to make. However it was explained: "More usually reliance is placed upon private industry or local authorities acting in concert".⁵⁸

The opening address of the Minister of Industries and Commerce drew attention to his Government's interest in decentralisation:

This is a good time to emphasise that, if New Zealand is to develop fully in a balanced way, it is highly desirable that all sections of the community and all regions of the country contribute what they can to our economic development and share as fully as possible in the general prosperity of the country as a whole.

Secondly, we still have time to deal with the problems which are apparent but not yet out of hand.(59)

The last remark recognised that centralisation was beginning to cause problems for certain centres. He observed that research in other countries had shown that high costs were associated with rapidly growing urban centres. Although New Zealand had not carried out similar investigations he felt the overseas experience, particularly that of Australia, "...should be looked upon as a warning that the costs of allowing concentrated development to take place in a few booming localities are much higher than we normally realise".⁶⁰ Initial steps had already been taken, the Minister observed, to find ways of avoiding the problems of concentrated development. He was also able to point to specific Government actions having the effect of assisting regions:

The port development of Tauranga, the Kaimai and Rimutaka tunnels, the railway access to Kawerau and Murupara, special investment allowances for the West Coast of the South Island, and the provision of electric power from Manapouri for the proposed aluminium industry are examples of what can be done in appropriate cases.(61)

The National Government's concern about regional development was limited to the assistance given in "appropriate" and "special" cases. The economic straits of the West Coast had made it a "unique" as well as a

"special" case. Certainly no other region was experiencing the same degree of economic decline. For these reasons the tax allowance could hardly be treated as a precedent for assisting other areas nor could it be interpreted as an indication of the direction future Government policy would take on decentralisation.

All the projects mentioned were linked to new resource use and all required the injection of central government finance. The allocation of large sums of capital could be justified in terms of the longterm benefits of resource development to national growth. It may be assumed that the fact that such development would have beneficial consequences for the regions involved was an added perk, but certainly not the primary reason for Government involvement. National growth was the top priority in Government policy and it appeared that regional development would be pursued only to the extent that assistance conformed with this priority in an "appropriate" way.

The Minister's remarks also referred to less obvious, and less concrete, actions the National Government had undertaken to influence the geographic pattern of industrial development:

It should be noted that I and my department, in dealing with applications for the establishment of new industries, are not backward in drawing attention to the advantages of decentralised sites. New Zealand firms with long manufacturing traditions who may be considering expansion might also examine impartially the merits and demerits of alternative locations to those which they have always occupied. It may in such cases be too late to transfer to a more favourable site because of excessive capital costs involved in dismantling the investment, but it should not be overlooked or disregarded lightly.(62)

Exactly how successful this advisory approach was proving to be is impossible to assess and the Minister provided no further information. The Minister referred to other steps taken by Government:

- the constructive improvement of the Town and Country Planning legislation.
- the introduction and administration of the East Coast Redevelopment Scheme
- the study of South Island freight differentials
- the amendments to the Counties Act and the Municipal Corporations Act to allow local authorities to invest in and develop land and buildings for industrial purposes.
- the surveys of regional resources, land use and economic activity undertaken by the Ministry of Works, the Department of Lands and Survey, and the Department of Industries and Commerce.(63)

All these activities amounted to what the Minister described as a "positive" approach to development. He expressed the hope that

...the Seminar will not look at this in the negative sense of decentralisation from Wellington or Auckland, but in the positive sense of fuller development of regional resources. To put this another way, decentralisation does not necessarily mean the removal of existing industries or other activities from their present locations, though there may be some transfers of this kind. Rather it means balanced and economical development of each region within its capabilities.(64)

In view of the opinion of certain urban interests that measures taken to encourage decentralisation should not involve attempts to bring about re-location of industry from the larger urban centres, the word "negative" was particularly well chosen from a political point of view. The emphasis on the "fuller development of regional

resources" was also likely to have appeal to the same interests that had declared their opposition to any policy that might have the effect of compromising the ability of urban centres to attract private investment. In other words, it was one thing for central government to finance resource development and to assist extant industries in smaller communities, but quite another to provide incentives likely to attract industrial investment away from the larger centres. Viewed in this context it may be assumed that the degree to which the National Government was prepared to influence location decisions was determined by political considerations involving powerful urban interests. Given the possible political consequences of ignoring pressures from the urban centres it is understandable why the National Government had chosen to move cautiously and in some respects covertly. Any intimation that the West Coast tax allowance could have broader application or that a penalisation tax might be introduced for certain centres would have caused considerable distress in some of the faster growing authorities. Efforts to promote more regionally balanced growth had to be aimed at encouraging development in lagging regions by methods which did not retard the development of the faster growing localities. Thus to emphasize the need for more local and regional initiative and to propose legislative changes having the effect of enabling local authorities to take greater initiative in development matters was a useful strategy for avoiding political problems. At the same time it could give the impression that the Government was acting "positively" with respect to regional development. The strategy had one other particularly important attribute: it conformed with the principle of local autonomy and could possibly have the effect of increasing local authority powers.

Although there appeared to be reason to question the extent to which the Government would find it politically

efficacious to influence location decisions, the Minister made it absolutely clear that the National Government was not prepared to become more directly involved in such decisions. He remarked:

Government does not wish or intend to interfere with the rights of individuals, firms or companies to make the final decisions on location or development; what it may be able in some cases to do is to influence the balance of factors which the private sector has to consider in making its choice.(65)

He took the trouble to reiterate the point in his concluding statement:

...I must emphasise that in the Government's view, decentralisation for individual business and groups must remain a matter of persuasion, not compulsion.(66)

As was the case for the Labour Government in 1960, the National Government was not prepared to embark upon a policy of direct intervention. On this point the two parties were to remain in agreement.

For two other guest speakers the question of central government's rightful role in the economy was of major concern. Their comments typified the prevailing views of the business community towards the desirability of the central government facilitating regional development. Having observed that, "An evenly spread and well balanced population is considered ideal for our welfare and way of life", the first of these speakers, Mr James Wattie, sounded a note of caution:

The importance of choosing the most suitable locality to site an industry cannot be over-emphasised. A mistake in this first decision becomes a permanent handicap to the industry and a perpetual burden in its

cost of production. In the selection of a site therefore, the opinion of a successful industrialist would be more valuable than that of a committee of well meaning intellectuals lacking practical experience.(67)

Mr Wattie noted that, while planners might criticise the growth of the major centres and espouse decentralisation as a solution, the "attractions" of decentralisation "...are less important than efficiency in industry which begins with the correct selection of factory sites based on scientific, economic and carefully ascertained facts. For this there is no substitute in the annals of human endeavour, knowledge and experience".⁶⁸

Referring to the suggestion that the Government should "subsidise industries" Mr Wattie warned that finance was only one of many factors that an industrialist must take into account in making a location decision. Interestingly enough most of the factors he mentioned, such as water supply, power supply and drainage facilities, came within the ambit of local and/or central government responsibility. But this really was not Mr Wattie's primary concern. Decentralisation and along with it greater Government encroachment into the economy was the critical issue.

Decentralisation could not be effective without legislation which would entail committees, administrators and officialdom. Therein lies the nigger in the woodpile and therein the wisdom of a Solomon would be required to settle disputes which must assuredly arise.(69)

Having said this he continued on to note:

A plan that would encourage industries to become more evenly spread, reducing congestion in the cities and larger towns should be welcomed but if it must have legal backing it should be avoided like the plague.(70)

Considering his own observation that a decentralisation policy would require legislative control, this latter observation seems rather curious. In short, it may be interpreted that he was arguing that, if there were to be a "plan", it should not involve Government in location decisions. But, since any plan was bound to involve Government in some way, it would make good sense to drop the entire matter. His final remark summarised his views:

Decentralisation of industry makes a very interesting subject for discussion but beyond that it should be handled like the proverbial hot potato.(71)

Thus, notwithstanding pressure from some degree of action by Government on decentralisation and despite his own support for the "ideal" of balanced growth, Mr Wattie saw the fostering of industrial efficiency and profitability as having far greater importance. The message was clear: idealism should not hold sway over the realities of the business world if the national economy was to grow and along with it the general welfare of the community. Since these realities were best understood by practical businessmen they should make location decisions unencumbered by any kind of State interference. Such freedom was the essential ingredient of continuing economic advancement and would ensure that rational economic analysis prevailed over emotional or idealistic considerations.

The next speaker, the deputy chairman of the Masterton Rotary Club, agreed in principle with Mr Wattie but took a somewhat different approach. Local authority initiative in assisting industries already located, or in the process of becoming established, within local boundaries was, for him, the central issue. He explained: "It is not a matter of decentralising from, but a matter of developing our regional resources, from within".

...existing industries at their various stages of growth are already part of the community. They have committed themselves to your particular districts. Can you in turn give them your support before dissipating your energies in attracting new industry.(72)

He listed the ways local authorities could stimulate their industries to new efforts and assist them to expand their operations, and concluded with the following comment:

I am not against the decentralisation of industries but, as Mr Wattie says, it should be handled like the proverbial hot potato. But I am for the cultivating of the good earth, and that means existing industries that you already have in your midst.(73)

This approach was not supported by the general manager of Pye Limited who said: "In my view it is no good being starry-eyed about the possibilities of large scale industrial activity outside the major centres".⁷⁴ Mr Spencer began his address by pointing out:

Industry exists to make a profit. Its motivation is profit not altruism. People put money into industry to make a profit. If it is a public company, the organisation is judged very largely by the profit it makes and industry, by and large, will tend to locate itself where it can make most profit.(75)

Therefore, in the long and short of it, the basic truth was simply that both industry and people, were interested in, and motivated by, profits. That being the case, as long as decisions made by industry resulted in profits they were compatible with the interests of people generally. The yardstick of profit and growth provided the correct measure of an industry's success in regard to both its own operations and the fulfillment of its obligations to the

community at large. Whether or not the private decisions of industry could be considered socially responsible or altruistic was, under the circumstances, quite irrelevant.

The general manager went further and condemned any attempt to interfere with the tendency for industry "...to gravitate to the point where it can make most profit...any attempt to artificially encourage industry to do other than locate on this basis, will lead eventually in my opinion to a higher cost economy than might otherwise be the case".⁷⁶ He had already pointed out that smaller communities did not, and could not hope, to provide the conditions for rapid growth that were to be found in larger centres. To entice industries to choose smaller centres over larger ones through "artificial" measures such as incentives would have the effect, therefore, of producing high longterm costs and of reducing the potential of the economy to accommodate faster growth. For the general manager it was merely a matter of facing up to "realities":

I know this is tantamount to saying that the big get bigger and small don't grow but I think we should face these realities and accept the view that the prime industrial activity in the small town is likely to be that required to service the small community.(77)

In his view the process was inevitable and any attempt to change it would prove to be a wasteful and fruitless exercise.

The general manager's address caused reactions from delegates. A member of the Dunedin City Council, sensitive to the economic decline that had occurred in the South Island for many years, argued that national growth did not provide the justification for ignoring the social costs of unbalanced growth. For him the central government had a responsibility to influence decisively

the geographic pattern of development:

As the Government was responsible for industrial development, and if it were to be spread equitably, then direction and incentives must come from the Government. This was the age of Government direction in all walks of life and activity, and it was the responsibility of the Government to maintain machinery to direct the movement of industry. For example, the function of the Department of Industries and Commerce concerned with considering applications for the establishment of new industrial projects made it well placed to direct the movement of industry.(78)

In reply, the general manager observed:

...that the Department of Industries and Commerce had made a number of attempts in the past to strongly persuade industry to locate itself on what the Department believed to be the right lines. In most cases this approach had been resisted by the industrialists concerned. He disapproved entirely of this sort of pressure exerted through the threat of withholding permission by not granting import licences unless industries sited themselves in certain specified areas. No-one knew better than the man investing his money where his establishment should be located.(79)

From comments made by a variety of delegates it may be concluded that the Councillor's views on Government direction were not widely held. There was far more support for the milder approach of Government incentives; inducement was approved of, direction and coercion were not. The disclosure about import licencing and withholding permissions revealed the nature of Government activity. Apparently the Government was being far more vigorous in its approach than it was prepared to admit publicly. However an employee of the Department of

Industries and Commerce corrected the general manager:

The opening address by the Minister of Industries and Commerce ...made it clear that, although the Minister and the Department were not backward in indicating to industrialists the advantages of non-central sites, the view of the Government was the decentralisation for individual businesses and groups should remain a matter of persuasion and not compulsion. The suggestion of Mr Spencer that the Department had sought to compel some industries to adopt certain locations should not be accepted.(80)

In reply, the general manager expressed his agreement with the employee's comments.

In no instance of which he was aware had applications for import licences for the establishment of new industries been finally declined as a result of failure to comply with suggestions regarding location made by the Department. Its attitude was one of persuasion.(81)

Despite the fullness of the retraction, there remained the suggestion that the manager was not entirely happy with the Government's mode of persuasion. The use of the word "finally" conveys the impression that the Department might take, in the minds of some, an unreasonable amount of time to come through with an import licence approval. On the face of it then it appears that the National Government had been exerting fairly strong, but reasonable, pressure on industrialists. In an industrialist's view it was not following a policy of non-intervention.

The question of industrial finance, raised by Dr G.A. Lau, a Wellington business consultant, received only vague comment during the Conference. Far more attention was paid to the principle of the industrialist's right to make

location decisions. Given the importance for the industrialist of having finance available, particularly for a new operation, this omission is surprising. Under the circumstances, Dr Lau's comments amounted to an important contribution but they do not seem to have inspired any discussion at all. The following is a summation of his comments:

...some reference had been made to the various financial aspects of decentralisation. How was the entrepreneur to raise money? He thought this would be relatively easy if the proposal was basically sound and the factory was established in a place where other industry already existed. However, it would be difficult to raise money in an area where there was little existing industry, as it would then be difficult to realise on the securities if the factory failed.(82)

Even if local authorities and central government were to meet basic infrastructure requirements and even if an industrialist decided to opt for the location involved, the final decision might very well rest in the hands of the financial community. In this context the final right of decision was not so much the industrialist's as that of the private lending institution being asked to lend the initial capital required. The final decision may be the outcome of a collective assessment but this does not necessarily mean the industrialist's rights are being unduly compromised. Nor does it provide justification for the involvement of other parties, such as Government. The principle that the final decision should be privately made by experts in accordance with rational economic analysis was being upheld. If a loan were refused it would be for clear economic reasons, the major one presumably being the degree of risk involved, and, from that point of view, the industrialist should be pleased at having been prevented from making an unwise decision. However, should he still wish to proceed he had recourse to the Development Finance Corporation. This organisation was presumably

prepared to accept greater risks than the private financial institutions.

From Dr Lau's point of view, the degree of risk involved was greatest in smaller communities, although the risk was far less in communities situated in close proximity to the larger centres. For this reason decentralisation should concentrate on the latter:

He considered that decentralisation had to be planned just as carefully as the national economy, and that, ideally, industry should be located in smaller centres near the cities and towns on which their development had been based. He personally considered that, although there was little chance of the significant decentralisation of industry to the smaller towns, this would make little difference if general overall development proceeded.(83)

While the security of a loan would concern a financial institution there was evidence, as will be seen later in the analysis, to question whether such unwillingness to provide finance necessarily rested on the element of "risk" involved. There was reason to believe that the possibility of reaping greater returns from other forms of investment was often the main reason for a reluctance to support industrial loan applications. In other words, an industrial proposition might hold considerable promise and very little risk, but not get financial assistance. Presumably the D.F.C.'s role was critical in filling any gap left by the private financial institutions. As a Government supported organisation, with a specific directive to take regional matters into account in its decisions, it might be more likely to invest in areas of smaller return.

The financier's interest was for assistance to be

organised as part of a comprehensive scheme likely to guarantee far greater returns than could be had from a direct loan to an industrialist in a smaller centre. As will be examined later, there was good reason to question whether it was reasonable any longer to postulate the small individual entrepreneur as being the basic unit of production. In this context it is somewhat surprising that the seminar was silent on the question of how Government might interveneⁱⁿ, or influence, financiers' investment decisions. This silence may have reflected a general lack of knowledge about the growing importance and increasing sophistication of the financial sector.

Another of Dr Lau's comments provides a useful introduction to the presentation given by the Minister of Works and to certain comments made during the final panel discussion. Dr Lau observed:

Practical difficulties would arise if the Government gave assistance to one area and not to another. This could only be done where there were real and specific reasons, for example on the West Coast of the South Island where the need for development was obviously great. It would not be the Government but local authorities that would have to provide the incentives for decentralisation.(84)

The Minister of Works, in his presentation, was rather indecisive, observing that he felt that a number of questions had yet to be asked and that for him the concept of decentralisation remained "a little too intangible to grasp, or to mould in the mind satisfactorily".⁸⁵ Despite his perplexity about decentralisation, the Minister was not reticent about giving some general advice to community leaders:

The lesson for community leaders could be found in the suggestion that people migrate to the liveliest, most active, and most progressive places. I'm suggesting community leaders should note that, and if they are to hold their people, they must encourage industry. They should ensure their towns are aggressively active, and are alive and progressive. My thought is that there has been a lot of talk on regional planning, which, if carried out, would help with decentralising congested areas, but so far there has been little action from the majority of local bodies.(86)

He suggested that local authorities make greater use of the "Town and Country Planning Act, 1953" and prepare the way, through proper planning, for industrial growth. He considered, "...many industries are being forced out of congested areas. Many more are looking around for suitable locations".⁸⁷ To attract them local authorities should:

...ensure that all the facilities needed for that particular industry are available. It should develop land and ration it equitably to ensure best economic use; it should make that land available at an attractive price as an incentive, not only for industry but also for housing.(88)

He admitted that central government decisions had an important effect on industrial location decisions, even pointing out that his own Department as well as the Department of Industries and Commerce were endeavouring to facilitate decentralisation through "guiding and advisory services" and the decisions made on such matters as roads and bridges. However, his central theme was local initiative: "...Government is always prepared to help those regions that are willing to help themselves".⁸⁹

When questioned during the discussion period on the possibility of the central government providing financial assistance to local bodies for industrial land purchases,

he answered:

He firmly believed that the initiative for development should come from the local bodies of a region. Their proposals would be sympathetically heard if they came to the Government with clear cut and well conceived plans for their districts, but they should not ask the Government to do their planning for them.(90)

Importantly, this view had the support of a number of the delegates representing local authorities. A Nelson City Councillor observed:

There was an increasing tendency to run to the Government for everything. Local bodies should find it possible to raise loans within their own areas for the acquisition of industrial land.(91)

And a Palmerston North City Councillor

...agreed that local bodies should meet their own town and country planning responsibilities. Palmerston North had done so, making full provision for land and basic services for industry, and had then endeavoured to attract new industries.(92)

In the latter case the Councillor referred to the problem his City had experienced because of its distance from large markets and asked the Minister if he would "...indicate the lines of Government thinking on the equalisation of transport costs".⁹³ The Minister managed to side-step this question by explaining that it should be put to the Minister of Railways.

Further comments about the respective rules of central government and local authorities in furthering decentralisation were made during the final Panel Discussion. It was recorded that Mr Muldoon, at that time the Parliamentary Under-Secretary to the Minister of Finance, "...considered that decentralisation should be a

matter of initiative and competition between the small municipalities that had not yet reached an optimum size and that he believed economic benefits were to be gained from growth and the encouragement of industry".⁹⁴

In this context universities and Government departments should play an advisory role directed towards background work on a national scale. The initiative should come from the local authorities. It could not come from the Government or this would require decisions as to which areas should grow and by how much. Such direction would obviously be undesirable.(95)

A little later he replied to the following question:

If the Government were to supply funds to municipalities to foster industry through incentives as regards cheaper land, road rebates, assistance in building, sewerage, water, and re-zoning where then would the battle between these authorities stop in respect of bribing industry with public funds?

...he believed the growth of a smaller centre must be initiated inside that centre, because the alternative was some form of direction from Wellington which laid down how far each centre was going to grow. It had been suggested that a city the size of Dunedin should get further incentives to grow; also that the whole of the South Island should receive similar incentives. If these incentives were made non-specific and were applied, for instance to the South Island, then inevitably there would be a drift towards Christchurch which was the largest centre and had certain advantages of size. However, if it was decided to eliminate Christchurch from the incentives and frame them to include Dunedin and the rest of the South Island, the difficult question of

how large Dunedin should be permitted to grow would still exist. In Oamaru there was a good example of decentralisation in a factory which had moved from Dunedin 15 years ago. This factory had found considerable advantages in a town of Oamaru's size and it had prospered considerably. He believed implicitly that competition was a great factor in bringing out the best and that local initiative must be the prime force with encouragement by central government.(96)

As the Under-Secretary was undoubtedly aware of the unease with which community leaders viewed any suggestion of further central government intrusion in the affairs of their local authorities, his remarks were prudent from a political point of view. While some community leaders, especially those from poorer authorities, might not endorse arguments in support of non-intervention by Government in the private sector, they were not about to invite increased central government encroachment on local autonomy; particularly so in view of the scale the Under-Secretary suggested as necessary to accompany a nationally run decentralisation programme. The implication was clear: to invite central government to interfere directly in the private sector was to invite similar regulatory action with respect to the affairs of local authorities.

Arguments for protecting local autonomy amounted to a convenient rationalisation for central government inaction in the sphere of national economic planning. They were also used as a rationalisation by local authorities for their opposition to such planning. What was at stake for any single local authority was not so much the principle itself as the uncertainty of not knowing whether it would be one of the localities designated to receive special government aid. Presumably if a local authority could be certain that the central government would transfer resources to it and encourage

industrial development within its boundaries, there might be little expression of concern over local autonomy. But as there could be no such certainty for any local authority, and given that few would be fortunate enough to receive a favourable designation, any attempt by the central government to introduce an economic policy having the effect of stimulating development in one region at the expense of another, or seemingly at the expense of another, was likely to be met with vehement political resistance by local authorities. An appeal to the importance of local autonomy, which for different reasons would have the sympathy of the central government, was a convenient rationalisation for such resistance. In practice, local authorities would rather continue freely to compete with one another on more or less equal terms.

It bears repeating that for the central government a decentralisation policy would bring with it some very difficult political problems and constraints. Not only would the central government encounter considerable resistance from local authorities but it would also find itself accountable in terms of its own economic policy. There would be, in effect, considerably less room for political manoeuvrability. Conflicting, if not contradictory, decisions would become more apparent, expedient decisions in the face of changing circumstances would be less likely to be tolerated, and manoeuvring in the face of criticism would become more difficult. Under the circumstances it was far more efficacious for a central government to accept general responsibility for the pace of economic development as well as the stability of the economy. At this level government activity would have the aim of fostering a vigorous economic climate through appropriate monetary and fiscal policies or what the Under-Secretary referred to as "background work". In essence, then, the National Government's economic policy was confined to providing the conditions for

national economic growth. The actual geographic distribution and form of such growth would evolve through the competitive processes of the private sector and the local government arena. In so far as public investment was concerned this would follow, except in specific cases of resource development, the decision made by the private sector. Local authorities through their own initiative and competitiveness would provide the inducements to attract private investment. The fact that invariably investment followed provided the incentive to compete.

However, it was precisely this competitiveness among local authorities that had prevented them from developing the degree of co-operation necessary for the formulation of regional development policies. The choice of common regional goals was rendered virtually impossible by inter-authority rivalries. In instances where regional policies had evolved, as Dr Sutch had observed several years before, they usually involved the co-operative utilisation of services rather than a basis for programming development. In other words, when there were mutual benefits to be derived from the sharing of services, local authorities were quick to avail themselves of enabling legislation such as the "Town and County Planning Act, 1953". But the case for development policy was not as self-evident. Indeed, given the extent to which each local authority depended on private investment for its very existence there was every reason to retain a highly competitive posture. The Deputy-Secretary saw this competition as worthy of central government encouragement. This view appeared to be in marked contrast to those expressed by the Minister of Finance and the Minister of Works, who contended that local authorities should actively co-operate with one another in the preparation of regional development plans. However, so long as local authorities continued to compete with one another it was unlikely that central government would have to give a "sympathetic

hearing" to proposals emanating from "well conceived plans for their districts". The Deputy-Secretary's remarks may have reflected the Government's awareness that continuing competition among local authorities was to its political advantage. In this sense the so-called "parochial attitude" of local authorities can be understood to have been caused by, and sustained through, central government policies of one kind or another.

The question of central government policy introduces another interesting aspect of local and central government relations. By leaving the responsibility for taking the necessary measures to attract private investment to local authorities, the central government effectively detached itself from any real responsibility for the consequences that such measures might have for the communities themselves, either with respect to the expenditure of public funds and/or the formulation of planning policies. Given the intensive nature of competition among local authorities, entrepreneurs were in the advantageous position of being able to work one community off against another in an endeavour to obtain the best deal. An industry already located within an authority's boundary could always resort to the threat of re-location in order to obtain a sympathetic hearing from local politicians. It would not be unusual for a community to be prepared to sacrifice a great deal in the process of devising appealing packages to capture the interest of industrialists. In other words, local bodies could not avoid viewing questions of planning and expenditure in terms of the specific goal of securing a more stable economic base. So while the central government might urge local bodies to plan properly, the reality for many was a trade-off between continuing decline, and perhaps eventual disappearance, and making sacrifices to accommodate the private sector's changing needs. Fortunately for central government the

nature of these sacrifices would be the responsibility of the local authority and any political repercussions, such as widespread public criticism, would be confined to the political jurisdiction of the authority itself.

National Development Conference and "Indicative Planning"

In February, 1968, the National Government announced its intention to convene a National Development Conference. Soon afterwards a Steering Committee was established to organise the conference under the chairmanship of the Rt.Hon.J.R. Marshall who was also the chairman of the Cabinet Economic Committee. The Conference was given the following "formal objectives":

To outline a programme and set targets for national development which over the next decade will give the necessary guidance and stimulus and provide the fullest opportunities and facilities for all sections in the community to develop and direct their resources, skills, 'know-how', and productive effort into those channels which can best promote economic growth and social development. In these ways to achieve a rate of economic progress which will ensure adequate employment opportunities for a growing population, maintain high levels of social welfare, and promote a rising standard of living.(97)

As a beginning, the Steering Committee formed a Targets, Finance, and Services for Development Committee and gave it extensive terms of reference. Its primary responsibility was to prepare a report for the August 1968 session of the conference. The report was to deal with "...desirable and practicable growth rates for the economy and their economic implications e.g. for the pattern of exports, structure of industry, pattern of capital formation, rates of consumption and the need for

local savings and overseas capital during the periods ending 1972-73 and 1978-79".⁹⁸ There was no inclusion in the terms of reference of matters related to social objectives, environmental considerations, town and country planning matters or the geographic pattern of industrial development.

The Targets Committee concluded that it was possible to bring about changes "in existing attitudes of policies" that would permit "an average annual rate of economic growth of 4.1/2 percent". This rate the committee considered "practicable and desirable" and would "...allow a rise in the real standard of living (as measured by the volume of goods and services produced per head of population) of approximately 2.1/2 percent annually up to 1978-79 compared with an average annual increase for the past decade of 2 percent".⁹⁹ It also argued:

High levels of new investment must be accompanied by the more efficient use (and resulting higher productivity) of existing resources.

The replacement of imports by locally produced goods must be continued wherever this can be done efficiently.

If overseas borrowing is to be kept within manageable limits, increased levels of private and public savings will be essential to provide the finance for expansion.(100)

Much of this was reminiscent of the 1960 Industrial Development Conference.

The decision to convene the NDC was supposed to herald a change in the country's approach to economic development and planning, and to act as a response to "...a growing demand for more co-ordinated, longer term thinking about the economy and a growing awareness of the value of setting objectives and targets by a process of co-operation

and consultation both within and between sectors".¹⁰¹ The first plenary session of the conference, held in August 1968, was preceded by the preparation of the "Targets Committee" report. The work of the Committee, under the chairmanship of the Governor of the Reserve Bank, reinforced the priorities that the National Government had established from the beginning and passed on in the form of directives to the Steering Committee. Clearly the economy was to be the primary concern of the Conference.

In his opening address the Prime Minister, the Right Honourable K.J. Holyoake, observed:

Planning should take place in the context of the overall economy. 'This we believe helps to set sensible and realistic objectives which are consistent one with the other and which would not then create violent distortions within the whole economy'.⁽¹⁰²⁾

The Prime Minister expressed his hope that the Conference would provide the opportunity for companies, organisations and individuals to make, in a spirit of co-operation, recommendations as "to the best line of growth". Taken together, these recommendations would form a programme for industrial development. He assured the Conference that, "The final programme or plan arising from this conference will not be forced upon the people by Government action... For the successful attainment of the targets, there must be continued participation by the individual and continued consultation with him, but in the last resort he (the individual) must make the final decision".¹⁰³ (my parenthesis). His views were reaffirmed by the Conference chairman, the Right Honourable J.R. Marshall, who added: "The final responsibility for implementing the national development programme rests with the Government - nowhere else. On the other hand the

final programme recommended to the Government should be as clear an expression of informed public opinion as ever any Government is likely to receive".¹⁰⁴ The formulation of the programme was to be an exercise in compromise and good sense with Government retaining ultimate responsibility for implementation. Planning was not to involve an actual regulation of the market mechanism. While Government would continue to introduce universalistic measures to speed the process of economic adjustment, particular decisions were to remain with private groups or individuals.

This portion of the analysis will not attempt a comprehensive analysis of the National Development Conference. The analysis will be confined to an examination of the process through which the Conference, somewhat reluctantly, conceded that its investigations should encompass questions of broader social relevance including the concept of regional development.

Before the Conference met for its August plenary session, the Steering Committee had already received a number of submissions, presumably in reaction to the "Targets Committee" report. The public participation which the Conference chairman had called for had not been slow in coming. The Steering Committee chairman reported that:

A number of organisations and some individuals have submitted written representation to the conference making the point that economic development is not an end in itself, In the final analysis, it is the kind and quality of life which counts. A high living standard depends not only on the volume of goods and services produced, but also on the social and physical environment.(104)

He noted:

These representations fell broadly into these two classes. Questions of the physical environment included regional and town planning, urban sprawl, preservation of natural endowments such as beaches, lakes, river frontages, green belts, natural forest, and recreational areas, avoidance of pollution, noise abatement and the like. Questions of social environment were conceived in their wider sense as embracing not only such welfare state concepts as adequate provision for health, education and income maintenance, but also ethical and moral attitudes.(105)

The chairman explained that his Committee was "...very much alive to the importance of these issues and to their effects on the enjoyment and improvement of living standards", but the degree of their importance, relative to other matters, was limited and could have been more conveniently dealt with after committees had reported at the end of 1968 or even after the May (1969) session of the Conference".¹⁰⁶ The submission led the Committee to propose that the examination should be hastened: "It is now felt that there is a case for setting up working parties immediately after the preliminary task of at least identifying the problems and delineating subjects for study in depth after May, 1969".¹⁰⁷

It may be inferred that in fact the Conference organisers were not at all enthusiastic about assigning social and environmental questions an important place in the Conference discussions. The specification of economic goals, the setting of output targets for industry, and the development of economic forecasting models were the matters with which the Conference was expected to concern itself. Desirable economic goals, it had been pretty much agreed, would include full employment, a high rate of economic growth, price stability, and so on. The broader issue of the social and physical environment would not be so much overlooked as treated as a separate issue. Once economic planning was well under way and productivity

and efficiency targets set, other issues would receive examination. In other words, the social and physical environment was to have a subservient status in relation to the growth of the economy. The justification for such an approach was the simple premise that with increased economic growth would come increased general welfare. Traditional values that had shaped the national identity were no longer adequate. The point was made most explicitly by the Chairman of the "Targets Committee".

The sort of attitude that really has to be instilled in everybody is that we will not get a higher standard of living unless we earn it, and this means working sensibly and intelligently and not squabbling too much about the allocation.(108)

Despite apparent reluctance in certain quarters to involve the Conference in other than "purely economic matters", the session passed the following two resolutions unanimously:

Recognises that the conference is concerned not only with economic growth and rising material living standards but also with the quality of life of the community;

Invites the Steering Committee to establish as soon as possible such working groups as it considers necessary to:

- i. Identify and examine, in at least a preliminary manner the problems involved in development of a better physical and social environment; and
- ii. Delineate the subjects study in depth after May 1969.(109)

In moving the motion the chairman of the Manufacturing Committee explained:

In the resolution the conference is invited to identify and examine, in at least a preliminary manner, the problems involved in development of a better physical and social environment. These are matters which seem to us anyway extremely important ones which should not be overlooked and should not be subordinated to our consideration of the purely economic matters under discussion at this conference.(110)

And:

...a number of these matters require continuing concern after May 1969, and as we move towards the targets which have been set for us we will certainly want to have a continuing look at the effect of this development on the social problems.(111)

With these matters dealt with the long term expansion of the economy's productive capacity would remain the Conference's immediate concern.

In October, 1968, the Steering Committee established a Physical Environment Committee and later a Social and Cultural Committee . Given the shortage of time, the latter Committee's report to the 1969 plenary session took the form of a somewhat general statement on questions ranging from the circumstances of minority groups to the concept of citizenship. The Physical Environment Committee's report was also a general introduction to a variety of topics. Its terms of reference gave the Committee responsibility to "examine" and "consider" a number of planning and environmental matters including:

Prospective changes in the location and size of population including trends in internal migration and the desirable degree of decentralisation.

The future role and development of metropolitan areas to ensure that their expansion assists economic growth and

that in the process of expansion an attractive physical environment will emerge. (112)

Importantly, the Committee was not to be given a free hand but was expected to carry out its work "in light of" Conference objectives and the economic growth targets which had been accepted at the first plenary session. This directive may be regarded as a further illustration of the Steering Committee's desire to ensure that economic growth continued to be the focus of the Conference's attention and the preoccupation of all sector committees. But even given what amounted to a severe restriction on the scope of its enquiry, the Physical Environment Committee's report contained some quite remarkable statements.

From the beginning the Committee gave wholehearted endorsement not only to the principle that economic progress should take precedence over social and physical concerns, but that the latter should undergo modification to accommodate the former:

It is clear that achievement of the growth targets will be accompanied by changes in New Zealand's economic structure, settlement pattern, living standards, and social habits. Changes will also result in what must be regarded as a fundamental resource - the physical environment of this country: its towns, farmlands, and forests, and its coasts, lakes, rivers and mountains. (113)

Under the heading of "Economics of Good Environment" the report drew attention to the need for proper environmental planning, providing as a supportive argument the observation that "Good environment in this age is good social and monetary economics...".¹¹⁴ In a similar vein the report commented on "Decentralisation":

The committee is of the opinion that a policy of decentralisation from the main

centres may not be appropriate at this time, and in fact can see some social and economic advantages in continued concentration of growth. Little is known, however, of the costs and benefits associated with towns of various sizes in New Zealand. It is considered therefore that comprehensive studies in this field should be undertaken and that meanwhile any proposals for decentralisation or regional development be judged in relation to the economics of the particular organisations concerned and with regard to maximum contribution to national rather than regional growth.(115)

The Committee's recommendation incorporated the above. There was no explanation of how the Committee had reached the view that continuing concentration of growth in the "main centres" would produce "some social and economic advantages". It was clear however that the Committee had decided that the importance of national economic growth far outweighed any concern for regional economic disparities or, for that matter, social problems that might be attributed to economic decline in certain regions. As for the process of urban growth itself, the Committee had some enlightening comments to make under the heading of "Urban Research Needs".

During the next 10 years and beyond most population growth will be concentrated in urban areas. The scale of urban growth will be such that it will provide a valuable opportunity to obtain economies in investment and improvements in environmental quality. This opportunity will be missed unless development is planned in the light of much greater knowledge of physical costs and social needs.(116)

To obtain more knowledge the Committee recommended: "That a school of urban studies with a strong research element be established at a main centre university".¹¹⁷ In effect then the Committee had accepted rapid urbanisation of the country's population and the continued growth of a few centres as an inevitable process and one which would facilitate economic growth. Given this, the question of

decentralisation, particularly as an instrument for slowing down urban growth, was virtually a non-issue. It may be assumed that "improvement in environmental quality" and economies of scale were the "social and economic advantages" referred to in the Committee's preceding statement. But no further explanation was offered. Interestingly enough, the Committee also had a comment to make about local government planning:

Most shortcomings in planning at the local (district) level are the result of parochial attitudes and lack of understanding rather than inappropriate legislation. Effective implementation depends on effective local government.(118)
(Parenthesis original)

So the Committee had seen no reason to examine the possibility that planning at the local level, or the failure thereof, might require central government involvement of one kind or another.

The report was perhaps made all more remarkable by the fact that the Committee itself was comprised of experts from a variety of professional fields. A few of the members were: Chairman - Dr M.M. Burns (Principal of Lincoln College); G.T.S. Bayliss (Professor of Botany); S.H. Franklin (Associate Professor of Geography); A.L. Gabites (Architect and Planning Consultant); J.L. Roberts (Professor of Public Administration).¹¹⁹ Even taking into account the limitations of the Steering Committee's directive, a group of this calibre might have produced a more analytical assessment of the inter-relationship of decentralisation and the processes of urbanisation. Significantly, the Labour Committee, chaired by the Secretary of Labour, also found it appropriate to examine decentralisation. While this Committee was also expected to carry out its work "in the light of" Conference objectives, the Steering

Committee did not make reference to the economic growth target. Instead the Labour Committee was expected to take account of:

The objectives of full employment of manpower resources; and

The industrial, occupational, and geographic structure of the labour force, past shifts in its composition, factors influencing such shifts, and their possible implications for the future.(120)

Dealing with the topic of labour mobility the Committee observed:

...that some of the future movement of labour to the larger centres is neither necessary nor desirable. From enquiries made by the committee it is obvious that many firms move to the larger centres because they are unaware of the advantages and resources that are to be found in some of the smaller centres. It is obvious to the committee that there are many centres which are ideally suited for building; they have a plentiful supply of labour, while at the same time are within easy reach of the larger markets. The difficulty is that many of these advantages are not publicised and industry is unaware of them. If industry could be induced to expand into these areas it would minimise the pressure upon land and other resources in the larger cities and would help to alleviate many of the social difficulties arising from the migration of workers to the cities.(121)

The Committee recommended that the Department of Labour, the Town and Country Planning Branch of the Ministry of Works, and the Department of Industries and Commerce should combine their resources in order to provide an information service for industry. It noted that:

"Firms would be informed among other things on the amount of land that is available and its cost, the availability of labour, relative pay rates, and the type of servicing facilities that are available in the area".¹²² It added: "Any service performed by Government would be designed to publicise what various areas are offering. It would be the responsibility of local authorities themselves to provide many of the facilities and services which would be attractive to industry".¹²³ The Committee did accept that the central government had a responsibility, albeit a somewhat limited one, to assist decentralisation of industry. But more importantly the Committee had arrived, through its investigations, at the conclusion that there were quite clear economic and social reasons for encouraging some decentralisation. This conclusion was strikingly different from that reached by the Physical Environment Committee.

Portions of the Manufacturing Committee's report also touched on decentralisation, and interestingly enough, examined the principle of government involvement in the economy. Noting that "...while manufacturing in New Zealand is almost solely the province of private enterprise, Government policies of various kinds profoundly affect the nature and level of activity in the sector", the Committee's Working Party pointed out that, "The key issue is whether the Government's role should be one of relative non-involvement or whether it should, or needs to, adopt active policies".¹²⁴ Continuing, the report stated:

Having regard to the objectives which have been established the working party is of the opinion that positive Government policies are essential. These would take the form of support for the infrastructure of the manufacturing sector (e.g. education services, scientific research and development, advisory and liaison services, financial system, marketing and distribution system, fuel and

power supply) and other forms of assistance, including the maintenance of protection.(125)

For the National Government, with its avowedly non-interventionist philosophy, the report could be seen to pose a difficulty. An important sector of the economy was suggesting that the country's economic future depended on "positive Government policies" of a more "active" kind. Moreover, the Working Party had taken the trouble to point out that the allocation decisions made by Government had a direct and important impact on the economy. Elsewhere it observed that the central government was giving infrastructure assistance to the agriculture and forestry sectors. In such circumstances there was reason to question whether it was realistic for Government to continue to refer to the "private sector" in terms of it being cut off from "government". The 1969 Steering Committee's report had asserted:

It is essential that planning should not be regarded by anybody as simply a convenient way of getting Government financial assistance and tax concessions, to do so would soon undermine the whole purpose of the conference. Provided Government and the private sector recognise their respective responsibilities in joint planning without overlooking the limitations inherent in attempting to project future trends, a much more efficient allocation of our physical and human resources should result with consequent benefit to the whole community.(126)

And:

Government can do much to provide the right economic climate and give the necessary encouragement for development. However it is private enterprise which will have to provide the essential drive and effort and be prepared to take the risks involved if the conference objectives are to be achieved.(127)

Not only was the Working Party calling for more active involvement of the central government in the economy, but proposing that infrastructure assistance should be provided on a "selective" basis and not take the form primarily of "general measures" such as "a general incentive to investment in manufacturing as a whole".

...the working party considers that such general measures, which would leave the encouragement or inhibition of particular industries entirely to market forces, would not give sufficient weight to several major aspects of industrial development that have important implications for economic growth.(128)

Included among the "important implications" was, "The special benefits of the industry, for example, in providing regional employment opportunities".¹²⁹ It may be interpreted that the Working Party was quite prepared to endorse "selective" assistance to industries located in regional areas. In the formal report the Committee gave its support to the proposition that, in certain circumstances, industries should be given assistance with freight costs and also noted that:

Market forces alone do not always give sufficient weight to certain factors that are more relevant to national benefits than to private profit.(130)

It reiterated the "important implications" delineated by the Working Party and added: "The committee is aware that the benefits referred to above might be offset in some cases by indirect costs to other sectors".¹³¹ The Committee firmly endorsed the principle that "selective assistance to industries should take into account the industry's ...contribution to social objectives and the contribution to the economy's long-term growth".¹³²

The Targets Committee's report summarised the "main issues" it felt had been identified in the various sector reports. It gave specific recognition to the important contribution made in the reports of the Manufacturing and Labour Committees, but decentralisation was not referred to as a "main issue". However, one of the issues selected was:

The possible need for financial or other assistance to factors of production that are obliged to shift location or activity in the interests of the restructuring of the economy.(133)

Not only was this quite contrary to the recommendation contained in the Labour Committee's report but contrary to the spirit of the recommendation of the Manufacturing Committee. Moreover this writer was unable to find any reference to this "issue" in any of the other sector committee reports, except what was perhaps implied in the Physical Environment Committee's submission. From the standpoint of the Steering Committee, however, the statement of the issue coincided with its desire for economic rationalisation.

One of the recommendations made by the Physical Environment Committee was that, since the New Zealand Institute of Engineers was in the process of planning a conference on the environment, the National Development Council should combine with the Engineers in the joint sponsorship of the conference. The recommendation was endorsed and the conference was held in May of the following year and covered a wide range of topics. Thus two years were to elapse between the organising of the National Development Council and the organisation of a conference on environmental matters.

Of particular importance to this analysis was the section on Urban Development and Expansion. A report was

prepared for the joint conference by the "Urban Expansion Working Party" of the Physical Environment Committee. Under the heading "Urban Expansion", the Working Party submitted an analysis of the peripheral growth of New Zealand cities. The first paragraph stated:

It is based on the premise that this growth will continue despite whatever may be done in central area redevelopment. If policies of decentralisation are applied in order to divert industrial and population expansion away from main centres, it is held that this will do no more than marginally affect the rate at which these centres will continue to grow. Urban expansion is a process which absorbs vast sums of money and large areas of land and these are significant economic factors. However the quality of the environment which results and its influence on the lives of a great many New Zealanders are the basic issues in this report.(134)

The basic conclusion was that the country had to meet the challenge of establishing "the means for a creative management of urban growth".¹³⁵ At the beginning of the discussion on the Working Party's report three people were recorded as having expressed surprise and dismay at the way the working party had accepted the "inevitability" of urban expansion. Individually they drew attention to the failure to explore the question of establishing optimum sizes for urban centres, to recognise the need for population research, and to consider the idea of regional development. The chairman of the Urban Development Working Party, Mr Gabites, replied to the criticism by observing that "...the working parties were very much concerned with just this sort of question"¹³⁶ and because of the economic considerations involved had decided to wait for the completion of a research project being carried out by the New Zealand Institute of Economic Research. He explained that this particular research was a consequence of recommendations from the Physical

Environment Committee to the National Development Conference. Not to be put off, one of the individuals, the chief executive officer of the Otago Council, proposed a motion at the end of the discussion period that, "...in view of the importance of regional development, the National Development Council, together with the proposed environmental council, take immediate steps to organise a national conference to discuss problems arising from the uneven pattern of regional, demographic, and economic growth in New Zealand".¹³⁷ In support of his motion he referred to the rapid growth of the northern part of the North Island and questioned "...the continuation of the present laissez faire policies of Government...". Further on, he expressed the belief that decentralisation "...is a national issue which has been ignored at the interests of political popularity".¹³⁸

This issue has not been brought into clear focus here or at any sector conference of the National Development Conference... A study of the differential internal growth rates within New Zealand should take into consideration social factors and the quality of life affected by different rates of growth as well as purely economic aspects. While it may possibly be in the overall economic interest to take no action to prevent the increasing dominance of the Auckland provincial growth, the effects of a slow or negative growth rate of population in other areas may adversely affect such areas socially and in the quality of life.(139)

Supporting the motion the seconder explained:

I would like to point out that in looking at this we are not just looking at the problems of Dunedin or the West Coast or the East Coast of the North Island for that matter, but problems of under utilisation of resources, services, community problems, individual problems, cost of migration, and so on. We are looking also at the economic costs, the costs of high labour turnover, the high costs

of housing, of land, the high cost of living. As well, of course, there are the social costs, the ghettoisation that we are hearing of in central Auckland at the moment, the problems of the Otaras, of the Poriruas, and so on. All these are part of the total national regional problem.(140)

The motion was put and declared lost.

The McDonald Report

As Mr Gabites had pointed out, the New Zealand Institute of Economic Research had been commissioned by the central government, through the Department of Industries and Commerce to undertake research into regional development. The study was commissioned in July 1969, and was given specific terms of reference. The Government directed that the study give "special reference to manufacturing". Within this context the research was expected, among other things, to:

Examine the present pattern of activity in New Zealand on a regional basis with emphasis on manufacturing. Account for long-run trends in outline and trends over the last decade in more detail. Primary and tertiary industries and the infrastructure will also be considered.

Examine the significance of location for manufacturing industries in New Zealand and the cost impact of alternative locations where these are technically feasible. This section will analyse private costs and benefits.

Examine the social cost/benefit aspect of manufacturing location and development in New Zealand on a regional basis.

Suggest criteria for a regional development policy in New Zealand. In the light of the private and social cost/benefit considerations identify regions in which special efforts to encourage growth appear worthwhile and suggest measures that might be taken to encourage this.

Suggest in particular types of industry best suited to these regions and consider the degree and form of any Government intervention that appears warranted.(141)

Mr T.K. McDonald, who carried out the research, noted in the introduction of his final report:

The study was designed to assess the case for Government intervention to influence the pattern of regional development; whether the present pattern was in the national interest or whether an alternative growth pattern, especially decentralisation, would be preferable.(142)

McDonald's approach to the question of regional development was the customary cost/benefit analysis of the orthodox economist. The major assumptions were that economic efficiency and private benefits should be promoted in the interest of improving general welfare, and concomitantly that central government economic policy should be based on the objective of providing the conditions for the maximisation of net social benefits. A government, it was to be understood, could only justify, from a rational point of view, more intervention in the market mechanism when it was able to show that the social costs of a current national pattern of development were greater than the benefits being derived i.e. net social costs existed.

Such intervention would be required in "exceptional circumstances" only and be of short-term duration "to provide a transition period and avoid the social costs of disruption". Social costs occurred when "...the costs of providing public authority services is higher as a result of the pattern of commercial development than it would be under some alternative pattern".¹⁴³ Sectional and regional interests were to be treated as subordinate to the national interest. That economic decline was

resulting in net social costs for a region was not sufficient reason for introducing a regional development policy. Only if such decline was considered to be contributing to net social costs at the national level could such policy be indulged in and then only as a transitional measure. "Policy which benefits one or a few regions at the expense of the country is inequitable".¹⁴⁴ He also observed: "There are differences between regions in level of personal satisfaction and firm profitability, but these differences are not sufficient to justify direct Government intervention".¹⁴⁵ Thus longterm government intervention of the kind involved in decentralisation would result in inequality and inefficiency.

McDonald concluded from his research that, "There does not appear to be a case at present for direct Government intervention to change the pattern of regional development".¹⁴⁶ Acknowledging that location decisions "...cannot allow fully for the effect of their decisions on the community as a whole", he was able to report that, "As far as can be ascertained the resulting pattern of development is not giving rise to excessive (net) social costs, either in terms of public authority costs or social costs proper, which outweigh the private benefits of the present pattern".¹⁴⁷ He went on to observe:

As it does not create excessive social costs, the future pattern of industrial development should be determined as much as possible by the firms concerned according to market forces, with minimum state intervention. Any intervention, except in exceptional circumstances should assist firms to locate at their most economic location.(148)

An exceptional circumstance which might require government intervention was "a sudden major loss of employment". In general, however, the private market was to carry the main responsibility for the use and allocation of the country's

productive resources. Most firms could be relied upon for "a sound location decision from the point of view of private costs".¹⁴⁹ The market could be depended on to make the rational decisions for New Zealand. A diminution of the power to make these decisions would have serious consequences for the country as a whole. Any intervention should be aimed at persuading industries to locate in the most favourable setting, or "their preferred location" which was invariably a major centre. In this fashion the Government would encourage the efficient use of the country's productive capabilities. McDonald observed:

New Zealand cannot afford to reduce its growth prospects by diluting its resources in the forcing of premature development in the slower growing regions. With only a small population and scarce resources, it is important that growth be encouraged where it produces the greatest immediate benefit.(150)

In addition he explained that a decline in economic efficiency would result if Government endeavoured to restrict in some manner the natural process of industrial concentration:

If the present pattern is restrained or further rigidities imposed, by a policy of decentralisation, the divergence between the optimum and actual patterns will increase, reducing the efficiency of the economy and imposing social costs.(151)

Industrial efficiency and advancing productivity were to be seen to go hand in hand with increasing urbanisation. Under the circumstances the Government should avoid instituting such self-defeating, restrictive measures as decentralisation as they would act as an obstacle to industrial progress.

As for the proposition that it would be wise for

Government to take action to prevent problems from arising in the large urban centres, particularly Auckland, McDonald observed:

It is feasible that Auckland will become too large in future, but this is unlikely within this century at all.

Because Auckland may in future become too large, it would not be more economic and farsighted to decentralise industry now to forestall any problems that might arise from excessive concentration. It would be laying the foundation for a pattern of industry dispersion that may not be applicable until well into the next century. In the interim this pattern would prejudice future growth by inflating the internal cost structure unnecessarily and diverting resources to uneconomic uses - in support schemes, relatively small-scale industry, and additional transport services. (152)

Not ignoring the difficulties encountered by people resident in declining areas, McDonald suggested "the best solution" in this area was to be found:

...within a general manpower policy, designed to train or retrain labour and to encourage it to attractive employment opportunities. In areas where employment opportunities are limited or non-existent provision should be made for Government assistance to those without employment. Assistance should be available to people to relocate where they would be most productive and personally satisfied. (153)

Economic decline, he observed, was more a problem for the old than the young but, "There is no natural advantage in the present pattern of population and industry

distribution which would justify the cost of its preservation".¹⁵⁴ It was to be assumed that the manpower policy would involve co-operation between government and the recipients, not compulsion. "Persons not wishing to shift from declining areas will require financial assistance, with perhaps training in craft operations, avoiding the commitment of industry to uneconomic locations".¹⁵⁵

Presumably it was McDonald's view that not only would the recipients benefit from re-training but also the economy by way of a more effective work force. It could also be presumed, given McDonald's cost/benefit approach, that adult education and training programmes could be expected to yield large benefits in relation to the costs involved, or at least to break-even. In essence, McDonald was arguing that central government should avoid permanent subsidy programmes which would serve to lock New Zealanders into low-productivity industries and declining occupations in stagnating areas. To induce industries to locate, or remain, in areas for other than strictly economic reasons would lead to an economically wasteful employment of labour and resources.

With respect to individual location choices McDonald asserted: "The present pattern of development allows individuals a wide choice of location and is not prejudicial to the level of personal satisfaction and welfare".¹⁵⁶ Primary resources processing industries, he also pointed out, were located "...mainly outside main centres, and provide a considerable measure of industrial decentralisation",¹⁵⁷ but were becoming increasingly restricted: "...continuing rationalisation is concentrating primary production in fewer areas and processing into larger units at fewer locations"; and:

The continuation of the present pattern of development will lead to an increasing concentration of population and economic activity in the north of the North Island, in and around Auckland.(158)

McDonald apparently expected location preferences to coincide with this concentration. The growth of Auckland and its hinterland would provide the opportunity to satisfy changing location preferences. Location preferences were linked to the changing needs of the economy, but McDonald also argued that changing preferences were leading to a greater concentration of people in the northern part of the country.

Thus, for McDonald, Auckland's rapid growth would continue to be a prominent feature of the country's development. Indeed, the country's future welfare and prosperity were predicated on continuing urbanisation. He drew attention to Auckland's indispensable role in the task of bolstering the international competitive position of the New Zealand economy:

New Zealand's overseas links, especially in trade, will benefit from the growth of a large population and manufacturing centre in New Zealand.(159)

In the light of Auckland's strategic position in the economy, enforced decentralisation away from the centre could be construed as a veritable threat to the country's future economic prosperity. The country had to avoid a situation where the costs of production and distribution resulted in industry pricing itself out of foreign markets. An assessment of the consequences of Auckland's growth had to take into account conditions prevailing overseas, particularly in Australian urban centres:

As there is already almost complete factor mobility between New Zealand and Australia

the effects of inhibiting Auckland's growth would be serious, reducing the competitiveness of New Zealand industry at home and overseas. This argument suggests that growth be encouraged to concentrate on Auckland until such time as its size produces diseconomies which outweigh the benefits of its continued growth.(160)

Regardless, therefore, of the net social costs that might result from Auckland's growth, international market factors would determine whether or not central government should intervene. This view appeared to be at variance with McDonald's initial assertion that the existence of net social costs provided, in themselves, sufficient justification for some measure of government intervention.

Actually, on the point of social costs, McDonald's analysis was somewhat subtle. If social costs were to build up in a rapidly growing centre, the cause of these costs was not to be found in the growth itself but in poor local authority management and planning:

There is a reluctance amongst city politicians to commit funds on large capital projects for such mundane items as sewerage disposal, planning, transport services, etc. so that there tends to be a lag in the provision of city services. There is also a reluctance to embody future cost-saving measures in current projects if it increases their current cost or unpopularity.(161)

Failures at the local level to accommodate growth properly was thus the reason for the existence of social costs. Consequently, farsighted planning and management would prevent undesirable aspects of industrial concentration from arising. In terms of the cost/benefit formula it might be assumed that once the costs of providing public

services outweighed social and private benefits there would be reason for central government to encourage decentralisation. However, if the preservation of the country's international trade position was included in the equation, it would appear that a government might conclude that non-intervention was the most desirable course of action. Irrespective, therefore, of the existence of net social costs, government might find it sensible not to intervene and jeopardise the country's trade position. In McDonald's judgment there was every likelihood of Auckland's growth producing net social costs before the end of the century.¹⁶²

In terms of this argument, government would find it unnecessary to influence the geographic pattern of development but would find it possible to place any blame for social costs arising in the main centres on the poor management of local politicians and administrators.

Significantly, while McDonald was prepared to assert there was no need for central government intervention in the geographic pattern of development, he acknowledged the important influence of government allocation decisions on development. For him, government's role was primarily the passive one of accommodating private firms on such matters as power and transportation costs.

Consideration should be given to the gradual regional alignment of public service charges with costs; not necessarily to fully recover all costs with direct charges but to scale charges between regions in proportion to costs. Major power users for example should be allowed rate differentials which reflect the cost of supplying power to alternative sites. There should also be a close study of the effects of encouraging regional differentials in private selling prices, especially for bulk users and export firms.(163)

And:

In addition there should be an intensive economic study of the transport industry in New Zealand with a view to rationalising the demarcation between road, rail and sea and air transport and to removing anomalies in rating structure, especially on rail and air.

This is necessary because of the major impact that transport costs have on regional development.(164)

But McDonald did not see changes in the structure of public service costs as being a means for achieving more balanced regional growth. Rather, the changes he was advocating would encourage a greater degree of concentration and business efficiency:

As individuals and firms bear the full cost or costs in proportion to the cost of providing the service, they may weigh directly the service costs in their location decisions. This is important in the transport sector where subsidised services are allowing industry and population to locate in areas where they are not economically justified at present, while the levy on other transport service users has an adverse impact on the costs of more economic locations.(165)

This amounted to criticism of central government policy of service subsidisation. Transport subsidies were sheltering or causing inefficiency in industry by protecting industries in uneconomic locations and unfairly handicapping those having chosen economic locations. Economic justification was to be the criterion for the provision of public services. In a similar vein McDonald examined public authority expenditure:

At present political factors exert an influence on the allocation of public authority expenditure, both at the national and local authority levels. The present pattern of regional

development results from industrial pressure towards efficiency, while also reflecting personal location preferences. If government expenditure is not converted to the same basis the two sectors will be unco-ordinated, resulting in excessive costs and the waste of assets. Expenditure deficiencies at growth points will inflate cost and inhibit future growth.(166)

This was a particularly important statement for it was a clear criticism of current central government allocation policies. These policies, because they were not in harmony with rational economic criteria, were responsible for "excessive costs and the waste of assets". In effect, McDonald was arguing that the "fair and equitable" formula for allocating public monies and resources to local authorities, while being politically advantageous, had no justification from an economic point of view. Government expenditure should be directed towards those centres experiencing rapid growth as a consequence of the natural process of industrial concentration.

The demand for new facilities will be relatively higher in faster-growing areas. If the facilities are not provided costs in these areas will rise as people compete for scarce resources. At the other end of the scale, if expenditure on public facilities is not soundly allocated, they may be built in areas which do not have the population, industry or growth potential to use them economically, or if allocated to declining areas they may become redundant with the decline of the area before the end of their economic life.(167)

The Town and Country Planning Branch of the Ministry of Works was seen to have an important role in evaluating the most economic allocation of government expenditure.

The Town and Country Planning Branch, Ministry of Works is closely concerned with regional development. It should be given the facilities to co-ordinate all departmental studies on regional expenditure, and to evaluate the relative merits of alternative patterns of expenditure allocation between regions on a sound economic basis. Further, they should be given the resources for planning growth in regions to achieve the growth at least national cost. The quality of planning has a major influence on the cost of development. (168)

McDonald's conclusion that there was no reason for central government to intervene in the pattern of regional development did not apply, curiously enough, to local authorities. The latter were to be encouraged to provide inducements to attract private investment.

Government should encourage local authorities to attract and plan for industrial growth. Local authorities should seriously consider the merit of having land available at attractive prices for industrial use, of providing service cost concessions to industrial users, and of facilitating industrial growth by creating an environment conducive to industry, especially in terms of zoning and local authority specifications. (169)

Exactly what form government "encouragement" should take was not made clear. Certainly, given McDonald's previous comments about power and transportation costs and the need for government to base its expenditure decisions on private location decisions, local authorities would not expect to receive financial assistance. Neither was it made clear why local authorities should attempt to induce industries away from their most economic locations. Presumably the location decision was acceptable if it were based on, apart from other factors, conditions provided at the local level but not if central government policy provided the inducement. Central government policies had direct

implications for the health of the economy as a whole while the consequences of local authority decisions were confined to the authorities themselves. So long as the concern was the securing of net social benefit, McDonald's argument on local authority responsibility was consistent. However, given that industrial location was to be viewed and indeed accepted as an inevitable process, there appeared to be little reason to encourage local authorities to attract industrial growth. In any case, as he had pointed out, it would not make sense to dilute the country's productive resources through decentralisation. Moreover, McDonald did not appear to take into account what continuing competition among local authorities might mean for the quality of town and country planning. At times he forwarded planning as the remedy for rising social costs and on others seemed to be arguing that local authorities should be prepared to sacrifice planning objectives in the interest of accommodating industrial growth. Presumably if private benefit outweighed social costs, this sacrifice would be considered profitable. But according to his argument, even if the costs at the local level outweighed the benefits, this would be acceptable so long as net social benefit persisted at the national level.

Aside from the somewhat incongruous conclusion which McDonald reached with respect to the role of local authorities in industrial development, the basis for his conclusion that the "...pattern of development is not giving rise to excessive (net) social costs, either in terms of public authority costs or social costs proper, which outweigh the private benefit of the present pattern",¹⁷⁰ was even more startling. The use of the term "private" did not refer to the private sector, but to a particular entity or course of action. The entity involved could be a government. "Social", on the other hand, referred to the "...by-product of entities' actions and have an impact on the whole community rather than just the entity or

group of entities that generated them".¹⁷¹ McDonald noted that private costs and benefits, because they involved entities, were open to quantification. Social costs and benefit however were not open to the same degree of quantification as they involved "a more nebulous indicator which is a general assessment of welfare or public benefit".¹⁷² Having drawn these distinctions, McDonald found it convenient to differentiate between social costs related to the provision of public services and those of a more intangible kind related to general welfare. However, he had not found it possible to deal with the latter class of social cost:

Concentrations of industry may pollute the environment, the bigger the concentration the greater the pollution potential. The noise, smell, crowding, crime, social and welfare problems, and a host of other factors tend to create social costs in larger centres. To quantify these, and compare them in absolute terms with social costs in smaller communities is not possible in this study.(173)

McDonald decided to concentrate on an examination of public authority costs, even though he had admitted the question of regional development to involve consideration of "less tangible factors such as the quality of life".¹⁷⁴

...public authority costs for the main services have been assessed to determine regional disparities which might represent social costs, and for the balance it is possible to make a reasonable subjective evaluation of the net social cost or benefit of concentration or decentralisation.(175)

In effect then, McDonald's conclusion that there was no reason for government to intervene in the geographic

distribution of industrial growth was based almost completely on his own "subjective evaluation of net social cost".¹⁷⁶ He had chosen to examine that aspect of growth most easily quantifiable and relied on his own subjective assessment for the rest. Needless to say his report became the subject of heated controversy, particularly from those who felt his assessment was completely awry.

One other point raised in McDonald's report deserves highlighting and this concerned the area of commercial finance. He observed:

It is often easier to establish new firms in small towns because of cheaper land, labour and perhaps personal contacts, and typically the smaller market served by a new firm. Commercial finance however appears to be more readily available in larger centres.(177)

McDonald concluded:

Development finance should be available throughout the country for profitable ventures to ensure that lack of finance in a preferred location does not induce a less satisfactory one.

Government should ensure that regional differences in the availability of finance from commercial sources does not inhibit the exploitation of commercial opportunities in regions.(178)

This analysis will not attempt to determine how McDonald saw these recommendations as being consistent with a policy of non-intervention, the advantages of increased concentration and so on. What is important is that they acknowledge that industrial location decisions were at

least potentially influenced by availability of finance, rather than the natural forces of the market place.

McDonald's report, perhaps not surprisingly, received an openly enthusiastic response from the National Government. From other quarters, however, there was a very negative reaction. The report was made public in time for the New Zealand Institute of Public Administration's yearly Convention, which, in 1971, was to have the topic of regional development as its theme. The Deputy Prime Minister, and Chairman of the National Development Council, was one of the guest speakers. His comments give a clear indication of the Government's continuing position on regional development and its reaction to the McDonald report. This reaction, the evidence suggests, had been tempered by public criticism of McDonald's work; however, the report was considered to be confirmation of the National Government's view that alarm about the geographic distribution of industrial development was unwarranted and an endorsement of the Government's policy of non-intervention.

In his address, the Deputy Prime Minister observed that the pressures which had encouraged Great Britain and other countries to embark upon regional policies had not developed "...on a serious scale in New Zealand".¹⁷⁹

Whatever regional structure one chooses to adopt, it cannot be claimed that any region in New Zealand is experiencing the problems of growth and congestion, or of decline and depression, on the scale that led Britain and other countries to introduce far-reaching measures aimed at reducing the disparities and inequalities between regions.(180)

Even so, the Deputy explained, it was important "...that for the purposes of national planning we should regard New Zealand not as nineteen or seventeen or even two regions, but as one".¹⁸¹

The prosperity of the country as a whole is affected by the fluctuations of our export trade. In this situation most major decisions affecting national development require the overall outlook and the involvement of central government, without undue weight being given to any regional claims that may be advanced.(182)

Regarding the construction of nationally important works, he observed:

Such projects require the allocation of a large proportion of the limited funds available for public investment and capital works. They have to be planned from a national point of view. While regional claims may be relevant to the right decision, they should not dominate to the point where the wrong decision emerges.(183)

Emphasising that economic planning was the responsibility of the central government and should not fall victim to parochial and/or regional pressures, the Deputy went on to examine the Government's role in the development of the country's national resources. Again he noted that the Government had a responsibility to assist with such development:

If economic planning is to be undertaken and administered primarily from the centre it must, of course, be related to national resources rather than individual regions. To do otherwise could lead to heavy investment in areas that do not have the resources to sustain reasonable economic growth thus perhaps creating a permanently dependent region that would remain a continual burden on the national economy. Our concern must be to see that the resources, in whatever region they may be, are investigated and, if it is

possible to do so economically,
develop for the national benefit.(184)

The type of assistance Government had in mind was made explicit and was a reaffirmation of existing policy:

It is one of the functions of the Government to encourage the development of these resources, not necessarily or indeed generally by direct intervention, but by creating the climate in which private enterprise may be induced to develop them. The Government can carry out investigations; in appropriate cases it can provide technical and financial aid as a stimulus to development - but the drive and initiative must come principally from the private sector and from the regions themselves.(185)

The key to influencing the decentralisation of growth was to be found in indirect influence rather than direct intervention such as industrial licencing and penal taxes. The locating of "major public works", the development of power generation and communication networks, and the distribution of government employees could be used as an "Indirect means of exerting an influence on industrial location..."¹⁸⁶ The Deputy also noted: "Through the activities of the Local Authorities Loans Board, Government's influence even extends to the development of significant local works, most of which require finance for their implementation".¹⁸⁷ And: "...many of our large industrial projects involve Government partnership or are subject to Government influence in respect of their initial location".¹⁸⁸ Speaking of educational institutions he observed:

As the location and establishment of most new institutions of this kind are decided by Government, it would theoretically be quite feasible for Government to ensure that it was 'directed' to one of the

secondary centres designated in its regional policy, rather than just be added to an existing institution in one of the main centres.(189)

Since the Government had not yet decided to pursue a regional policy all this was very much a "theoretical" argument. The Deputy would only concede that "...the time may well come, and perhaps sooner than the Institute of Economic Research anticipates, when Government will find it necessary to exert more influence than at present on the pattern of industrial location in New Zealand".¹⁹⁰ What is interesting, however, is that while the Government did not have a policy it had, as the Deputy observed, tried to influence the direction of growth through the location of its own activities. He gave as an example the siting of the new data preparation centre in Blenheim. The Deputy, it may be interpreted, was anxious to pacify certain elements who had responded to the McDonald report with strong criticism. In a sense, he was implying^{that} the Government might be prepared, in the near future, to reconsider its position on regional development. The Government would endeavour to disseminate information about regions through its departments. Interestingly enough, the Deputy mentioned the Institute's admission that its study had been "seriously restricted by the lack of quantifiable data" and referred to the report's tentative conclusion that "...those regions with a less impressive rate of employment and population growth were not really suffering any serious disadvantages".¹⁹¹ It appeared as if the Deputy was attempting to temper the impact of the report by stressing its weaknesses. He was certainly conscious of the strong criticism it had received:

Not surprisingly the report has come in for a good deal of public criticism, particularly from those areas of the country that are not experiencing much industrial expansion and are anxious for Government to direct to them what they are not themselves able to attract. My own feeling is that the

Institute's report is by no means the final answer. We need to know, for instance, far more than the Institute in the short time available was able to discover about our regions, their particular potentialities, the disparities that are alleged to exist between them, and the effects in the regions of Government and private investment.(192)

As will become evident a little later, the most serious criticism of the McDonald report was the way it had handled the social side of economic development. With respect to the larger growing centres the Deputy noted: "...we do need to develop ways of assessing the overall benefits and costs of concentration more reliably", and explained that the Treasury was working on a "social accounting" approach to fulfil this need".¹⁹³

The Deputy Prime Minister's conclusion was that government should continue with its "indicative planning" approach to the economy and that, "Meanwhile the development of our resources as a nation is the top priority".¹⁹⁴

The McDonald report was submitted to the National Development Council Sub-committee on Regional Development, which had been established shortly after the report was released by the Government. It was given responsibility for "evaluating the views of as many persons and organisations as possible".¹⁹⁵ Comments were invited from sector councils and the country's universities were also approached for assistance in the evaluation. A number of voluntary submissions were made by "regional groups and other representative bodies". The Sub-committee reported that:

The fundamental conclusion of the NZIER report, that the underlying national trend to centralisation of population and economic activity in and around Auckland is in harmony with the national interest, was not wholly

accepted by a number of sector councils. Nor was the primary recommendation that the Government should not at present intervene to influence the pattern of regional development, found to be consistent with the analysis made.(196)

Of the sector councils some of the strongest reactions came from the Agricultural Production Council, the Cultural Council, the Vocational Training Council, and the Distribution Council. The comments of the A.P.C. focussed on the implications of the report for the agricultural industry. Similar concern was expressed by the Ministry of Works (Water and Soil Division). Considering the central government's concern for providing the right climate for economic growth, and given its traditional political support in the agricultural community, the Council's comments were bound to be examined carefully. The N.Z.I.E.R. report had caused considerable concern within the A.P.C.

The Agricultural Production Council (APC) was particularly concerned at the failure to discuss the effect that industrial development and centralisation can have on agriculture, in terms not only of the farmer's location, but also in terms of the supply and cost of labour and goods to the sector. It was pointed out that the agricultural sector (which by nature is dispersed in its development) relies on the continued viability of smaller centres throughout the country to service it and to provide satisfactory educational, cultural, and social facilities.(197)

Concern about centralisation could no longer be passed off as the prerogative of a few social reformers and idealistic intellectuals who enjoyed pursuing "intangible" or "nebulous" causes. Quite the contrary, it was having a measurable and deleterious effect on the economic viability of agriculture. To treat continuing centralisation as an inevitable process would be to place the most important productive sector of the economy at risk. This was clearly an economic concern that, because

of its implications for the national economy, deserved a concrete response from the National Government. Having dictated the rules of the game the Government now found the ball firmly thrown back into its court. However, the APC in turn gave priority to economic factors involving the agricultural industry and was certainly not predisposed to view regional development as a means for remedying social problems:

...processing industries ...should be located where the greatest benefits accrue to producers and the country regardless of parochial considerations. This approach should take precedence in its view, where the alternative sites could be supported only on social welfare grounds.(198)

Not surprisingly there was frequent criticism of the report's "...relative lack of attention to social, cultural, and environmental considerations".¹⁹⁹ The Cultural Council and Vocational Training Council were particularly concerned about the apparent bias of the report. Summarising the points made in the various submissions the Sub-committee reported:

The examination by the NZIER of public authority costs was discussed little in submissions to the subcommittee. On the other hand, the coverage of social costs seemed to a significant number of sector councils and other interested parties to be disproportionately brief in relation to private costs. This was felt to be another consideration which detracted from the validity of the NZIER recommendations on Government intervention.(200)

And:

The impossibility of quantifying the range of social costs and benefits relevant to regional development is admitted in the

NZIER report. For this reason the assertion that the future pattern of industrial development 'does not create excessive social costs' was questioned by the Department of Labour (Manpower Planning Unit). (201)

On the matter of location choice the Social Council found McDonald's analysis and conclusions very questionable and contained "...speculations which would require empirical evidence before they could be used as a basis for formulating a regional development policy".²⁰²

In particular, the council stressed that the implication of 'free choice' has to be considered in relation to economic pressures caused by influences such as lack of job opportunities and poor prospects of promotion. Whether or not people are free to choose their location does not avoid the problem of determining those factors which influence the exercise of that choice. It is possible that the economics of mobility, and the social consequences, are such as to make it desirable to provide facilities that would alter personal location decisions.(203)

The Sub-committee concluded: "Regional policy objectives should ...give weight to both social and economic considerations, as the terms of reference of the NZIER report make clear".²⁰⁴

One of the most crucial parts of the Sub-committee's report concerned the principle of government intervention. In essence, this came as a further blow to the credibility of the NZIER report. The Sub-committee noted:

In considering whether or not the Government should intervene to influence the pattern of regional development, it must be borne in mind that the Government already makes many decisions that frequently and substantially affect the pace and direction of regional development.(205)

A systematic and concise account of the degree of central government activity followed:

Nearly all major public works involved in providing the country's social and economic infrastructure, notably transport and communications, are controlled by the Government. It is also in a position to influence the location of many of the biggest industrial projects undertaken in New Zealand. Moreover, the public sector is by far the largest single employer of labour, and thereby influences the distribution of population and manpower. Decisions such as the siting of container terminals, the allocation of Kaingaroa Forest timber rights, and location of the Post Office bonus bonds office, all illustrate the extent to which the Government already influences regional allocation of resources.(206)

In the circumstances, the question of whether or not the Government should directly intervene in the pattern of development was patently absurd. The Sub-committee summarised the views expressed in a number of submissions by the Government: "New Zealand's present pattern of regional development is by no means due exclusively to the operation of market forces".²⁰⁷ If this were the case: "The question the Government must therefore answer is essentially one of whether this pattern and its social and economic results give grounds for further intervention".²⁰⁸ The Sub-committee was sharply critical of the McDonald report's failure to satisfy its terms of reference by suggesting criteria for a regional development policy. From the submissions it was able to conclude: "The omission from its report of a clear statement of such criteria was widely considered to limit its value as a basis for the formulation of Government policy".²⁰⁹ Even a recommendation of non-intervention required an elucidation of "basic assumptions" concerning "...the desirable relationship between national economic, social, and other objectives, and the geographical distribution of the

country's people and resources".²¹⁰ The Sub-committee explained:

Alternatives to a policy of non-intervention should be considered, especially since the first recommendation of the NZIER was not felt to be the logical one in terms of its own findings.(211)

With regard to McDonald's conclusions concerning the possibility of intervention taking place to check the growth of urban centres before serious social costs arose in them, the Sub-committee noted:

The view was also expressed that a policy of non-intervention at this time overlooked the opportunity for New Zealand, by acting now, to anticipate and thereby forestall the future emergence of an unsatisfactory regional imbalance such as some overseas countries are currently faced with.(212)

Having established^{that} the central government was already influencing, even directly, the operations of the private market and that there was general support both within and outside the National Development Council for a regional development policy, the critical issue became one of determining what the nature of continuing intervention should be. While "several submissions" supported the view, "...that the Government should not intervene directly at the present time (original emphasis), there was, "...fairly general reluctance to accept that the question of further intervention, designed to encourage a better regional balance in national development, could be completely dismissed at this stage".²¹³

The manufacturers, while supporting the concept of balanced growth, were quick to point to the unacceptability of government meddling in location decisions. The Manufacturing Development Council and the N.Z.

Manufacturers Federation (Inc.) expressed the view "...that an appropriate regional development policy would primarily allow economic forces to determine where industry is sited", and "...that balanced growth between regions should be taken into account by the Government in decisions relating to national development, but that this should not extend to directing where industry should locate".²¹⁴ These and other similar opinions led the Sub-committee to state:

There was general support for the view of the NZIER that regional development policy and Government intervention should give priority to the national interest and not reflect the interests of specific sections of the community or local preoccupations. The subcommittee agrees with this point of view.(215)

Taking everything into consideration, the Sub-committee recommended:

...the means of intervention chosen should be fundamentally positive in character and not provide for dictation by the Government of industrial location decisions. The means chosen should be designed directly to encourage a variation of the existing pattern, rather than directly to discourage its continuation. The wide variety of fiscal and other incentives which may be used to influence the location of capital and labour offers scope for selection of appropriate direct means of intervention.(216)

As the Sub-committee saw it, the Government, given the evidence, "...may conclude that the present regional pattern of distribution and utilisation of New Zealand's resources requires it to intervene to a greater degree than is already the case".²¹⁷ If so, in the Sub-committee's view, the Government had two distinct approaches open to it:

...the Government could act simply by building into its current national economic planning and resource allocation decisions, some explicit acknowledgement of the regional development objectives it may choose. In addition, or as an alternative, intervention by the Government could take a more direct form. The designation of growth centres - possibly accompanied by incentives to industry or other economic activities locating in them - or the accelerated development of a particular local resource are examples in this category.(218)

The possibility of government intervention on an ad hoc or unco-ordinated basis had been identified in the NZIER report and in other submissions. On this matter the Sub-committee concluded:

Intervention based on a selected number of larger regional centres which already possess the basic requirements for growth - educational facilities, social amenities, and transport and other resources - would also be a sounder means of encouraging growth outside the main concentration than would direct attempts to promote growth in a large number of small centres. The growth of many such smaller centres arose out of economic circumstances no longer prevailing and it would not generally be consistent with the national interest to carry intervention to such extreme lengths. As the NZIER suggests, a policy of indiscriminate decentralisation to a substantial number of alternative locations would not be appropriate for New Zealand.(219)

Interestingly enough, the Sub-committee also noted:

The designation of selected urban centres as growth points, whether or not accompanied by direct measures to promote their development should in itself have a positive effect in terms of strengthening business confidence in their future viability. This may help to offset the desire to locate in the few centres experiencing fast growth.(220)

And:

The selective concentration of economic activity inherent in the growth point approach to intervention in regional development reflects a recognition of the importance of manufacturing industry as a growth stimulant and the need for this to be based on relatively large centres.(221)

But at the same time the Sub-committee carefully observed with respect to growth rates:

Regional policies should not aim to bring about a closer balance by measures which, directly or indirectly, will seriously inhibit the rate of growth in the faster growing regions. For example, they should not be directed merely at arresting inevitable migratory flows. Rather, such policies should be concerned with modifying the conditions in the source areas responsible for these flows or the conditions created in the new locations, where this is considered necessary for wider social and economic reasons.(222)

The Sub-committee, it is fair to say, endeavoured to formulate recommendations most likely to satisfy all the interests involved in the regional development question, particularly the National Government. In sum, the Sub-committee argued on the one hand that the process towards concentration was inevitable but implied on the other that the central government could modify the process. While the words were carefully chosen and the argument subtly presented it amounted to a vague and contradictory statement. It appeared that the Sub-committee could not be relied on for an objective assessment.

* * * *

The political and intellectual debate over regional development continued ad nauseam. For this analysis the next significant event came with the Labour Party's return to power in 1972. Since the 1960 Industrial Development Conference, Labour had promised, in successive election campaigns, to implement a regional development policy for the country. The Party's 1972 Election Manifesto included proposals to replace the Development Finance Corporation with an Industrial Development Finance Corporation providing financial assistance "for industries with export potential or industries operating in rural centres"; to establish "special development districts"; and to create "the circumstances and incentives which will enable existing industry in provincial centres to expand and operate more competitively with those based in the major market centres".²²³

The first regional development council was established in the City of Dunedin. Shortly afterwards, in the middle of March, 1973, Dunedin was the venue for a regional development seminar wherein Ministers outlined in general terms the Government's regional development policy. The seminar was also an occasion for Government and the large urban centres, especially Auckland, publicly to commit each other to a mutually agreeable approach towards regional development. Labour, it was turning out, was no less sensitive than National had been to the likely political consequences of alienating powerful urban interests. These were made quite explicit by the Mayor of Auckland.

Addressing the seminar, the Minister of Trade and Industry attempted, in a somewhat confusing fashion, to allay any fears that the programme was to be used to check Auckland's growth. He observed not only that Auckland's growth was not necessarily a "bad thing", but that such growth was "natural" and beyond Government control:

...nor can any policy which this or any subsequent government establish, result in halting the natural development of the City of Auckland. If you have any doubts about that I'm sure that my friend, Sir Dove-Myer Robinson, will make it abundantly clear in his remarks this afternoon, that no one, whether in Wellington or in Dunedin, will stop the natural growth of Auckland.(224)

This was reminiscent of the previous National administration's views. However, he continued:

...the expansion of Auckland in itself is not a bad thing, but it is a bad thing if this is done by creating an imbalance elsewhere, so that you and I as tax-payers have to dig deep into our pockets to provide the social, cultural, and economic and transportation facilities required for this growth in Auckland while in other parts of the community, where you and I over the years have footed the bill, these facilities are not properly exploited and developed. (225)

In these comments the Minister appeared to acknowledge that rather than being a "natural" phenomenon, Auckland's growth was, in major part, a consequence of the resource allocation policies of central government. In addition, he seemed to imply that the "imbalance" which had been created by this growth was cause for concern and deserving of government attention.

In essence, the Minister's efforts to clarify the regional development policy in a way palatable to the urban centres reflected the politically delicate situation in which the Government found itself. While having accepted responsibility for taking the action necessary to achieve a more balanced pattern of national growth and development, political factors dictated that this be accomplished without ^{detriment} to Auckland's continuing expansion. Economic

considerations were also influencing Government. Auckland's importance in providing manufacturers and industrialists with the base from which they could compete on overseas markets had not gone unrecognised. To put it bluntly, Labour was not about to ignore the political and economic realities summed up in the phrase, "What is good for Auckland, is good for New Zealand".

The Government made explicit reference to "new industry" in setting out the criteria for assisting industry to locate in designated regional development areas. Assistance would not go beyond that normally extended to existing industries: "In granting assistance to induce new industry to locate away from the main centres favourable consideration should only be given to industries which meet normal industrial development criteria".²²⁶ New industries were not to be induced to locate in regional areas by providing them with a preferential position in the "market".

New industries must be viable in the national sense and the question of assistance relates to those factors which need to be balanced to place the industry on the same basis as if it were establishing in the optimum location (in many cases Auckland).(227)

Further, councils were expected to "give particular attention to the retention and expansion of existing industry".²²⁸ The attraction of "new industry" was viewed as a "longer term aim".²²⁹

This approach was approved by Auckland's Mayor who stated: "Auckland supports the Government's policy of encouraging and assisting development in any region where such development will be economically beneficial to that region and to the whole country". (emphasis in original).²³⁰ He also emphasised that "...Auckland would oppose Government assistance to any region if it were given to the detriment

of already soundly established development in Auckland, or any other part of the country" and: "Destroying existing efficiency of industry to artificially develop it elsewhere, is unacceptable".²³¹ The word "artificial" included the means open to a government by which it might try to stem Auckland's growth and encourage people and private investment to locate elsewhere. "People and businesses come to Auckland because they want to and under our democratic system, no local or central government can prevent it - except by artificial means - such as withholding government finance for necessary public works".²³² The use of "artificial means", the Mayor warned, would have serious political ramifications for the government which introduced them: "Any government which adopted a policy of strangulation of Auckland's natural development would be signing its own death warrant at the next general election".²³³

Planning, at regional and national levels, was regarded as an integral and critical component of the programme. The achievement of a more balanced pattern of growth required, in the Minister of Works's view, the preparation of comprehensive regional plans and the formulation of a "national scheme" within which regional activities could be co-ordinated. He observed:

On the national development level regional planning should not be carried out region-by-region, in isolation, without thought for the consequences in other parts of the country. We do not want to set one region against another - or to favour one region more than another. We want to restore balance to development - to share it out more fairly than has been done so far.(234)

Elaborating on the type of planning required, the Minister argued:

Planning must be on two levels. At the local level we must have comprehensive, positive but realistic planning to develop regions according to their potential and according to what is desirable from a sociological point of view. Such planning must be based on accurate research and assessment of resources. But regional planning must fit into place in the development scheme for the whole country.(235)

As well as improved planning, the Minister saw a need to deal with the ad hoc nature of co-ordination among Government departments with responsibilities in the development area. He noted that departmental officers "...do their best but co-ordination is really nobody's business", and that, "There is no formal co-ordinated planning of development on a national scale".²³⁶ The answer to this problem lay, the Minister felt, in the formation of "...an action group which would bring together senior people in Government departments concerned with development."²³⁷ Elaborating, he said:

It would be closely associated with my office so that I can participate fully in regional development programmes. It would cut away red tape and ensure action based on good research and sound planning and it would co-ordinate the development activities of Government.(238)

The Labour Government's objective of co-ordinating Government activities went considerably beyond the idea of forming an "action group". The operations of the National Development Council had been brought under review with the aim of changing this organisation's structure and relationship to government to make it an instrument of preparing "a sound long term plan of development".²³⁹ The outcome of the review was announced by the Deputy Prime Minister approximately a year later. Government had decided the Council should become a Ministerial body with each sector council being made

responsible to appropriate Ministers and through them to the Cabinet Committee on Policy and Priorities. The Deputy Prime Minister explained that the Government hoped that, "The more direct involvement of Ministers would...provide new impetus and encouragement creating a stronger link between the private sector members of the Councils and the essential leadership of Ministers thus narrowing the gap between advice and action".²⁴⁰ Acting in place of the National Development Council the Cabinet Committee "... would initiate and co-ordinate policies for attaining New Zealand's longterm social, cultural and economic goals".²⁴¹

The difficulties Labour encountered in implementing its regional development policy are taken up in the following section.

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SECTION II

NATIONAL, REGIONAL AND LOCAL PROCESSES-HOUSING

This section is concerned with a variety of measures introduced by the Labour Government during its term of office to influence the way in which, and the speed with which, housing could be placed on the ground. The measures were aimed at such matters as the expansion of its administrative instrument, the State Advances Corporation (later to become the nucleus of the Housing Corporation), and the creation of a more attractive investment environment for private builders in the low and medium cost housing range. Concurrently, however, measures became necessary that were aimed at the regulation or control of the activities of others. Among these were a series of steps to control land speculation, to stabilise land prices, to entice investment in mortgages, and to encourage co-operative ventures between Government and private developers/builders. The study is intended to illuminate the situations that encapsulate "government" and "private" decision-makers and the nature of the negotiating processes through which each centre of influence attempts to secure its interests and to promote its purposes. The section also refers to the repercussions of these situations and processes for regional development, local and regional planning, and the standards of house construction.

CHAPTER FOUR

LABOUR'S INHERITANCE AND EARLY ATTEMPTS TO COPE

Labour had inherited a difficult situation. A series of seemingly ad hoc decisions, beginning with one in November 1971 to release more funds for housing through the Trustee Savings Banks, had caused a sudden acceleration of building activity. In April, 1972, the residential loan limits of the S.A.C. were raised by two thousand dollars and in the following June the maximum allowable income for family benefit capitalisation was increased. These decisions, combined with such factors as generally improved economic conditions and increased immigration, placed such heavy pressure on the country's building resources that builders were soon unable to cope with demand. In addition, S.A.C. loan facilities were quickly stretched to the limit. There was "...a spectacular increase in the demand for loans to build houses and total authorisations for this more than doubled, reaching \$102.6 million against \$44.9 million the preceding year".¹ The result was that "...the gross outstanding commitment in respect of loans granted but not paid out as at 31 March 1973, stood at \$75.4 million, an increase of \$21.4 million during the year".²

In October, 1972, the National administration decided "to channel loans to areas of greatest need" by limiting them "to cases where the cost of ingoing (i.e. house and section did not exceed \$20,000)".³ By this point the Corporation was experiencing a downturn in loan applications. It was to report: "The strong pressure for loans was tending to abate towards the end of the year, no doubt influenced in part by escalation in building costs but more particularly by the inability of the industry to cope with the demand, the dwindling supply of serviced sections and shortage of some building materials".⁴ Given this situation it may be

assumed that the ceiling on ingoing costs was not so much a measure to "channel loans", although this was a politically useful way of describing it in an election year, but a somewhat belated attempt to stem the inflationary rise of house and land prices resulting from the increased availability of mortgage finance. A further measure to relieve pressure on the building industry came in the form of "...widened availability of assistance for additions to, and modernisation of, existing houses".⁵ The purpose of making more finance available for extensions was to assist people in providing accommodation for elderly relations and improvement loans were aimed at extending the "useful life" of the country's housing stock. It was described as a "pilot" scheme which would be initially "...confined to properties within 'general improvement areas' in Auckland, Wellington, Christchurch and Dunedin".⁶

Labour's inheritance also included an economy which the M.E.C. described as being in a "volatile state". During 1972, the National Government had attempted to control cost and price inflation and to "...revive demand in an economy not working at full capacity".⁷ Policies included: the "Stabilisation of Remuneration Regulations", which "set a nil guideline for wage increases, but provided for a general cost-of-living order for the nine months to September"; an "expansionary budget", which involved, among other things, a lift of Government expenditure by sixteen per cent and a reduction in personal income tax rates, and a reduction of government stock ratios for finance companies from fifteen to ten per cent; the promulgation of the Interest on Deposits Regulations; and the introduction of the "Companies (Limitation of Distributions) Regulations 1972". These actions did not prevent a rise in the average price of residential properties of 16.8 per cent compared with a year earlier.

The Circumstances of Labour's Budget 1973

Housing, particularly for people of moderate means, ranked as one of the new administration's most important social priorities. It was Labour's intention to introduce policies which would rectify the "unstable" state of the building industry and ameliorate the desperate housing problems of low-income earners. Rather than using the building industry as an "economic tool" and following the practice of subordinating "social needs" to those of the "economy", as it argued National had done, Labour proposed to create the environment for long term planning and stability. Its primary objective was made explicit in the June 1973 Budget:

The Government's objective is to ensure that every New Zealander is adequately housed. In particular low-income families will be helped to meet their housing needs and steps will be taken to make better use of existing housing. (8)

By the 1973 Budget economic analysts were calling for remedial action against an excessive level of cost - push inflation. Speaking of the "fast rate of inflation of house and land prices" the M.E.C. observed:

This will continue until measures to increase the supply of housing become effective, so long as population pressures persist and mortgage finance continues to be so readily available. Such increases in land and housing costs not only make it extremely difficult for those purchasing a house for the first time, but also will spread quickly into wage and price structures. (9)

Regarding inflation the Council observed that the "...prescription is like balancing on a tightrope" and in respect of the actions it was recommending, said:

Such measures must avoid permitting the rapid general development of the level of demand pressures now evident in the housing market; equally they must avoid having an adverse impact on growth at a time when the country is still very conscious of a recent period of stagnation and inflation. In particular, investment in projects which will contribute to the long term growth of the economy must not be depressed. (10)

Advising caution the Council suggested that, "The desirable solution is to increase the supply of housing to a level where inflationary price increases can be avoided without using excessive restraint on the availability of mortgage finance...such restraint itself leads to indirect increases in the cost of housing for many people".¹¹ In a similar vein, the S.A.C. observed that the absence of a planned approach to housing which would provide for co-ordination between the availability of mortgage finance and building resources had emerged as a critical problem requiring Government's attention.

It will be noted that for the first time authorisations for loans to erect new houses have exceeded \$100 million. The investment of funds of this magnitude has serious implications. While it must be hailed as providing the opportunity to many to obtain their own home, it must be matched against the ability of the building industry to meet demand without placing fluctuating strains on the availability of labour, materials, and building components. (12)

For the Government, however, the problem was not just

one of achieving a certain level of supply but of ensuring that the houses which were built came within the price range of medium and low income people. The new administration had also inherited a "volatile" situation within the building industry itself. Under National there had been a proliferation of small building companies, often set up and financed by professional people^{such} as solicitors and accountants anxious to get their share of the profits to be made in the 'spec' housing market. The promise of substantial financial rewards enticed many tradesmen away from established companies. The activities of these 'spec' builders were having a significant impact on house prices and now threatened the Government's objective of ameliorating the shortage of low cost and State housing. A "Study Group" of the National Development Council observed:

One of the more serious features of the present situation is a growing prevalence of 'spec' building by entrepreneurs with little or no building experience, building for the middle and upper income groups. This type of speculation is contributing to cost inflation and is drawing away labour from established builders. It is also promoting land speculation which is believed to be the prime cause of cost increases in the property market. In these circumstances, the lower income groups who have the greatest need for housing are finding it increasingly difficult to save fast enough to cope with continually rising costs. Even in the Government sector where an accelerated programme has been approved for State rental houses, implementation of the programme is being affected by a reluctance on the part of builders to tender for state work. (13)

The Master Builders' Federation had also "...complained

about the influx of speculative builders". Referring to "Estate Agents, Solicitors and the like" the Federation had, in submissions to the Prime Minister and several Cabinet Ministers, argued that:

These are offering inflated rates of pay to labour-only carpenters, which is having the effect of drawing off labour from long-established and reputable building firms. (14)

Moreover, established builders were finding it difficult to obtain materials with this additional competition. Commenting on the general situation the N.B.R. observed:

The kind of house being built is putting further demands on the building materials manufacturers, and may also be distorting the housing pattern. (15)

Established builders too, were primarily interested in the high-priced home market and the loss of tradesmen became a ready excuse for not constructing more low and medium cost homes. They were not about to sacrifice their share of the more profitable side of the market by moving more resources into low cost housing.

There were also complaints about the activities of builders' supply companies which were providing the finance for land development and then selling sections with building ties. An informant in the Hamilton real estate industry noted that these companies had been "hiding" behind the word "developer" and making immense profits from 'spec' housing through their trading arrangements with builders. In many instances these houses, he estimated, were 30 per cent dearer than they should be. Houses were simply being priced "at what the market can stand" and "people can no longer know what door frames, windows etc. actually cost to produce".

In an effort to assist those with an urgent need for State housing the Labour Government authorised the S.A.C., in February 1973, to spend three million dollars on the purchase of two hundred existing homes in the five main centres of Auckland, Hamilton, Wellington, Christchurch and Dunedin. ¹⁶

The new administration was also faced with problems as regards the "structure" of the mortgage market. Over the years, under National, "non-institutional" financial intermediaries had become increasingly important as sources of private mortgage finance. ¹⁷

The Government was also in a politically sensitive position in regard to both labour and the supply of building materials. A high overseas reserve balance presented a tempting solution to materials shortages. However, this had to be weighed against the predictable reaction of manufacturers who had been promised an improved market for their products. To issue additional import licences just at the time when the domestic market was turning in their favour could be considered quite unacceptable. The problem of supply was further exacerbated by the fact that the extent and nature of shortages was difficult to determine. There appeared to be sufficient materials for certain types of construction, but a scarcity in areas which the Government had established as having social priority. The New Zealand Economist put the position in the following succinct manner:

As far as materials are concerned there has been argument about the extent to which complaints voiced so far have been real or imagined. However, repeated and growing complaints will quickly create an untenable position, especially when the country's overseas reserves are high and a few million spent on imported materials or fittings would be warmly welcomed by the public and would not be noticed. (18)

Adding to the Government's troubles, trade union interests were making labour shortages equally difficult to resolve: "As far as labour is concerned the Government devised a crash retraining programme, but although builders and the carpenters' union both supported a 'rehab' type programme which was advocated last October, the new Government's scheme was opposed by the carpenters and became one of the first of its decisions to be reversed".¹⁹

By the June Budget the Government had managed to take some action.

To alleviate...shortages, the Government has taken such steps as the relaxation of controls on imports of essential construction materials, the special contracts scheme for training adult apprentices and assistance with overseas recruitment of skilled labour. (20)

The Government, it appeared, had reached satisfactory compromises with the manufacturers and the unions. Earlier in the year it had launched extensive recruiting campaigns in Australia and Great Britain using such inducements as air fares and employer assistance with accommodation to attract tradesmen to New Zealand. By "essential", it may be interpreted, the Government was referring to materials which were not being produced by local companies or were likely to continue to be in very short supply. The Under-Secretary for Trade and Industry announced, shortly after the Budget, that special import licences had been issued for such urgently needed items as sanitary earthenware, particle board, gibraltar board, plywood and core-board, copper tubing and galvanized pipe. He was reported as saying that:

...there was still a shortage of certain building materials. Domestic output was running at maximum capacity and in some cases manufacturers were planning to increase the size of their plants.

Demand, however, was at record levels and where it could not be met from local production the department was issuing special import licences for the materials required if overseas sources of supply could be found. (21)

As well as being aimed at sustaining the productive capacity of the construction industry, the special imports would, the Government hoped, help to counter inflationary pressures. The "shortage" of materials was being reflected in rapidly rising prices. To further ease the situation the Minister of Finance explained that "...it has been decided to limit the increase in the Government works programme and roading expenditures to 9.3 per cent". He went on to say: "We are, within this limitation giving priority to housing construction and education buildings".²²

In line with election promises to make more housing finance available for low income people, the Budget included changes to existing S.A.C. policies on income limits and repayment periods:

The income limits determining eligibility for the Corporation's three per cent loans will be increased from \$48 per week plus \$2 for each dependent child to \$60 a week plus \$4 for each dependent child; this should help to restore the three per cent loan to a reasonable proportion of the Corporation's lending.

Where appropriate to the needs of the applicant, loans on suitable properties will be made with a repayment period of up to 40 years. This will result in a substantial reduction in the annual rate of repayment. (23)

To supplement the above, the Government proposed to introduce, through the Post Office Savings Bank and Trustee Savings Banks, a new type of savings account, called Home Ownership Accounts. These accounts were expected to be an inducement to people, particularly in the low and middle income range, to put money aside for their first homes. In addition to earning interest at three per cent per annum the following provisions applied in cases where savers maintained their accounts for at least three years and upon withdrawal used the money for "the purchase or building of a first house or flat for owner-occupying:"

A tax concession of 25 per cent of the amount deposited will be paid into the account by the Commissioner of Inland Revenue when the saver obtains his property.

A mortgage interest-rate subsidy related to the amount and duration of saving.

And:

The maximum amount of saving eligible for the benefit will be limited to \$1,000 per annum although a man and woman who each save independently under the scheme may aggregate their savings and benefits if they acquire a joint home.

...

Holders of Home Ownership Accounts with the Post Office Savings Bank will be given preference in the allocation of mortgages by the State Advances Corporation. This will ensure that savers with the Post Office Savings Bank will have similar access to housing finance as savers with other financial institutions. (24)

The Budget also abolished the policy of fixed loan limits for home purchase:

Within the funds available each loan application will be dealt with on its individual merit and take into account family circumstances. The element of flexibility introduced will give some relief to those on lower incomes seeking to build or buy in high-cost urban areas. (25)

As well, a "special fund" was to be established to assist "...home owners suffering hardship through very high interest rates on second or subsequent mortgages ... by refinancing on one mortgage".²⁶

The above measures, in the view of commentators, were unlikely to provide quick solutions to the country's housing needs or to the rapid rise in prices. In July the B.I.A.C. was reported to have concluded from a survey that "...building costs will increase by a minimum of ten per cent in 1973-74 and could rise by as much as 14 per cent if general cost inflation is not contained". The gap between demand and supply required "...an early improvement in the supply of building materials and building labour, with the emphasis on skilled sub-trades".²⁷

Included in the Budget was a warning to contractors involved in large scale commercial construction. The B.I.A.C. was to be requested "...to make an immediate assessment of whether the programming of commercial buildings should be extended beyond Wellington which is the only area where it is now applicable."²⁸ The principle of "building programming" had been introduced by a previous National administration as a means of "easing pressure on the building industry". In 1965 regulations were introduced "...enabling the Ministry of Works, where circumstances warrant, to defer for six, 12 or 18 months, the issue of permits for building projects costing more than \$30,000".²⁹ The original purpose of the regulations was to prevent a rapid escalation of building costs and prices as a result of either a sudden increase in building activity or a concentration of activity in one locality.

It seemed that the Labour administration now saw in them a lever for getting the building industry to co-operate with its policies. Not only was the Government becoming increasingly concerned about the inflationary effects of increased commercial construction in the country's major urban centres but it also wanted large companies to place more of their resources into the production of low cost houses and "essential" buildings. The request to the B.I.A.C. suggested a willingness to resort to more direct controls if the situation worsened. The industry, it was hoped, would act responsibly and not force an extension of building programming.

Besides the warning, the Budget contained policy changes in respect to overseas investment. As well as being aimed at removing the inflationary pressures of a high level of domestic liquidity, these changes were intended to restrict the amount of finance available for property investment and to reduce commercial construction without having to use more direct controls. Property developers and finance houses would not be permitted to borrow overseas other than in "exceptional circumstances". At the same time restrictions (Capital Issues (Overseas) Regulations 1965) on overseas-owned companies borrowing in New Zealand were to be eased.³⁰ Already there had been a substantial downturn in overseas borrowing for this purpose. The prime objective was to cut-off finance for property speculation: "Where the interest of the applicant is merely to gain profits from property speculation or other forms of speculation, no approval will be given and where a proposal involves overseas ownership of land, decisions will be consistent with the Government's general land ownership policies".³¹ A "government official" was quoted as saying: "Foreign investment in property? ... We need it like we need a hole in the head".³²

Despite the budgetary measures there was scepticism about the likelihood of larger builders moving away from commercial construction into housing. The N.B.R. commented:

The government wants the builders to turn their attention more to house building, but many firms find that unattractive financially and are in any event not geared for that kind of work. Their skills and capital are invested in commercial construction (including some very expensive cranes, which they would be better to hire as required rather than buy). (33)

During the following months, as will be seen, builders proved to be very unwilling to forego, or even to reduce their high-rise building activity. Factories and other buildings, considered "essential" by the Government, were insufficiently attractive from the point of view of long term investment. Moreover, the building of expensive homes, rather than the low cost housing desired by the Government, remained of greatest interest.

Also contained in the Budget was a measure to deal with property speculation:

There have been abnormally large increases in land and property prices. The Government believes that this in part is due to the activities of property speculators. As a result people are finding it increasingly difficult to buy their own homes and farms. The demand for new houses at present exceeds the capacity of the building industry and the Government intends to ensure that this situation is not exploited by speculators who buy and sell for a quick profit. (34)

Effective from Budget night there was to be a tax "on the sale of properties or interests in properties held for less than two years".

The Nightmare of Speculation

To combat land speculation the Government passed the "Property Speculation Tax Act 1973", which was made operative from June 1975. A complex piece of legislation, it will not receive detailed examination here. Based on the principle that "the buying and selling of land for speculation purposes is undesirable" and that it should be discouraged in the public interest, the Act provided for "the imposition, assessment, and collection of a tax on profits or gains derived from property speculation".³⁵ In short, the tax applied to the sale of property within two years following the date of acquisition. Such dispositions as the "normal sale of a family home" were exempt as were sales in which the owner had effected improvements valued at 40 percent or more of the total cost of the property at the date of disposition.

Speaking to the Bill, the Minister of Finance said that the object of the tax was "the curbing of speculators' trafficking in land with its undesirable effects on the cost of providing homes and on the economy generally".³⁶ Also: "The Government believes that the property market must be protected from the type of speculator whose only concern is the making of the maximum possible profit for the smallest possible contribution in the shortest possible time".³⁷

The Government was opposed to the introduction of a capital gains tax as such. Such a tax, the Minister of Finance observed, would work against "the genuine home builder - occupier". The speculation tax, on the other hand, would make life difficult for the "relatively small but somewhat dangerous group in the community" who

were geared to a "quick turnover and a quick quid". 38

The R.E.I.N.Z. greeted the introduction of the Property Speculation Tax Bill with criticism. In August, 1973, the President of the Institute observed that the Bill amounted to a "sledge-hammer to crush a walnut".

None of us would object for a moment if the speculator who gives nothing to the industry were to be chased out of it - the speculator who buys at below market value and sells at market value without making any improvements or additions to the property. This speculator is without doubt a parasite. But the Bill embraces so many other so-called speculators who, in fact, are more properly described as developers, builders, renovators or financiers. Without them the industry, as well as the country and the economy, not to mention the people, will be the poorer as a result.

It appears to me impossible that this Bill can have any effect other than to increase inflationary trends in the economy. To take the speculators' properties off the market for two years will heighten the shortage already with us. (39)

While the Government had not introduced "land sales control" - a not inconceivable measure from a socialist government so some real estate agents thought - the president noted that it appeared the industry was now "...in for a period of trading hidebound by red tape and shortages". (40)

The R.E.I.N.Z. viewed the proposed legislation as a reflection of the Labour Government's lamentable lack of understanding of how the property market actually worked. There was even some doubt as to whether the Opposition was any more knowledgeable. The Institute had expected a full scale attack, but National politicians were being

careful not to create the impression that they sided with speculators.

The Opposition's criticism of the new legislation appeared to be based firstly on its impracticality from the point of view of implementation and secondly on the deleterious consequences it was having, and would continue to have, on the property market. National's former Minister of Finance observed that the "additional discretionary powers" which were to be given to the Commissioner of Inland Revenue would be very unwelcome by this individual and "difficult to exercise".⁴¹ Reporting on the results of a survey of land agents he went on to say: "That as many as 25 per cent of the properties that were on the market on Budget Night have been withdrawn from sale"; "That prices generally in these two cities (Auckland and Wellington) have increased since Budget Night by roughly 10 per cent more than the normal increase; that, "Previously unsaleable properties - unsaleable either because they were in poor condition or the price was too high - have become saleable as the result of the withdrawal of properties from the market"; "That vendors are now more ready to make hasty decisions to buy at above market value because of the shortage of certain types of properties that has developed as a result of this Bill being announced"; and, significantly,

that there has developed a shortage for private mortgages both in Wellington and Auckland, and the reason for this is very simple: this so-called property speculator - that is to say, the man who buys and sells property over a relatively short period of time - is no longer financing those properties by short-term or bridging finance. He is using private mortgage money to extend his holding over a period of two years, and thus he has mopped up this pool of private mortgage money. (42)

The latter comment is significant not only because it provides further confirmation of the private mortgage market's extensive involvement in property speculation but also because it pointed to the Government's vulnerability relative to this market in respect of its objectives to sustain building activity and to house people. Upwards of fifty per cent of the country's mortgage market was comprised of private funds,^{most} of which were being administered through solicitor's nominee companies, and were thus beyond Government control and could be invested at the discretion of individuals and companies. For a substantial proportion of these funds to be tied up as a result of the speculation tax or redirected into other areas of uncontrolled investment could have serious consequences indeed. Shortly, as will be seen, there would be calls for Government to take action to make more mortgage money available by adjusting government security ratios and so on. Even though the shortage could be seen to stem in part from the use of private funds to tide property speculators, including solicitors and accountants deeply involved in property investment, over the two year tax period, the Government would be held almost totally responsible for the diminished availability of mortgage money.

The R.E.I.N.Z. drew attention to weaknesses in the Bill itself. The Government had failed "...to define what it meant by 'exorbitant profits', and who are to be considered 'genuine developers' offering a 'worthwhile community service'".⁴³ In addition, the Institute was also very perturbed about the powers of the Commissioner of Inland Revenue who would have the authority to "ascertain the value of any land in such a manner as he thinks fit". This was considered to be the abolition of the "...only one recognised method of establishing the value of land valuation by a competent valuer". The president of the

Institute argued:

The Bill sets up a completely synthetic situation and is in complete conflict with the only acceptable doctrine in the valuation of land, that property must find its own level. (44)

A plea was also made on behalf of those individuals, referred to as speculators, who bought run-down structures, rejuvenated them, and placed them back on the market with finance for prospective buyers. They, it was argued, should be recognised for their valuable contribution to the country's housing stocks and not condemned as profiteers.

The Institute's concern continued unabated throughout 1973. In his address to the Institute's September Annual General Meeting the president described the Government's new legislative programme as being "ill-informed" and "ill-advised". Its effect was "... to kill the market overnight frightening people into believing that any increase in price would be taken away from them by the tax gatherer".⁴⁵ However, there was reason for the Institute to temper its criticisms of the Government. For some time it had attempted to get National administrations to introduce policy with respect to a "scale of charges" and the establishment of a Registration Board to take over the responsibility for granting and administering real estate licences. The Institute was interested in dealing with what it considered to be an excess or "over-population" of agents. This particular problem was related to the "scale of charges" question.

The increase in national turnover of property has gone some distance towards meeting the scale of charges situation, but the increase in the professions' population has counteracted any effect which the increase in turn-over may have had. (46)

By the final year of the National Government's term of office there was every reason to be confident that legislation would be introduced to permit the establishment of a Registration Board. The advent of a Labour administration meant delay and, moreover, a more circumspect approach to any legislative proposals pertaining to the real estate industry. For this reason the president cautioned that:

...in order to ensure that we do obtain this legislation it will be necessary for us as an Institute and as an industry to submerge our objections to the hobbles which have been, and are being, put upon our trading conditions. We cannot expect to have the sympathy of a Government to the extent that they will promote for us legislation which is important to us, but relatively unimportant to them, if we are engaging in carping criticism of that Government. It goes without saying that an industry based on private enterprise, and which is highly competitive, does not, and will not, enjoy the comradeship of a socialistic administration.

And, therefore, while this Institute must continue to be critical of any legislation which it believes to be detrimental to the proper development of land and housing, it is, as a matter of tactics, impossible for us to continue to be carpingly critical of a Government which is quite wittingly curtailing our activities with restrictive legislation. (47)

While "carping criticism" was to be avoided this did not prevent speculators from securing their interests before the Bill was passed. In July the N.B.R. observed:

The property speculation tax - or rather the fear of the effects of the tax - has already reduced the number of properties coming on to the market, specially in Auckland, with the result that the prices for the properties which are offered continues to rise. In some cases even faster. (48)

The president of the Real Estate Institute, was reported as saying that, "Four days after the Bill was brought down ...the number of properties being put up for sale was already noticeably fewer", and,

...the bigger speculators and developers had clearly decided to withstand the siege. They could afford to hold their properties for the two years named in the Bill and on selling would no doubt recoup their holding costs plus two years' inflation. (49)

So, "big speculators and developers" had taken quick action to avoid the proposed tax. It may be assumed that the removal of properties from the market was also an attempt to pressure the Government before the Bill was actually passed.

As if to pacify the real estate industry the Minister of Finance explained that the tax was not aimed at "... the genuine developer, the person who has certain skills which enable him to take over a property, improve that property, then pass it on". It had been introduced to deal with "...a group of people who are simply acquiring properties, doing nothing to them at all, and sometimes turning them over at quite incredible capital gains.... Some of them are in the real estate industry itself".⁵⁰

In the event, the property speculation tax had a limited effect on speculative activities. That this would be the case had been predicted by experts at the time of its introduction. In July the chairman of the Auckland branch of the Institute of Valuers was reported as saying: "Property speculation tax is a bold measure with short-term effects but unlikely to put more than a dent in the upward growth of property values...".⁵¹ However,

he was able to report that the tax had managed to put a stop to the activities of "... certain types of dealers, particularly low-deposit dealers", and expressed the hope that "...the tax would have a salutary effect on the tendency for some properties to turn over at short intervals at apparently high profits".⁵²

Even among some property speculators the low deposit operator was viewed with disdain as a person who preyed on unfortunate people who had little capital of their own but the desire, or need, to purchase a home. Raewyn MacKenzie, in an article for the New Zealand Herald based on discussions with a speculator who was highly critical of the low deposit business, provided the following succinct account of the nature of the operations:

The buyer makes a deposit of about a third of the price the speculator wants and the balance is paid off in weekly repayments over a period of three or five years at around 8½ per cent.

The speculator leaves the money in for several reasons.

Because the property is exorbitantly priced, he knows the buyer would not be able to get finance for it. And because the speculator is well known in financial circles as a safe bet, he can get loan money more easily than the average person.

In practice, he has very little, if any, of his money left in the property. He is getting back interest on a far higher sum than he borrowed and he is covering his own interest with the weekly repayments and also making a good profit from what is left over.

And, because he is controlling most of the money in a property, he holds the title, or official ownership papers.

Like most other property speculators he is mainly dependent on land agents who will keep a lookout for cheap houses or for owners who are obviously not aware of the true market value of their property.

The agent spots a property, reports back to the speculator, gets the go-ahead from him and arrives back on the home owner's doorstep with a cash offer - which is very often irresistible for the owner.

The spec buyer then - if needed - moves his team of tradesmen in, does a quick round of repairs and has the house back on the market as soon as possible for a few thousand dollars more than he paid for it.

By an unwritten but well understood law between speculators and land agents who are in on such deals the same agent handles the sale to the new buyer.

A new buyer comes along and the land agent presents him with an agreement.

And, according to the speculator - and a city lawyer backs up his word - probably as many as 80 per cent of buyers sign this agreement without going through their solicitor.

And unless they check for a few all-important clauses they could be in for trouble. (53)

Before the passing of the Act many speculators moved quickly to get out of the low deposit game by selling their properties. The article also included the

following observation of a lawyer: "... I have heard that they are backdating the agreements to before June 15 - the date the new speculation tax will be backdated to". ⁵⁴

Speculators studied the new legislation very carefully and devised all sorts of methods to get around the tax. The retiring president of the Wellington branch of the R.E.I.N.Z. provided the example of a Wellington speculator who, before the tax came into effect, sold forty of his properties to a company he owned. ⁵⁵ Through this manoeuvre the speculator obtained a "vast profit", with the prices of each property doubling from twenty to forty thousand dollars. The properties "...would now be sold over the next two years at what would seem to be a loss, 'but it really represents a profit'". ⁵⁶ The past president of the R.E.I.N.Z. was reported as saying:

The supply has been relieved in some areas now. As people have studied the Act, especially the small print, they have learnt what they can do, and what not. But all the Act achieved was to put up further the prices of those properties which were offered. (57)

The chairman of the Auckland valuers provided some insight into how speculators were managing to avoid the tax.

...the market could adapt to the tax proposal with speculative capital finding new outlets in short-term development, subdivision, upgrading properties and building new houses and factories that did not attract the tax. (58)

Regarding the Auckland situation he was reported as remarking:

In Auckland the market had been as active as ever and Government measures appeared to be having no great effect on holding back rises in prices for houses, industrial and commercial land. (59)

And:

...demand existed for the same homes for the same buyers and with up to 90 per cent loans available, demand - pull inflation continued.

While there was some holding back by existing owners, the demand from longer-term investors was just as strong and was chasing fewer properties.

In the buoyant growth economy, which the Government was at pains to promote, the supply of property inevitably tended to be inelastic while demand was encouraged with a resulting upward leverage in prices. (60)

As well as the speculation tax the Government introduced additional and supplementary tax measures to further strengthen its legislative arsenal. The latter were contained in the "1973 Land and Income Tax Amendment Bill" and provided for the following:

Profits and gains from real property will now be assessed when firstly, the property was acquired with the intention as well as the purpose of resale, and, secondly, the property was acquired by a land dealer and either was held as part of his land dealing business and later sold - in which case the profits will be assessable irrespective of the period between acquisition and sale - or, if it was not held as part of his land dealing business but is sold within ten years of acquisition, for example, claimed to be held as an investment but sold within this ten year period. (61)

Prior to the amendment, tax on the profits from the sale of land applied only to cases where the person was in the business of land dealing or where land was acquired for the purpose of resale, or where it was part of a scheme entered into for the purpose of making a profit. Under this legislation self-employed people who had purchased land for investment purposes had been exempt from taxation if the land was later sold as there had been no stated intention to sell in the future at the time of purchase. Under the amendment a person could be taxed up to fifty per cent of his profits if he sold his property within ten years of purchase. But as with all such legislation there were loopholes. The largest in this case appeared to be that a person could avoid being taxed by simply establishing a company to own his property.

Legislation to control real estate syndication was also introduced and in this case attracted no opposition. The Bill, which had been produced by the previous administration and referred to the Statutes Revision Committee, had the effect of replacing measures introduced in 1971 to bring property syndicates of "more than ten members and whose sole or principal function or purpose is to hold real property for investment or sale" within the compass of company income tax requirements and to disqualify life insurance policies from special tax exemptions in cases where they were being used as a source of funds for syndicate investment.⁶² The new "Syndicates Act 1973" provided, among other things, for the following: "Adequate disclosure of information to prospective investors"; the appointment of a statutory trustee; a bond in the sum of twenty thousand dollars; and "an approved deed setting out the terms on which the members participate in the syndicate".⁶³

Both parties, the evidence suggests, saw the legislation as securing the interests of investors without unduly hampering syndication techniques as an instrument of investment. Mr T.J. Young M.P., noted: "A great deal of syndicate investment in real estate is in the farming sector. It was impressed upon the committee that it should encourage the growth of these syndicates as being an area of capital that would assist the growth of some of our important industries".⁶⁴

The Government was having to console itself with having made life difficult for certain types of low-deposit operators. The "big operators" were capable of finding and using loopholes in the legislation. As well, they were in a position to arrange their affairs so as to create political embarrassment for the Government and eventual profits for themselves. Vast sums were being moved through "uncontrolled" financial intermediaries to bridge large speculators over the two year tax period. This was having the effect of reducing the supply of developed land which, in turn, was causing prices to rise. Increasing land values, combined with inflation, provided speculators with the security of knowing that the eventual returns from their property investments would more than compensate for the cost of bridging finance. Within the context of its interests, the Government was on far weaker ground in both practical and political terms. Not only were its legislative initiatives having little positive effect, but they were also being held publicly responsible for exacerbating the very problems they had been designed to ameliorate. It had become apparent that other means would have to be used if the Government was to influence land prices.

A Fresh Approach

The "National Development Council Study Group" had also commented on land speculation and its influence on inflation and instability in the building industry. Taking the view that "...land speculation is a symptom of, rather than a cause of inflation but under rapid inflationary conditions there is little doubt speculation does promote further inflation", ⁶⁵ the Group gave consideration to the viability of certain remedial measures open to the Government. In general it found "that most measures have been worse than the problems they sought to cure". ⁶⁶ Those which had proved to be effective elsewhere in the world - particular reference was made to Sweden and the Netherlands - had been based on "more active participation by Government in land development and the determination of land use". However, the Group "...was unable to agree on similar recommendations because of the degree of infringement on the rights of individuals" were not seen to depend on the operations of a "free market" with little or no Government involvement. ⁶⁷ The Group saw a very definite role for the Government "in the purchase and development of land for housing purposes" and suggested that, "Government could undertake large scale development and allocate sections at cost to prospective home owners building their first home". ⁶⁸ So, while the R.E.I.N.Z. Institute, several of whose members were profiting from land speculation, was calling for a non-interventionist approach to the land market, those organisations representative of the more productive areas of the building industry were outspoken in their support for greater Government involvement. ⁶⁹

The Labour administration also saw "large scale" acquisition and development as a promising way of restoring

some order to the land market. In October, 1973, the Minister of Housing identified the rising cost of land as the "...biggest single inflationary factor in building costs today".⁷⁰ Under the circumstances the Government had no other alternative but to engage in the purchase of land "on an unprecedented scale" in an effort to stabilise section costs. It was his ultimate goal, the Minister explained, to place as many sections on the market as possible to force prices downward. The Government would introduce "strong rules" to ensure these sections did not fall into the hands of speculators rather than those needing land for home construction.⁷¹

The promise of increased intervention in the land market signalled the Government's intention to intensify its attack against speculative activities. Although the speculation tax had had an impact, persistently rising prices and investment in land demonstrated the need for more direct action. The strategy was made explicit in the Minister's 1974 report:

To help maintain the momentum generated in the housing sector during this past year, the Government has embarked on a massive programme of land purchase. The key to continued availability of reasonably priced sections for both State rental and lower priced family home-building purposes, is a large reserve of land owned and developed by the State. During the past 12 month period, land to provide 9,110 unit sites has been purchased and this compares more than favourably with the same figures for previous years - 827 in 1972/73, 607 for 1971/72 and 147 during 1970/71. (72)

Over the following months the Minister continued to argue support for the necessity to increase the Government's land holdings, and drew attention to the responsibility of the previous Government for allowing

house prices to become highly inflated: "Inflation of house prices could have been avoided if a constant level of Government purchase of residential sections had been maintained". ⁷³ In December the Minister of Lands announced that the Government intended to establish "a central land agency to co-ordinate the use of Government land". ⁷⁴

Commercial Building and Rising Costs

Apart from land speculation the Government was still faced with the problem of rapidly rising building costs. In an editorial the N.B.R. commented that, "While there was obvious political capital to be gained by tilting at the speculators, it seems the Government is having some difficulty coming up with the answers to meet the more important issues of building costs generally". ⁷⁵ Rising at an average of approximately one hundred dollars per month these costs were putting homes out of the financial reach of low and medium income people. That the latter were in difficulty was evidenced by a decline in S.A.C. loan applications. A N.Z. Herald editorial observed:

If this degree of cost increase continues, hope will die for many, particularly young New Zealanders. It is not enough to try to bring down the cost of sections, to attack speculation on the property front, to police the level of rents - if all the time the cost of building new homes is rising almost out of hand. (76)

Writing for the Herald, Mr Galloway reported:

At the end of March, the average Auckland Building Society loan was \$7000. By the end of June, it had risen to \$7500 and the average advance is now about \$9500.

The average Auckland Savings Bank loan is \$12,000. The average advance from the New Zealand Investment, Mortgage and Deposit Co., is about \$15,000. The figure for the

State Advances Corporation is now around \$11,000. (77)

Price increases, the evidence suggested, were related to the Government's continuing inability to find a sensible solution to the conflicting demands of domestic and overseas markets for building supplies. Many manufacturers were continuing, at the urging of the Minister for Overseas Trade, to exploit the world-wide shortage of materials by selling on overseas markets. While this was exacerbating supply shortages in New Zealand, the world situation was causing problems on the import front: "World wide shortages of timber, steel and plastic products are major factors leading to short shipments, long delays in delivery and in some cases a refusal to quote or take orders".⁷⁸ The confusing state of the export-import situation was well illustrated in the following comment:

As early as the first quarter of this year conflicts were developing between the demands of the domestic and export markets. One building firm said it was thinking of applying to re-import New Zealand-grown Douglas fir from the Pacific Islands to help to overcome its own timber shortage. Some millers stopped taking orders. (79)

Further complicating the supply situation was the capacity of large companies to manipulate the market. Large contractors were having difficulty in acquiring supplies. Similarly, large home builders, often subsidiaries of the contractors, appeared to have matters much their own way.

Big firms with plenty of muscle in the market, and well-organised forward planning programmes, are generally able to cope. Those which are also manufacturers are in the best position of all.

...

As manufacturers of building materials, as importers and exporters, and as developers, they are well placed to ensure continuity of supply.

The same can be said of the major house builders. Neil, Beazley (now owned by Fletchers), PTY Homes, Gregory, Craigwin, and others in that class are all big builders. Such firms are used to planning well ahead, and are able to obtain most of what they want. (80)

There was more to the supply situation than just a general shortage of materials. Some companies, the evidence suggested, were actively stockpiling and controlling supply in an effort to secure a competitive edge in the market. In addition to this, there was more than a little suspicion in Government circles that shortages were being artificially created to force an increase in S.A.C. loan limits. While priority areas such as hospitals, schools and low cost housing were suffering from shortages, there seemed to be an unlimited supply of resources, including finance, to sustain a high level of commercial and high-cost housing construction. A contract for the erection of fifty State houses had failed to attract tenderers and the Minister of Works' goal of letting contracts for four hundred State houses during the 1973-74 year now seemed in jeopardy. ⁸¹

His company, the marketing manager of Keith Hay Homes was reported as saying, "Had enough work to do on its projects". ⁸² The solution to the Government's difficulties lay, he suggested, in the promotion of a "design-and-build" programme. He explained: "By designing their own homes, builders can build homes they are familiar with", and, "We have a standard range of plans for which we have materials available". ⁸³ However, the Minister of Housing had no doubts about the reason for the diminished interest in State housing contracts. Instead of concentrating on the construction of "executive-type homes", he argued, builders should move to the production of "acutely needed housing".

He explained: "Many builders were no longer geared to building State homes as they were concentrating on the high-priced housing".⁸⁴ To the marketing manager's suggestion of a "design-and-build" programme, he remained adamant that construction standards would not be allowed to drop. Under no circumstances was he prepared to agree to lower standards in order to obtain the goodwill of the building industry. Indeed the Minister was bent on improving the general standard of State housing. He announced, in July, that the Housing Division of the Ministry of Works and Development would be employing the services of more architects, town planners, landscape architects, researchers and draughtsmen to "give a new look to State housing". The Minister stated: "I am determined to improve the standard and put quality first".⁸⁵ The changes which would be promoted included improved design lay-out, provision of "under-floor" garages, better fences, landscaping, and so on. Builders, on the other hand, were far more concerned with financial considerations. Without some concessions to make State housing a more attractive financial proposition, they would continue to make the market for expensive homes their top priority. A call to their community conscience was not the answer.

A statement from the Prime Minister concerning the desirability of deferring demolition projects highlighted the seriousness of the housing shortage. The Ministry of Works was not to proceed with projects requiring the destruction of houses and the Minister of Local Government was expected to request local authorities to delay similar action "for as long as possible". In addition, the Ministry of Works was to place appropriate properties at the disposal of the State Advances Corporation for emergency accommodation. To assist in this area, the Minister of Railways was attempting to determine how many railway houses might also be made available.⁸⁶

In July, 1973, the N.B.R. surveyed the pattern of commercial building activity. It observed:

In Auckland the demand is for prestige space and earlier this year it was reported that there were waiting lists for any suites becoming vacant in the newest high-rise blocks in Queen Street. Yet at the same time thousands of square feet of space in old buildings no more than a stone's throw away were untenanted and unwanted.

Legal firms and accountancy practices are among the professional occupants most likely to pay the highest rates, and then cover the floors with the deepest carpets.

The call for prestige office space can only be met by new buildings. Renovated premises do not come into consideration, however sumptuous their appointments. So the pressure is on for more new high-rise buildings. (87)

Quoting from a Commercial Securities and Finance Limited newsletter, the Review noted that there would soon be a surplus of office space:

'Already in Auckland there is strong evidence that bait such as free rental for the first six months is being offered to the right tenants'. (88)

A similar situation was developing in Wellington as well:

The question constantly being asked in Wellington, too, is whether the capital faces a glut of commercial office space. Just this month the A.N.Z. Bank published drawings of its 16-storey head office development in Willis Street, and the National Airways Corporation began construction of its new air centre in Vivian Street.

These two projects alone will add another \$7 million to \$8 million to the work already in hand or announced.

The point has now been reached where the building programmer, Mr P.G. Walker, says that if another \$1 million project came before him at present he would have to defer it for a while. Six or seven major buildings are all at the same stage. (89)

Despite the Government's warning about an extension of building programming, commercial construction continued to increase. In October, 1973, the N.B.R. reported that materials shortages were not having an impact in this area of activity:

The Auckland Master Builders' Association knows of no commercial building project that has been held up to any great extent by supply shortages, though the concrete strike earlier in the year resulted in short-term delays. (90)

But apparently labour was viewed as a difficulty:

The most critical factor reported by all in the building industry in Auckland is the shortage of on-site labour, a major problem that extends throughout the industry.

It is especially here, those contacted said, that commercial building is suffering through demands of residential construction. (91)

In November the Review noted that "applications for building registrations continued to flow into the office of the building programmer" and provided the following information:

August was a typical month: 531 applications for the registration of works valued at \$41.4 million.

In September registration fell away sharply, to 457, valued at \$27.5 million, but there was no significance in the decline. It was simply a short-term fluctuation.

Last month the number of applications rose again to 568 and the value of the projects soared to \$58.2 million, fully offsetting the fall-off in September. (92)

Analysing the "continuing business confidence" in commercial construction in light of the Budget restrictions, the Review observed:

It might ... be seen as an indication that the restriction of overseas borrowing in the budget had no significant effect on the financing of property investment, and a sign that building owners and developers did not fear adverse effects from the sudden strain on liquidity in the third quarter and into the fourth.

Alternatively it could have meant that because sources of finance were drying up the potential investors in these projects wanted to get their jobs on the books of the building programmer all the sooner. They did not want to find they had the money but not the approval. (93)

The above provides further insight into the difficulty the Government was having in influencing the direction of investment. Large companies had reacted to the Minister's warning, that unless there was a reduction in commercial construction it might become necessary to broaden the scope of building programming, by taking the precaution of having their projects approved at the earliest possible opportunity.

Thus, far from taking note of the Government's policy to increase the country's stock of low cost housing, large builders, backed by financial institutions such as life offices, were still chasing the profits to be made in commercial construction. Residential construction was even being viewed as an inconvenience insofar as it

affected labour supply. Although this suggested that house building had not slackened, most of this construction was geared to the market for high-priced homes.

City or Region?

The Government was very conscious of the resource problems being created by the concentration of a high level of commercial construction in a few major centres. Concern went beyond immediate problems of supply shortages and concomitant price rises to the long term effects this concentration would have, particularly on the labour market. The Minister of Trade and Industry was reported as saying that "...the Government would do everything it could to prevent large industrial plants being built in Auckland, Wellington - Hutt or Christchurch", and "unproductive competition for labour would be the inevitable outcome if new factories were built in those places".⁹⁴

Extensive land holdings, the Minister of Works and Development pointed out, would provide the means for controlling urban sprawl and for influencing the national pattern of growth and development. Speaking of the Government's intention to boost its land purchasing programme, the Minister said: "It should also make it easier to implement national and regional planning policies and to ensure that urban development occurs in the right place at the right time".⁹⁵ There remained an acute awareness of, and sensitivity to, the importance of private investment, in both housing and property development, on the country's growth pattern. The success of the regional development programme and the furtherance of better local and regional planning were now seen to depend largely on the ability to influence the direction of investment. Over the months it had become increasingly apparent that private companies were far more interested in purchasing property and pursuing construction in the large urban centres, particularly Auckland and Wellington, than working with the Government to achieve a balance of investment across the

country. At this point in its term of office, Labour was as concerned with planned and balanced growth as with increasing the country's stock of housing and developed land.

Commentators, however, saw little real chance of the Government being able to encourage more building activity outside the major urban centres. The N.B.R. observed: "Despite the Government's regional development schemes, there is no financial incentive for builders to move out of the main centres".⁹⁶ None of the "inducements" such as the "availability of building sites, assistance from local bodies, lower labour costs, and the availability of labour" was "... compelling enough to encourage many firms to move without incentives". And: "There is much more incentive, from the point of view of the financial return to build in the main cities".⁹⁷ The N.B.R. did note that "...some national firms which prefer to spread their property investments, and may recognise an obligation to do so, are building in the provinces and will continue to do so".⁹⁸ The general attitude of builders, however, was expressed by the managing director of Neil Holdings in speaking of this company's Auckland operations: "Why go elsewhere when its so good here".⁹⁹

Unable to get the co-operation of builders and financial institutions, the Government sought a partial solution to housing shortages in smaller centres through rental housing: "The establishment of industry in close proximity to smaller centres, where a labour force is often more readily available, has necessitated the programming of State rental construction in these areas to meet local demand".¹⁰⁰

The significance of the above comment lay in the fact that it provided evidence that the new administration had accepted the traditional criterion for allocating housing assistance through the State Advances Corporation. Instead of taking the initiative and using a portion of its

housing programme as a component of its policy to assist local authorities in designated regional development areas with their efforts to promote industrial expansion, the Government had adopted the principle of passively responding to "local demand". In other words, authorities remained in the position of having to provide concrete evidence of an existing "demand" for housing before they could expect assistance. Such assistance was not to be given prior to evidence of "demand" or treated as a necessary prerequisite for future industrial growth. This was so for the S.A.C.'s Community Housing Scheme as well as State rental housing. Through the former, which the Corporation had been administering for some years, local authorities could obtain loans of up to 100% of the total cost of providing housing for public rental at an interest rate of five per cent and for a term of up to 25/30 years. In the case of dwellings being built for sale, the maximum charging-out rate permitted was 5½%. Borrowing had to be sanctioned by the Local Authorities Loans Board which required proof of the need for the number of houses proposed in any project. Over the years, it should be noted, this scheme had generally failed to attract the interest of smaller local authorities. The terms of the loans were considered unreasonable and as involving an unacceptable financial risk to ratepayers. Larger urban centres, which could afford the financial commitment and more easily provide evidence of demand, appear to have received most benefit from the scheme. 101

Under Labour, therefore, smaller local authorities were once again in the position of having to compete with urban centres for housing assistance. The latter were already applying strong political pressure to have their needs given a priority over those existing elsewhere in the country. For example, Dr Bassett was to observe: "In some ways, the housing problem was more serious in Auckland. While Bill Fraser seemed to be doing a good job, some Auckland Members felt that it was impossible

for a Dunedin M.P. to appreciate the severity of the situation".¹⁰² In a letter to the Prime Minister, in May, the M.P. complained about the seeming lack of sensitivity for, and appreciation of, Auckland's housing problems within Caucus. He went on to say:

This week I have had more enquiries about State houses than I have had during the last month. Pathetic enquiries from people living with two kids in one bedroom along with the parents, who are being told by State Advances that their case is not top priority; from young marrieds finding that two-bedroom flats which were renting for \$20 about six months ago, are now being advertised at \$28 - \$32; from young couples with sections and arrangements to build, being put back nine months with assurances that when building does start they will probably need a whole lot more mortgage money than they have currently arranged because of rising prices; and from young people who just cannot get mortgage money that comes within 40-50 per cent of the likely total price of their house. (103)

The 1973 Budget had included assistance with employee housing as one of the "measures of assistance" that would be available to companies which came within the scope of the regional development programme.¹⁰⁴ However, this assistance was only to be given "where necessary" and was later limited to "key" or "strategic" employees.

It is pertinent to note that the Government made no attempt to direct institutional sources of mortgage finance to give greater priority to regional areas in their investment decisions. Life offices, for example, were to remain free to use their own discretion concerning the geographic allocation of their mortgage investments. Since these investment decisions were typically worked out on the basis of each region's percentage holding of policies, outlying regions could not expect any extra assistance from this direction. The formula, it should be noted, not only had the appearance of being "fair" in the sense of giving policyholders first call on

available mortgage finance but also served the interests of life offices which used the prospect of such assistance as a selling point for their policies.

The announcement of a decision in November appeared to throw into question whether the Government was in the position to effect much change in the country's pattern of growth and development between the large urban centres and the rest of the country. It also cast doubt on the viability of the regional development programme. The decision was to proceed with a "new town" project, called "Rolleston", on the outskirts of the City of Christchurch as a response to both "the shortage of building land within the Christchurch region" and "the trends towards an increasing concentration of population in the Auckland region and acceleration of migration from the South Island ..." 105 On the last point it was observed:

If present trends are not corrected, Auckland's population will exceed that of the South Island in less than ten years. If the migration north is to be reduced a much larger number of employment opportunities must be created in the South Island. Christchurch is virtually the only South Island centre capable of competing with Auckland and able to produce new employment opportunities on a large scale. (106)

South Island regional development councils, as well as those in the North Island, were highly critical of the proposal. They were experiencing difficulty enough in promoting their regions without having to compete with a large city which was to be deliberately developed as an attractive alternative to Auckland for private investment. It was not surprising, particularly given that Christchurch had been identified by the Government as one of the centres which was growing too quickly, that councils began to view their efforts as futile and to question the sincerity of the Government's commitment to the principle of regional development.

The Rolleston decision may be taken as indicative of the Government's awareness that something more drastic than the regional development programme was required to stem Auckland's growth and to save the South Island from general stagnation. The seriousness of the situation had not been made public. One well placed informant explained that the Government had received a report prepared by economic analysts which concluded that the country could no longer afford to support Auckland's rapid expansion and that to allow the country's resources to continue to pour into this centre would result in serious consequences for the national economy. As the report had been classified as highly confidential, presumably for political reasons, it was not possible to obtain further information about its content.

But there was more to the Rolleston decision than the establishment of a growth centre in the South Island. The so-called "shortage" of developed land in Christchurch was also a major consideration. The Ministry of Works and Development explained that the Christchurch Regional Planning Authority estimated "...that about 6,600 acres are presently available for residential development ..." ¹⁰⁷ In contrast, recent decisions of the Town and Country Planning Appeal Board had provided support for the view that there "was insufficient land available for residential development". While acknowledging that there was "considerable disagreement as to what available means", the Ministry accepted the Board as "the final arbiter in these matters". ¹⁰⁸ However, the evidence suggested that the real problem was not a shortage of developed sections per se but that what land was available was in the hands of large landowners who were manipulating supply and thus assuring themselves of large profits. The Government's decision to purchase land in the Christchurch region was also, therefore, a step towards breaking this monopoly situation and to force land prices down to a level more in line with its housing policies.

In a rather circuitous fashion, the Ministry indicated that this was indeed the case: "The Government is seriously concerned about the shortage of building land and also the high cost of the available land which is making it impossible for many people to buy houses or sections". 109

At this point it should be emphasised that the problem of land monopolies was forcing the Government to acquire large blocks of land in practically all of the country's larger urban centres. The irony of the situation was that while local authorities in designated regional development areas were being refused the assistance they required to build up stocks of developed land and houses, the Government was allocating large sums to land purchasing programmes in and/or close to some of the very centres, such as Auckland and Hamilton, which were causing it the most concern from the point of view of their rapid growth.

As well as the above there was evidence to suggest that in the area of commercial development, financial institutions were primarily interested in financing "lease-back" projects, such as industrial estates, in the country's major urban centres. This meant that an industry considering a regional location for its operations was likely to encounter serious difficulties in obtaining the loan capital it might require to build a factory. An informant connected with one of the country's largest stock and station agencies observed that, although it was in his company's "interest to support rural areas" and to invest in smaller communities, it was "almost impossible" to do so "through the normal process of funding". His company's "funders", primarily large insurance companies, were only prepared to discuss large development proposals for Wellington, Auckland, Christchurch and Hamilton. The company's own pension fund, which was administered by a large life office, was reluctant to agree to investment in other than high growth areas. In addition, he noted, "funders" were not content with receiving a market rate of interest for their loans but demanded profit sharing arrangements as well. The

latter often involved sixty per cent of profits. To increase revenue there had also been an insistence upon a reduction of rental reviews on commercial buildings from five year periods to six month intervals.

In effect, the decisions of some industries to locate in larger centres did not reflect an independent assessment of market conditions, as so often argued, but the decisions of financial institutions about where they were prepared to commit their funds. The Government appeared to recognise this as a problem for regional communities trying to attract and accommodate industrial expansion as another of the measures provided for in the 1973 Budget was the "...establishment and development of industrial estates to attract industry to the regions".¹¹⁰ Much to the disappointment of some smaller communities, however, this assistance did not encompass "single projects". Apparently the Government was no more willing to commit funds for this purpose than were private financial institutions. In reply to a letter from the Town Clerk of Te Kuiti requesting assistance in the provision of a factory building, the Minister of Trade and Industry said:

Provision made in the Budget for Government investment in land and buildings relates to industrial estates only, not single projects. Although the Development Corporation does not lend directly to local bodies, there is provision for guarantees of loans on mortgages for companies proposing to set up manufacture, provided certain necessary requirements are met. (111)

The upshot of the situation was that local authorities were not to be assisted in the provision of "advance" factories as an inducement to industrial expansion except in the unlikely case of their being able to provide evidence to justify the development of an "industrial estate". The only other assistance available was in the form of mortgage guarantees which had been introduced to cover

instances "... in which the property involved is of such a specialised nature that it is either not regarded as a suitable security by (lending) institutions or is situated in an area in which the institutions do not usually lend". ¹¹² The assumption was that, "With this backing an otherwise unattractive investment may be converted, at little cost, into a first class security".¹¹³ In the larger urban centres, on the other hand, financial institutions, including State corporations, were investing vast sums in the construction of the type of facilities required by industries. In this area also it seemed that the Government's commitment to regional development and slowing down the growth of certain centres fell short of a willingness to direct lenders to give priority to regional areas in their investment decisions.

With respect to overseas investment, on the other hand, the Overseas Investment Commission was expected to take regional development considerations into account in its decisions. Each proposal was to be examined in the light of its "compatibility" with "Government policies on the protection of the environment and regional development". ¹¹⁴ However, since this was one of several criteria which could be used to justify approving an application it was unlikely to be of great assistance in advancing the interests of regional areas. As in the case of property investment, it seemed to go largely ignored as the country's economic situation deteriorated.

For the Government, it may be argued, the right of lending institutions to make their own decisions regarding the geographic allocation of mortgage finance was not so much at stake as its dependence on these institutions as a source of cheap loan money. Seen in this context, the Government was not prepared to subordinate its own financial interests to the pursuit of more balanced growth and development. Having continued with a policy of "controlled" low interest rates on government securities,

the Labour administration was not now in a position to interfere with attempts of such institutions as life offices to recoup the losses which they experienced through having to commit a large percentage of their funds to the purchase of these securities. Such interference would have the effect of reducing the attraction of insurance policies in relation to "uncontrolled" avenues of investment by removing the possibility of life offices being able to provide increasing yearly "bonus" returns to policyholders. In turn, this would result in a diminished supply of "controlled" loan finance available to the Government for its own activities. This was a real threat during a time of high inflation and an increasing public awareness of the growing variety of "uncontrolled" investments which provided "hedges" against the falling value of money.

The irony of the situation was that institutional investment in urban centres, although having the effect of securing the pool of "controlled" finance, was a major contributing factor in itself to the rapid rate of inflation. Moreover, the threat posed by the "uncontrolled" sector was in no small way attributable to the involvement of financial institutions as investors in, and originators of, investment instruments outside the Government's direct control. All in all it was a vicious circle from which the Government would soon start trying to extricate itself.

Continuing Inflation and the Superannuation Approach

At a more general level, the Government was being urged to take remedial action against what economists were describing as an excessive cost-push inflationary situation. Government action took the form of requests to farmers to place \$85 million voluntarily into farm stabilisation accounts, which they did between March and October, and a series of monetary measures to further

reduce liquidity. These measures included, at the end of August, an increase of two percentage points in the reserve asset ratios applying to trading banks and an increase of two percentage points in the Government stocks ratios applying to finance companies; both were made effective from the end of December. These decisions followed a revaluation of the dollar by three per cent in July and were made prior to a further revaluation of ten per cent in September. The revaluations, plus additional stabilisation measures including an amendment in June to the Stabilisation and Prices Regulations limiting labour cost increases to five per cent and a general wage order of eight and a half per cent in July, were aimed at combating domestic inflation. The Reserve Bank was to observe: "The two revaluations have proved successful in helping to restore a better balance on our external transactions, income stabilisation has been assisted, and price increases have been less than they would otherwise have been".¹¹⁵ The September revaluation also led to a "windfall" for large companies. The chairman of the Finance Houses Association observed:

New Zealand's interest rate structure is very much lower than that of its main trading partners. This had at that time a two-fold effect. Once revaluation had taken place there was every advantage in making immediate remittances abroad in order to attract the higher interest rates obtainable overseas. Secondly, major New Zealand companies with borrowings abroad were in effect encouraged to repay overseas borrowings and refinance on the local market. This resulted in several big 'blue-chip' companies making large issues of debentures and commercial bills on the local market within a short period of time. The issues by two companies alone exceeded \$18 million.(116)

According to the Reserve Bank, "The tightening of financial markets happened more suddenly and severely than had been expected".¹¹⁷ The Government's policies to reduce the volume of credit combined with "market events" to create "Some confusion in the market ...with a scramble for funds taking place and a rise in those interest rates which are not subject to direct control".¹¹⁸ One of these "market events" had been a "faster and more drastic" turnaround in the country's balance of payment position. In November, the Minister of Finance announced that he had issued a set of directives to relieve strain on domestic resources and to direct these resources into areas where they were badly needed. All life offices had been told in October that "new commitments should not be made in commercial property and buildings where there were alternative investment opportunities in industrial development including investment through shares and debentures".¹¹⁹ Subsequently, merchant banks were told not to increase credit limits for personal lending other than for housing. Lending for speculative purposes was to be discontinued and there was to be no further increase in the aggregate credit limits of all financial institutions. The Reserve Bank observed: "The objective was to endeavour to direct the resources of a fully committed building industry to the areas considered to be of greatest benefit to the national interest".¹²⁰ The Opposition Leader placed a rather different interpretation on the exercise: "We have had our boom. Now the bust is coming".

"Bust" or not, it had become clear that the Government had found it necessary to take a more forceful approach to dealing with both investment and inflation. Nevertheless, the Government was moving with care. In his November statement, the Minister of Finance said: "It is appreciated that life offices enter into commitments sometimes years ahead for the financing of erection of buildings and that these cannot be disturbed".¹²¹

In essence, the Government was not prepared to risk creating disruption in the building industry by interfering with the flow of investment from life offices. Rather than introducing restrictions over building activity it had chosen to make use of the Reserve Bank's powers to issue directives to financial institutions. This approach, while involving the element of direction, allowed room for negotiation with each life office concerning its investments.

Unfortunately for the Government, the tightening liquidity situation was not proving to be an effective barrier to speculative activity but, allied with controls over investment, was causing a movement of funds into the uncontrolled sector where they were being used to finance property loans as well as other forms of investment. The M.E.C. observed:

The commercial bill market is one area to which funds have been diverted. At the end of 1973, the liabilities of the commercial bill dealers in the form of deposits, debentures, and notes totalled \$151.4 million, of which over three-quarters was on call. Other borrowing included \$12.2 million on bank overdraft and \$10.1 million from outside New Zealand. Total assets of the commercial bill dealers were \$204.7 million at the end of 1973. Investments accounted for 62 per cent of these assets, including \$42.4 million in trading bank transferable certificates of deposit. Net lending totalled \$75.2 million of which 90 per cent was in property loans. At the end of February 40 per cent of the dealers' own bills outstanding were accommodation bills relating to bridging finance. (122)

Thus, despite the measures taken to reduce speculative activity, various financial institutions had found in the commercial bill market a means of escaping government regulation. At one point it was rumoured in financial circles that the Government was proposing to undercut the bill market through the Development Finance

Corporation. This did not eventuate, much to the relief of some institutions, particularly larger finance houses which were heavily involved and had been developing the market since 1969. ¹²³

Although the D.F.C. was investing in the commercial bill market, its involvement remained limited. Having pointed out that, "There is at present an acute shortage of long-term mortgage finance for industrial land and buildings and a dearth of short-term finance to provide necessary working capital", the chairman of the D.F.C. was to say: "D.F.C. has not been able to provide either of these facilities, except, to a limited extent, through operations in the short term commercial bill market". ¹²⁴ Although the possibility of using the Corporation as an instrument for regulating commercial bill activity was not taken up, its potential usefulness in this role was evident from comments made by the Corporation's chairman. In referring to the "vexed" question of "...what constitutes reasonable rates of interest in a money market whose interest structure is governed by the rigidities of the Interest on Deposit Regulations and controlled bank lending rates on the one hand, and a seemingly insatiable demand for commercial bill and mortgage finance, at high interest rates determined by market forces, on the other", he said: "In the absence of any better criteria, D.F.C. endeavours to maintain its interest charges at the lowest level consistent with the necessity to meet the cost of its borrowing, service its capital, provide for reserves, operate profitably, and as from the beginning of its new financial year, pay taxes". ¹²⁵

That the decision not to interfere with the commercial bill market, either by offering competition through the D.F.C. or through direct regulation, was a calculated one underscored the dilemma in which the Government found itself. It was faced with the fact that interference was only likely to lead to a diversion of investment funds into other avenues of "uncontrolled" investment. Although the

commercial bill market was providing finance for speculative property ventures and helping to sustain high "uncontrolled" interest rates, it was also providing an important source of finance for business and industry. The chairman of the Broadlands Group put the position succinctly: "If only controls on bill rates were introduced the 'market' as such would disintegrate and what is now an integral part of the financial system would wither and die to the great detriment of the majority of New Zealand's leading institutions and companies".¹²⁶ Given the situation, the Government decided to accommodate the commercial bill market as a "useful safety valve" - as one Government adviser described it- during a time of tight liquidity.

In addition to being "virtually the only free market sphere of operation left", the Government adviser noted that the bill market had the added advantage of not being "publicly obvious" from the point of view of interest rates, and was therefore unlikely to attract political criticism, especially from unions.

Another source of investment finance which appeared to fall into the category of not being "publicly obvious" was private superannuation funds. These had not been brought within the scope of Government directives. In its 1973 Annual Report the A.M.P. Society provided an analysis of the reasons for the general shortage of loan finance for so-called "traditional sectors" and drew attention to the "...increase in the number of firms electing to have their superannuation premiums directed to investment sectors of their choice in the Society's equity linked fund. This trend has reduced proportionately the amount otherwise available for investment in all traditional sectors".¹²⁷ The evidence suggested that superannuation funds, both those managed by life offices and independently operated ones, were investing heavily in property. Exactly why the Government had not included them in its October directives has not been determined. However, it seems

likely that they were also viewed as a politically non-contentious source of finance for industrial and commercial development.

Concurrent with the growth of the commercial bill market the flush of investment activity in the "uncontrolled" sector brought with it an array of property investment schemes, some of which were viewed as highly risky ventures. The "fringe institutions" received comment from the chairman of the Finance Houses Association who observed:

Numerous schemes were being promoted. Many were designed to be outside the restrictions and provisions of not only the Interest on Deposits Regulations, but also of the Companies Act. Some of the schemes were offering investments to the public without adequate disclosures of the information normally required to be disclosed in a prospectus. In short, the security offered to the investors could be regarded as doubtful. (128)

But as well as "fringe institutions", "traditional" institutions, particularly finance houses, were also promoting speculative property investment schemes. Both sectors were also providing financial support to tide speculators over the two year speculation tax period. The overall effect of all these ventures was to draw funds away from the private mortgage market making it much more difficult for prospective home-owners to obtain finance. The Auckland branch chairman of the Valuers' Institute was reported as saying "...finance from solicitors' trust funds was harder to find. People were tending to switch from fixed investments to investing directly in property and this dried up money formerly available for lending and created an increased demand for borrowing".¹²⁹ The general manager of the Auckland Building Society observed that, "It's certainly a tight situation", and "In view of the Interest on Deposit regulations, the movement of funds from interest-bearing investments to the equity bracket has had its effect on the flow of available mortgage

funds".¹³⁰ Mr Galloway of the N.Z. Herald noted that there had been a "run on mortgage money" for investment in real estate. The State Advances Corporation, he commented, was not in a position to off-set the increasing shortage of finance for "used homes".

The State Advances Corporation is approving most of the 300 to 400 applications a month it receives in Auckland. But because of the pressure on its funds, money for lending on used homes is limited.(131)

The above observations were confirmed by regular reports of highly successful auctions of expensive properties. For example, a 38.5 perch section at Mairangi Bay sold for fifty-six thousand dollars. One at Milford Beach sold for eighty-six thousand dollars. A representative of Glading Keys and Neill Limited was reported as saying: "Really prime properties that offer the elements of holiday pleasures and relaxation continue to sell very well".¹³²

As liquidity tightened and mortgage finance became more difficult to obtain from institutional sources, particularly for middle-income earners, numerous contributory mortgage schemes were floated on the market. Initiated in large part by solicitors and accountants, who had clients looking for high investment returns, contributory schemes also attracted the interest of large financial institutions which began to enter this market heavily themselves and to attempt to develop arrangements whereby they could tap the financial resources of other nominee companies. More will be said of this further on in the analysis.

It may be argued that the diminishing supply of mortgage finance and its increasing cost in the private market was unlikely to have been of great concern to the

Government during this time. More finance would not increase house production by an already over-committed building industry but rather have the effect of sustaining the inflationary rise of house prices. The deputy manager of the State Advances Corporation noted that an increase in building activity could not be expected and that there had been a sudden drop in applications for finance to build new homes.¹³³ Another aspect of the scarcity of mortgage finance, particularly in the institutional market, was its dampening impact on 'spec' building. People were postponing plans to build more expensive homes. Towards the end of December, the managing director of W.G. Archer and Sons Limited was reported as saying that "...the most obvious development facing the building industry in 1974 was the increased difficulty of obtaining home finance apart from State Advances Corporation loans". He also predicted that "...builders who had gone to 'spec' works while finance was easier would be scrambling to get back to the lower-cost home market". Some builder/developers were attempting to ease their liquidity situations by selling expensive sections to larger companies. Even the latter had shown interest in reducing their stocks and had been selling to competitors. The managing director noted: "The selling of sections without a contract to build was unheard of three months ago".¹³⁴

But while the mortgage situation was perhaps not worrying the Government, continuing investment in land and its inflationary consequences on house prices was a major concern. As the Minister of Finance had made clear in his November directives, the Government wanted investment finance diverted away from speculative ventures into industrial expansion. Analysing the contribution of rising property prices to the increasing cost of housing during 1973 the B.I.A.C. was to observe:

Property prices rose more rapidly than actual costs of building resources because property investment was seen by the community as the best hedge against inflation. In the year ending December 1973 the urban house price index of the Valuation Department increased by 34% but during the same period indices for the cost of building resources increased by 'only' 13.5%. Unfortunately the price levels on the property market became the basis for valuing new land and buildings and the whole cost structure of the industry was raised above the actual level which could be attributed to real increases in the cost of building resources.(135)

The Interest on Deposits Regulations were seen by economists as the root cause for the rapid growth of "uncontrolled" speculative investment. According to the chief economist of the Bank of New Zealand, "The current situation originated with the reintroduction of widespread controls on deposit interest rates by the National Government in mid-1972 as part of a comprehensive prices and incomes stabilisation policy".¹³⁶ And the Reserve Bank observed: "The Interest on Deposits Regulations led to funds being diverted into markets in which interest rates were uncontrolled".¹³⁷

The Labour Government had not removed the controls upon taking office. Its policy of easing credit conditions in order to stimulate the economy at a time of low private investment had had the effect of reducing the significance of the controls for a few months. But the situation changed rapidly:

...with the substantial rise in private investment during the latter part of 1973 and the refinancing of overseas borrowing following devaluation, a substantial gap began to emerge between controlled and uncontrolled interest rates.

The significance of this gap was accentuated by the rapid development of the commercial

bill market and private mortgage market - these financial innovations greatly increased the competitiveness and importance of the uncontrolled market, and caused increasing difficulties for banks - more so for finance companies.(138)

The evidence suggests that the retention of controls reflected the Labour Government's hesitancy to give finance houses greater freedom. Their operations, Mr D. Wederell observed, were treated with great suspicion by many "left-wing" Labour M.P.s who held the view "...that even the most substantial finance companies are no better than loan sharks",¹³⁹ and who would have been pleased to see them erased from the financial system altogether. Other M.P.s took a more moderate attitude including the Minister of Finance who "...distinguishes clearly between the finance companies, however small, and the lunatic fringe of finance".¹⁴⁰ But even the moderates were not prepared to allow the finance companies a free hand. The 1973 Budget decision to allow trustee savings banks, private savings banks and the P.O.S.B. to make personal unsecured loans up to \$500 was, in Mr Wederell's view, an attempt to provide people with the opportunity to avoid the high rates of interest being charged on some hire purchase agreements by finance companies. This move, Mr Wederell argued, reflected the Minister's own uneasiness about the role of finance companies in the financial system.¹⁴¹

Early in 1973 The New Zealand Company Director and Executive asked the Minister of Finance, Mr Rowling, about the Government's intentions regarding the Interest on Deposits Regulations. The Minister's reply makes it clear the Government had not developed a clear-cut policy on the matter:

The Government has not made a decision as to the fate of the Interest on Deposits Regulations. There has been a downward movement in interest rates in

some markets in the financial system, but in other areas the rates are approximately equal to those offered in late 1971 and early 1972.(142)

Presumably the differing viewpoints within the Labour Government concerning the best way to deal with "uncontrolled investment" made policy formulation difficult. However, the reluctance to introduce a "flexible interest rate policy" was not a reflection of mere prejudice against finance houses or a state of ignorance within the Government. The ease with which financial institutions and other money market intermediaries could circumvent regulations was obvious. Obvious too was the need, if there was to be a reduction in speculative activity, for a more effective method of implementing monetary policy than through the direct regulation of interest rates. But while, in theory, the answer to "uncontrolled investment" was to remove controls and to allow "market forces" to set interest rates, the Government was faced with a reality in which the so-called "market" was monopolised and manipulated by a network of interlocking financial intermediaries. There was no guarantee that the members of this network would not continue to collude in the situation of greater freedom from control or that their financial decisions would be any more acceptable from the point of view of the Government's social policies. On speaking of the Government's difficulty in formulating policy for the finance industry and the role of the Finance Houses Association, Mr Wedderell commented:

...the association can claim to speak for its part of the money market.

That it does so infrequently and with little evident public effect is partly because of its disparate membership.

If they were more of a kind, governments might be able to have a policy on finance companies as they have a policy on banks and life assurance companies.(143)

In effect the removal of interest rate controls would have to be accompanied by action which would promote competition among financial institutions. This could come in the form of the Government itself taking on a more active role in the market. That the potential significance of such increased activity had not gone unrecognised was reflected in comments made by the Minister of Finance before the 1973 Budget. The N.B.R. reported:

The most significant influence on the mortgage market so far as government policy is concerned, he says, is the government's own intrusion into the mortgage field. The government can to a very significant degree itself lead in setting mortgage interest rates.(144)

The proposed New Zealand Superannuation Scheme was influencing the Government's thinking about ways of strengthening its position in the financial system and checking speculative investment. Already there was a great deal of unease among financiers about the way in which future governments might attempt to use the Superannuation Fund to control interest rates. For example, Mr D.F. Barker, the New Zealand actuary for Norwich Union Life Insurance Society, said:

...for the benefit of the members of the scheme there is a responsibility by the Corporation to maximise its yield, yet the very size of the Corporation's fund will enable it, in no small measure, to determine market conditions, particularly those relating to rates of interest.

There seems to be a danger of a conflict of interest in power of this magnitude.

Whatever the good intentions of the present Government, it is open to a succeeding Government, perhaps of a more opportunistic nature, to be able to use its investment power to reduce interest rates.(145)

Considering the habit of financial institutions to confer with one another on such matters as interest rates, and the inter-locking relationships which existed among them, it may be considered somewhat curious that they were apprehensive about the Government having the ability to "determine market conditions". There was little to reflect free competition in the operations of these institutions. Moreover, the Government was still administering controls over interest rates. It seemed far more likely that the apprehension was caused more by the knowledge that the Superannuation Fund would strengthen the Government's negotiating position with respect to the application of controls and also provide it with the opportunity to induce a greater degree of competition into the money market. The growth of the Fund would make the Government increasingly less vulnerable to the machinations of the "uncontrolled" market. This, in turn, would reduce the capacity of "controlled" institutions to manipulate, with the support of overseas interests, the domestic financial market. In addition, the Fund would provide a very useful source of finance to support its land acquisition programme which, in itself, would have a decisive impact on the market by reducing the scope for speculative investment.

The importance of the Fund, as a source of non-speculative development capital, was evident also in respect of Labour's ability to maintain strict controls over foreign investment in property. As has been observed, international companies, interested exclusively in property investment, were not to be allowed entry into New Zealand. However, this policy was not without its difficulties as the N.B.R. observed:

In New Zealand this could lead to difficulties with the Labour Government. Already, Jones, Lang, Wooton have a link with Livingstone's, Mainline, and Civil and Civic, are doing business here - 'development and real estate dealings go hand in hand at this level' - so

the Government could be sensitive.(146)

There was reason for the Government to be "sensitive" about the situation. Investment by large overseas companies in such development ventures as commercial building construction typically takes account of the profits to be realised from selective property purchasing, particularly in large metropolitan centres. Not only does concentrated investment of this kind have the effect of greatly inflating the price of commercial real estate, paving the way for speculative gain, but also contributes to the rapid growth of a few centres. For the Government to attempt to restrict foreign investment in particular areas was likely to reduce the amount of overseas investment for development and to be considered an unwarranted intrusion into private investment decisions by overseas investors.

Real Estate Interests and Reactions

Interestingly, the prospect of greater Government involvement in land and finance markets was apparently causing real estate interests to consider the advisability of seeking membership in international organisations. In 1972 the Real Estate Institute had joined the Asia Pacific Real Estate Federation, "sponsored" in 1971 by Japan. The president of the Institute was reported as saying:

Overseas ...limits on trading in land are being imposed. There is an increasing tendency to adopt the view that land belongs to the people and that occupation is only a temporary right.

The trend in Japan is to more state control. The same thing is happening in some states in Australia, especially Western Australia, and in New Zealand we have our own restrictions, such as limits on the foreign ownership of land.(147)

International connections within the real estate industry were taking on importance, the evidence suggests, as a means of coping with the controls of individual countries. As in the case of multinational corporations, international co-operation and business associations could provide the instrument for moving investment around the world as circumstances changed in individual countries. As well, it may be assumed, these arrangements had the potential of greatly enhancing the negotiating positions of individual real estate interests with their respective governments. Perhaps not surprisingly it was reported: "The New Zealand real estate industry is becoming more internationally minded".¹⁴⁸ There was a great deal of interest in the International Real Estate Corporation. The president explained:

The International Real Estate Corporation (IREC) is intended to be a major international finance corporation to channel development capital into real estate in the region.

The Japanese have a great deal of capital, and while many countries are keen to have some of it, various governments are legislating to keep out foreign capital and foreign ownership of land.(149)

For New Zealand the difficulty of sustaining a strong stand against overseas property investment became evident during the following months as its balance of payments position deteriorated. It was one thing to have stringent regulations when reserves were high but quite another when liquidity began to tighten, particularly in the area of development finance.

The Government, however, was having more immediate problems. Its land acquisition activities were meeting with strong resistance throughout the country. In his 1973 annual report the Minister of Housing had described

the situation in the following somewhat abstruse fashion: "Negotiations and subsequent land acquisition are meeting with a degree of success, but the strong competition for all sized blocks of land, mainly from land speculators and private developers is intense with the resultant rapid rise in land prices".¹⁵⁰

The purchase of land for State housing purposes was proving to be no easy task for Ministry of Works' officers. In many instances property owners who entered into negotiations with them were not interested in selling their properties at prices reflecting their current market value, but in extracting prices based on their potential subdividable value. They wanted, in other words, to negotiate sales on the basis of what they expected their land to be worth after development. This was only fair compensation, they argued, for having lost the right to profit from investment through the Government's use of its acquisition powers. Once Ministry of Works' officers indicated their interest in purchasing property, the owners often moved swiftly to secure their positions by making preparations for development. Such action was aimed at providing evidence of "intended immediate development" and removing the grounds for suggesting that the land had been deliberately withheld from development for speculative reasons.

Ministry of Works' officers were involved in an almost continuous battle with property owners and real estate agents. One informant observed that it became necessary to use "ghost" cars and to work out devious routes and ploys in carrying out their searches for suitable residential properties. Officers frequently found themselves being followed by real estate agents anxious to discover what properties might be selected for likely purchase and sometimes high speed car chases would develop.

The past president of the R.E.I.N.Z. was critical of the Government's activities. Referring to purchases in Nelson and Palmerston North, he said:

To my certain knowledge the land in Nelson was due to be subdivided in any event, so that not one more section will be put on the market there as a result of the Government's action.

In the Palmerston North case I can only assume the same, knowing the circumstances of the proposed sale, so again it is probable that not one more serviced section will come on the market.(151)

In addition, he questioned the suggestion that the Government would manage to reduce the cost of sections.

If the Government sells these sections at a lower price than they would otherwise have reached, provided that the only cost that is taken out of the production is the profit, then the price of the land will be kept down with the subsidy spread equally among all taxpayers.

But if the land is taken, developed and sold at a loss without recouping the cost of production, then the taxpayer is unreasonably subsidising the buyer of those sections.(152)

The past president concluded: "Either the vendor or the taxpayer is subsidising the purchaser and in either case this is wrong, a distortion of the market".

The assumption underlying comments and criticisms^{such} as the above was the existence of a self-regulating land market. Account was taken neither of the effect of governmental decisions, particularly at the local level, in enhancing land values nor^{of} the control exerted by large monopolies and real estate agencies over section supply. The returns from property development in the last few years had tended to reflect not so much a reasonable return on investment but speculative profits resulting from local

authority decisions in such areas as boundary extensions, zoning, and public investment in services. From this point of view it could be argued that decisions taken in the public interest had the effect of "subsidising" land developers, at least to the point of providing the conditions for speculative gain. As for the criticism that the Government's acquisitions would not increase the supply of sections, this ignored the Government's desire to break land monopolies and to get developed sections onto the market when needed, not when it suited the financial arrangements of large land-holders.

Local Authorities and Speculation

The Municipal Association had made a submission to the Local Bills' Committee concerning the effects of speculative land dealing for local authorities who through their decisions created the opportunity for such activity. Directed to the "Municipal Corporations Amendment (No. 2) Bill" the submission contained the following comment:

Members of the Association are becoming increasingly concerned at the inflated prices that are being asked for land on the periphery of expanding urban areas. These inflated values arise in the main from the planning and other decisions made by Councils in the general community interest, yet when that land is subsequently taken or acquired by local authorities or state agencies for any public purpose it must be paid for on the basis of the inflated values. In terms of section 29 of the Finance Act (No. 3) 1944, in assessing compensation for land taken under the Public Works Act 1928 the value of that land, subject to the provisions of the section, is to be taken to be the amount which the land, if sold by a willing seller on the specified date as defined in the section, might be expected to realise.(153)

Mr M.J. Minogue, the Mayor of Hamilton City and a member of the Municipal Association's Executive Committee, was one of the major contributors to, and supporters of, the above submission. It is appropriate at this point to deal with the Mayor's views concerning land speculation as they help to gain insight into the problems being experienced by local authorities. His outspoken and incisive approach placed his Council in a comparatively unique position among local authorities. Overall, his line of analysis was without precedent in the local political arena of the Waikato region and was radical enough to gain him national prominence. While not all city councillors shared their Mayor's opinions, they were sufficiently influenced by them, as will be shown in the next section, to co-operate with him in efforts to counter the activities of land speculators.

In an article the Mayor introduced his analysis by stressing what he considered to be a resurgence of the tendency to treat land as a "commodity of commerce".¹⁵⁴ This, and the acceptance of the "divine right to speculate in land" he argued, are characteristics of twentieth century western civilisation. Together they have culminated in some of the more evident "anti-social elements of inflation". Pointing to developments overseas, he observed:

Everywhere, where land is treated as a commodity of commerce, land in the path of urban expansion is particularly vulnerable to speculative price escalation of large dimensions. So much so that high land prices are everywhere threatening the common man's ability to build a home.(155)

Having focused on the difficulties created through land speculation for prospective home buyers, especially young families, he moved on to explore the position of

local authorities which must ultimately bear the burden of "increasingly prohibitive costs of providing public amenities and utilities". Significantly, he stated:

It's (land speculation) destructive of effective urban planning. The publication of a development plan indicating the path of future urban development alerts both individuals, syndicates and large companies to the certainty of profit through the purchase of land in anticipation of development. The development plan becomes the speculators handbook. If it doesn't suit him the speculator takes steps to subvert the plan and our clumsy town planning laws aid and abet such subversion.(156)

Enlarging, he pointed to the prohibitive costs of protecting plans from the assaults of speculators who have it within their financial capability to withhold land from development "in anticipation of further price increases and create thereby uneconomic patterns of urban growth". As will be evident later in the boundary extension case study, this part of the Mayor's analysis was a perceptive synthesis of the problems which the Hamilton City Council was encountering in the implementation of its own development plans.

The Mayor's analysis provoked criticism from groups and individuals whom he viewed collectively as the "establishment". On the surface, the major objections appeared to centre on his observations concerning certain characteristics of New Zealand's "financial structure". It was the nature of this structure which led him to opt for legislative solutions rather than to endorse the views of "free market" advocates: In a speech to a group of insurance company representatives, he embarked upon a scathing attack of the "pillars of conventional wisdom" who "menace" the community.¹⁵⁷ The Mayor noted that it was this philosophical perspective which provided the justification for financial institutions to sustain

speculation through their investment activities. Warming to the topic, he pressed home his criticism of these institutions by observing it was they who

...considered it to be a crime for an old lady to steal from a supermarket, but it is perfectly right and proper for capitalists to enrich themselves by any means no matter what the consequences for the community. It is right and proper according to this wisdom to direct resources away from productive uses. It is right and proper to hold communities to ransom to attain at their direct expense money which was never really theirs in any meaningful sense.*

Equipped with newspaper clippings, the Mayor narrowed his attacks to those individuals who were obsessed with the need to achieve the highest possible return from investment. Quoting from a clipping, he drew attention to one insurance company representative who had expressed the opinion that it was the "duty" of his industry "to get the best possible return from investment". For the Mayor, it was significant that while "this gentleman acknowledges that insurance companies do have some social and moral responsibilities he does not specify what these responsibilities are". Acknowledging he was expressing "pretty hard words", the Mayor felt it necessary to point out that financial institutions in the pursuit of profit "manifest no real social or moral conscience whatever". This lack of "moral purpose" constituted the country's greatest problem in his opinion.

The Mayor's indictment of large financial institutions focused attention on the process by which he saw the individuals in charge of large financial institutions exercising a correspondingly large influence over the material conditions of New Zealanders through their investment decisions. He pursued what he called the "mechanics of the operation" from which emerged the

* This and following comments were recorded at the meetings referred to.

opportunities to profit from land transactions. Central to his argument was an examination of the position of local authorities, as decision-making bodies, relative to large financial institutions with their substantial financial resources and expertise. Decisions taken by local authorities to expand boundaries, to embark upon major capital expenditures, such as water and drainage schemes, to change zoning, and so on, or to do any combination of these things causes the land affected to escalate in value. The Mayor was concerned that although the escalation was usually a consequence of public decisions, often involving substantial commitments of public funds, individuals and companies tended to profit unfairly from the investment environment created and not the local authorities who were acting in the public interest. In cases of boundary extensions particularly, the Mayor noted that speculative investment occurred on the perimeter of local authorities in anticipation of immense profits. When it came time for local authorities to purchase land for public purposes they were forced to compete on the open market and to pay the high prices which had resulted from the initial public decision to expand on to new land. In other words, "Local authorities pay grossly inflated prices created by their own decisions". The Mayor also observed: "The people who pocket the money did nothing to earn it. It is earned at the direct expense of the community".

The Mayor's wide-ranging analysis of land speculation and other anti-social forms of investment focused on several issues. The objectionable influence which large financial institutions exercised over urban development and the life-style of so-called "little people" became a dominant theme. Moving indiscriminately from one class of financial institution to another, he attempted to expose each in turn as a major contributing factor to speculative investment activity. The insurance companies

tended to rank a prominent position in his exposé. Referring to the investment practices of these companies at a Hamilton meeting of the Insurance Institute of New Zealand, he contended that a re-direction of investment capital away from "unnecessary" high-rise buildings, land, and company shares, to housing, hospitals, other socially worthwhile enterprises, and manufacturing, would contribute to the resolution of many pressing social problems.¹⁵⁸ A chronic housing shortage, for instance, could be ameliorated through greater investment in the housing industry. Indeed, the Mayor argued, the housing shortage could be attributed to, and was made more acute by, an "over-concentration" of investment in "prestige buildings" in the larger urban centres. In his speech, he commented: "The prestige building bubble is going to burst" and added, "it deserves to burst, doesn't it?".

"Speculative investment", the Mayor reasoned, in a country the size of New Zealand with its limited resources, made it impossible to accomplish important social objectives. A refusal on the part of financial institutions to change the direction of their investment would, he believed, precipitate a "major social and political crisis". As "a very big business", the insurance industry had to become concerned about the varying ways in which their investment decisions affected prospects for both "little people" and the national economy. Since their funds were one of the largest and key sources of investment capital, insurance companies had an obligation to decide whether to continue to pursue the goal of profit maximisation, which inevitably diverted resources away from productive endeavours and which therefore could be seen to ignore the social and political implications of investment decisions, or offer the whole community a much-needed service in the pursuit of a better society. For them to persist with their present "parasitic" mode of investment would, the Mayor asserted,

"endanger the very fabric of New Zealand society". He stated:

Through your investment decisions you have given a false twist to investment based on quite false premises which leads the country away from the investment it requires.

Insurance companies had a major responsibility to assess their investments in terms of the contribution they made to the development of New Zealanders "as a people", and to the promotion of national income. To increase export income, to provide employment opportunities, to invest in the "needs of the people", were some of the objectives which should be taken into account in investment decisions. Pointing to the profound economic, social, and political consequences produced by institutional investment, the Mayor warned that if change did not occur there would develop a demand for an enquiry into where "the country's investment capital is going". Moreover, he warned that "responsible people" must act first rather than wait for the "government pistol to be pointed". It was clear to him that the Government, whose programme could only be accomplished by a change in the direction of investment, was becoming increasingly worried about the activities of financial institutions.

However, in his speech the Mayor was not content to end his analysis on this point. He broadened his attack to embrace those institutions which provided the financial support for purely speculative activity. It was these institutions, he argued, that acted as a source of capital for those who wished to invest in speculative ventures. The evidence, he suggested, made it clear that the speculator had to have "merely the ability to go to a finance company or a financial institution and say I am on to a good thing, lend me a bit of dough, I'll double it in six months, or triple it in one year and I'll pay

you back with interest". He contended that if there were not a financial structure geared to accommodate "gentlemen of that ilk" there would be no speculation in land. Speculation, he observed, required, in many instances, a willingness on the part of institutions to supply the necessary funds. However these same institutions had very serious difficulties in deciding whether "little Joe Doaks, who has just married at the age of twenty-one can have a few thousand bucks by way of first mortgage to build himself a little shack. That's a problem!". And, "The financing of this other nonsense is no problem, anymore than is the financing of a load of multi-storey glass houses in Wellington or in Auckland or in Sydney or in Tokyo".

The Mayor of Hamilton's public examination of the way in which financial institutions may exert a deleterious influence on the country's pattern of urban development and the quality of life of ordinary people earned him a stiff rebuke from the "establishment". At another meeting of insurance company representatives, a past chairman of the Life Offices' Association voiced his alarm about the amount of criticism being channelled through the media.¹⁵⁹ "It seems fashionable to have a tilt at organisations which have served the community well", he observed. The fact that unfair and irresponsible accusations of a minority group were able to obtain "banner headlines" reflected a distinct lack of responsibility on the part of many newspapers. To which he added, quite indignantly, that insurance companies found themselves with "no fair right of reply". These comments reflected the growing concern within the Life Offices Association that the facts of life office investment decision-making were not being conveyed to the general public. This concern led to the decisions to publish a newsletter and later, in the middle of 1974, to establish a secretariat with a full-time general secretary. It was hoped that this administrative

machinery, combined with its own publication, would give the L.O.A. a base from which to explain life office decisions.

Having dealt with the media's responsibility in increasing public distrust of insurance companies by propagating the views of a "minority group", the past chairman proceeded to explain the position of trust and responsibility which insurance companies held with respect to the funds under their control. Policyholders, he explained, demand, and rightly expect, that their directors will endeavour to obtain the highest possible return from investment consistent with security. Consequently, directors are "virtually in a position of trust". For them to direct money into risk areas or to fail to return the best profit possible from investment would be a breach of this trust. The carefully formulated investment decisions of their insurance companies, he continued, protect policyholders from the eroding effects of inflation. Capital gains are passed on to them in the form of bonuses which provide a "hedge against inflation". Drawing on his experience in the industry and replying to the criticism that insurance companies were investing too much in property and not enough in home mortgages, he emphasised that "any prudent life office" would invest "free funds" in property, and company shares and debentures. Marshalling his facts, he produced a set of charts, statistics, and copious notes. Together they showed that property investment was the best avenue for minimising costs and maximising revenues. However, insurance companies, he informed the gathering, must attempt to achieve a balanced investment portfolio. This balance must take into account the imposition of Government controls. Posing the question of why insurance companies do not invest the total of available funds in property, he remarked: "Theoretically we probably should, but there

would be an awful howl if we did". In any case, the rationale for a balanced portfolio became very evident during periods, such as the one being experienced at the time in the United Kingdom, when the property market was experiencing a downswing. This, he submitted, was a singularly good example of why insurance companies try to obtain a "spread of investment".

Many of the comments made by the past chairman were to be found, almost verbatim, in his 1973 annual review for the L.O.A. For the sake of clarity it is worthwhile quoting that portion which dealt with the responsibility that life offices have as "trustees" for policyholders.

The primary function of all life offices is to provide security and protection for policyholders and their families. Evidence of this is the fact that life offices pay out in excess of \$95 million annually in benefits - a major contribution to New Zealand's welfare programme.

As policyholders' trustees, life offices have a duty to invest their funds to obtain the highest possible return not, I stress, for profit but for the benefit of policyholders themselves. City buildings are not constructed with life assurance 'profits' but are a means of secure and appreciating investment of the policyholders' funds.(160)

Thus, despite growing public concern about the social consequences of the operations of large financial institutions, the past chairman reaffirmed the view that economic performance criteria must remain paramount for those in financial control. The implication was that the attention which directors and senior executives could give to social considerations was subject to economic limits. In effect, their investment decisions were controlled by the market and to this extent social concerns had to remain subservient to the power of the market.

Since the past chairman was a well-known and respected

representative of the New Zealand insurance industry his remarks are particularly significant for this analysis. Considered an expert in the investment field and a persuasive advocate for the industry, he was frequently called upon to give public speeches and to talk to new staff members of various insurance companies. His message for the Mayor of Hamilton was very clear: The investment decisions of life offices were subject to the verdict of the market place and not to the opinions of social commentators.

On the occasion of his talk in Hamilton, outlined above, the past chairman was one of three guest speakers of whom another happened to be the Mayor. As the closing speaker, the Mayor moved swiftly to evaluate this individual's comments by introducing the subject of "professionalism". Calling for an "up-dating of professionalism", he observed that this would require, among other things, the recognition that "classical and neoclassical theories of economics" were as "dead as a dodo". The two "ideals" of profit maximisation and perfect competition promised no answer to the problems besetting New Zealand society. Reiterating his comments about the country's limited resources, the Mayor adhered to his theme that decisions to maximise profits resulted in certain patterns of investment which "may not be in the community interest as discerned by the man in the street". He described the past chairman's presentation as a "crazy, invalid, irrelevant approach". A new professional outlook, he insisted, would lead to an understanding that "patterns of investment must serve community purposes". Noting the growing potential for "political disruption" and the "threat of a Marxian solution", the Mayor concluded his comments by appealing for dialogue and the maintenance "of the spirit of communication between the public and private sectors".

The Mayor's approach was not restricted to just a summary of the problems which confronted local authorities and individuals as a result of speculative investment. He was, in fact, more concerned with the search for a way to halt the ubiquitous activities of speculators who were responsible for the "ruthless commercial exploitation of land at the expense of ordinary people". The solution he proposed was arrived at after an emphatic rejection of such suggestions as allowing the "free market mechanism" to solve the problem or using betterment taxation. Referring to the decision of New South Wales to apply a betterment levy in Sydney on lands identified for future urban use he observed:

The legislators' intention was clear but because the levy is simply transferred to the purchaser of land, resulting in higher land prices, the good intent is completely frustrated. It is as contradictory as deciding not to eradicate crime but to tax it so the community will share its profits. (161)

And:

The tax advocates are confused. They do not understand the real problem to be solved or its real causes. The real problem is that when land use is expected to change from a rural to an urban use, an increase in prices results from the anticipated increase in future values. It happens because speculators can anticipate the increase in values well before the actual change from rural to urban use occurs. The price of the land advances far above its value as agricultural land, sometimes years before it is developed for urban purposes. It frequently changes hands several times and huge fortunes are made. They are made at the direct expense of the home owner when he eventually pays for his home site. He pays a price that reflects all the speculative increases in price that have preceded his purchase, and all the costs speculative dealers have had to meet, including taxation. The same situation confronts public agencies seeking land for community purposes. (162)

His reasons for rejecting the free market proposition were quite explicit:

Typically the land within the range of foreseeable urban expansion is bought up by one or two big companies, which continue to masquerade under a variety of names belonging to smaller companies they have taken over; the public doesn't know the extent of this. At the appropriate time to them the big companies release land for subdivision but only in such quantities as will maintain relative shortages and therefore high prices. And when they sell individual lots they may impose obligations upon the purchaser to buy a house from them along with the land.

There's no effective price competition between such companies. There is not a free market for the land - it's a managed market. It becomes virtually a monopoly market and therefore highly profitable. So profitable indeed that it currently attracts American capital to this country.

It is no answer, therefore, to attempt to bring in to urban use larger areas of land with the intention of increasing its supply in relation to demand. Supply can be effectively controlled by the companies regardless of the extent of urban zoning and the speculative market will continue to flourish. (163)

And:

The so-called free market mechanism of supply and demand as an answer to the escalating price of land is the advocacy of blind men unaware of the realities of modern commerce. (164)

For the Mayor the only viable way of dealing with land speculation was to increase the public ownership of land. This approach would not only circumscribe speculative activity but also help to safeguard the planning goals and objectives of local authorities. But, he observed, such an increase was contingent upon the Government

introducing long overdue legislative changes to certain Acts. In support of his contention that Section 79 of the "Public Works Act 1928" was "among the most archaic pieces of legislation in New Zealand", he pointed out that, while it permitted the State and a local authority compulsorily to acquire land, it also "...stipulates that they must pay ruling speculative prices ... and in fact ensures that land speculation is a guilt-edged investment".¹⁶⁵

In essence, the Mayor wanted both levels of government to be placed in a position where, in relation to land, they could discharge the role of "honest broker" through their own "strategic" landholdings. The opportunity to push for legislative change came in 1973.

In 1973 Mayor Minogue formulated a submission for the Municipal Association. As has been observed, it was to be placed before the Bills Committee in an attempt to get the Government to introduce legislative changes which would have the effect of stopping land speculation. The submission, dated July 4, 1973, was aimed at having provisions incorporated into the "Municipal Corporations Amendment (No.2) Bill" which would change "the basis for the valuation of land required by local bodies for housing or other public purposes". The first paragraph of the submission stated:

The purpose of the submission is to suggest measures which could be incorporated in the Amendment Bill aimed at stabilising the price of land required by Local Bodies or State Agencies for housing or other public purposes. Such measures are urgently required in and around urban centres where population is increasing rapidly. In such areas speculative land dealing in adjacent rural land in anticipation of urban boundary changes is rife and is seriously detrimental to the public interest. (166)

Under Clause 21 of the proposed Amendment Bill, local authorities would be able to purchase land "whether within or without its district" for housing purposes. However, the proposed Bill allowed local authorities only to "take

or acquire" land under the "Public Works Act 1928" when the land concerned was within their own districts. The Mayor felt that this was a most unsatisfactory aspect of the Bill. He was also unhappy that the Bill offered no solution to rapidly rising land prices on the borders of urban centres. The Mayor's comments on the latter matter will be dealt with first.

For Hamilton's Mayor, the proposed new land acquisition powers for local authorities were not sufficient in themselves to check private manipulation of the land market. In his opinion, local authorities, particularly those intending to expand their boundaries, were still defenceless against the land purchasing activities of individuals and organisations who hoped to profit from the decisions taken by local authorities in the public interest. In his submission he drew attention to the fact that Section 79 of the "Public Works Act 1928" stated:

The value of land so taken or acquired shall be taken to be the amount which the land, if sold on the open market by a willing seller on the specified date, might be expected to realise. (167)

The retention of this Section would cause grave financial difficulties for local authorities. The Mayor noted:

What this means is that in and around expanding urban areas land taken or acquired for any public purpose must be paid for on the basis of inflated speculative values which are created entirely by anticipated extension of urban boundaries or other Town Planning decisions made in the public interest. (168)

Elaborating, he went on to say in the submission:

In certain urban areas population increases have made it imperative for the Local Body to plan extension of urban boundaries to include areas of surrounding farm land.

Any such proposed extension becomes publicly known and the farm land involved requires a very high speculative value in anticipation of the boundary change and is bought and sold at continually increasing prices. (169)

The Mayor suggested two methods by which the Government could halt land speculation on the outskirts of urban centres. The first involved the fixing of a "Special Government valuation" on any land required for public purposes. This valuation would exclude "... increases in value attributable to the change of urban boundaries or to the anticipation of that change". To give some guidance as to how the valuation might be fixed, the Mayor observed that, "Prices paid for farm land beyond the range of the proposed urban boundary extension would provide a sensible yard stick to the Valuation Department in assessing values". The second suggested method, which the Mayor felt would be more effective, involved "... an appropriate change in the proposed Amendment Bill or preferably by direct Amendment to Section 79 of the Public Works Act 1928".¹⁷⁰ He recommended that a clause, worded along the following lines, could be incorporated in the Amendment Bill:

The value of land taken or acquired pursuant to the "Public Works Act 1928" shall be taken to be the amount which the land, if sold on the open market, on the basis of its existing use by a willing seller on the specified date, might be expected to realise. (emphasis in original) (171)

He continued:

It may be necessary to go further and define "existing use" as meaning the use permitted in terms of its zoning during the period of 12 months prior to its taking of acquisition (172)

And, further on in the submission, the Mayor added:

In regard to rural land "existing use values" could be assessed by reference to prices paid for similar farm land beyond the range of foreseeable urban boundary extension or other Town Planning changes. The price payable for farm land would be in effect the replacement value of the farm as a farm. The value of land already urban, would not be noticeably affected except in those cases where speculation might be anticipated as a result of zoning changes or other Town Planning decisions. (173)

It was the Mayor's opinion that if the Government incorporated the above suggestions in the new Bill both Government agencies and local authorities would find it possible to acquire land for public purposes at "a fair value". Valuation based on "existing use" would successfully eliminate "... the speculative appreciation in values attributable to urban boundary extension or the other Town Planning changes made in the community interest".¹⁷⁴

Given that the Bill was changed in such a way as to make land dealing unattractive to speculators while at the same time giving local authorities the opportunity to purchase land at reasonable prices, it would be reasonable to expect the following:

There would be an inducement to Local Bodies and Government Agencies to acquire land for housing or other public purposes.

Extensive land acquisition for housing by Councils and by the Crown would stabilise the price of privately owned land to the benefit of prospective home owners and the Community at large.

Acquisition for other essential public purposes would be less prohibitive in price and would encourage better Town Planning and the creation of a better urban environment.

Speculative dealing in rural land adjoining expanding urban centres would cease because surely the speculator would face the real possibility of losing money - a possibility which he does not have to face under present conditions. (175)

On the last point the Mayor noted that Section 79 of the "Public Works Act 1928" ensured that "speculative prices in fact became the 'open market' prices, and thus ... gives the speculator a positive money-back guarantee which is difficult to justify". (176)

The Mayor also recommended that the Bills Committee consider the proposition that local authorities be given the power "...to acquire land outside their districts in anticipation of urban boundary extension, not merely for housing but for other public purposes". In support of this recommendation, he noted:

As matters stand, such a Council will be obliged to wait until rural land is actually into its district following formal boundary adjustments. At that point of time, under today's conditions, prices will, purely as a result of the change to urban use, have escalated to absurd and prohibitive levels. Ratepayers and Taxpayers should not be required to bear the burden of such price increases which result purely from planning decisions made by Council in the Community interest. (177)

So apart from including measures which would have the effect of undermining speculative land dealing, the Mayor wanted the Bill to be changed to allow a local authority to be able to purchase land "...outside its District in anticipation of boundary changes". As it was drafted the Bill "...virtually forces such a Council to delay acquisition of rural land until prices have been forced to prohibitive levels as a result of it becoming urban".¹⁷⁸ Usually it was not until the local authority had actually expanded its boundary that land purchases were considered,

but by that point it was not uncommon for land speculators to have been active, pushing land prices up dramatically. The Mayor wanted the Bill changed to give them the initiative in the land market. If this were not done "advance acquisition" would remain "...the exclusive prerogative or monopoly of land speculators". He argued:

Logically the powers of such a Council to acquire land for any purpose authorised by Statute should extend to land within or outside its District and in all cases there should be power to employ the provisions of the Public Works Act 1928 in regard to acquisition. (179) (emphasis in original)

The Mayor concluded his submission by noting that if the Bill was not changed in line with his suggestions then, "The cost of land for housing and other public purposes will rise at an alarming rate and the accumulation of unjustifiable private fortunes from the speculative sale and resale of rural land required for urban development will continue".¹⁸⁰ Significantly, the supporting documents for the submission contained the following examples of land prices on the boundary of Hamilton City: 105 acres - purchase price, \$450,000; Government Valuation, \$150,000; 115 acres - purchase price, \$235,000, Government Valuation, \$115,000; 58 acres - purchase price, \$105,000, Government Valuation, \$50,000.

During 1973, discussion about ways to check rising house prices included comment from builders about local authority subdivisional requirements. For example, a representative of S. George Nathan and Company was quoted as saying that "...local body specifications on underground services, concrete paths, grass verges and, in some cases, street lighting in right-of-ways, have put up the costs from \$1000 to \$2500 a chain of road frontage in the past three years".¹⁸¹ More particularly, builders were concerned about the increasing tendency for local authorities to shift more of the financial burden of

servicing subdivisions on to the private subdivider. In 1973 the "N.D.C. Study Group" noted that "...some local authorities now require a subdivider to contribute towards the cost of works outside the subdivision itself, mainly in the upgrading and extension of water and drainage services to serve the subdivision".¹⁸² Over the years this situation had been the subject of frequent representation by builders who took the position that if the central government wanted lower cost housing it should bring down legislation which would place clear limits on what local authorities could reasonably demand from subdividers. Such approaches appear to have received little, if any, overt sympathy from successive governments. Neither did they get support from such independent reports as the "1971 Commission of Inquiry into Housing". The Commission noted that, "A number of witnesses representing organisations concerned with land development asserted that local authorities, or some of them, are excessive in their demands on subdividers".¹⁸³ However, "No clear case of this was made out to our satisfaction" and: "... on this particular issue we received nothing to displace the obvious point made by the Municipal Association that what may seem unreasonable to a subdivider may be necessary in the eyes of the local authority and well justified from a broader community point of view".¹⁸⁴ In its report the "N.D.C. Study Group" similarly recognized "a general ground swell of discontent arising from individuals, builders, developers and professional groups - a discontent engendered primarily by the cost of excessive local body requirements";¹⁸⁵ however, "The group received no real evidence to substantiate motives attributed to local authorities ..." and "... was in no position to confirm the validity of complaints relating to local body standards and fees, or to assess whether or not there is sufficient evidence to suggest the local body requirements are, or are becoming, unreasonable".¹⁸⁶ Nevertheless, the Group observed;

While these trends have undoubtedly improved development standards they add considerably to the cost of land and property. Also as all costs are shifted onto the subdivider there is little incentive on the part of local authorities to moderate their demands. Indeed the difficult loan position faced by local authorities in recent years has made avoidance of development costs an important consideration, and any source of extra revenue appears to be used to the full. This trend would be acceptable if it was occurring within the framework of property developed standards but each local authority appears to set its own standards, and technically some standards are considered excessive. (187)

In order "... to confirm whether or not unreasonable requirements are being made, and if so, to what extent these contribute to waste of building resources and increased costs", the "Group" recommended that the Minister of Internal Affairs establish a "committee of inquiry". 188

The Government, presumably wishing to avoid a major clash with local authorities on this matter, did not act on the Group's recommendation. The Municipal Association was applying pressure on the new administration to introduce measures to widen the base of local body finance. Local authorities had become increasingly reluctant to place further financial burdens on ratepayers. For the Government, having made no concrete move to provide an alternative source of revenue, to appear to be prepared to tamper with local authority efforts to seek relief by way of passing costs onto subdividers was bound to lead to political trouble. This was particularly so as previous administrations had encouraged local authorities to use the legislation which enabled them to pass an increasing proportion of servicing costs onto the private developer.

In the light of the enormous profits which often accrued to private individuals and companies as a result of policy decisions regarding boundary extensions and so on,

local authorities viewed their service levies as only fair. For them it was an effective, if somewhat indirect, means of securing for the ratepayer a portion of the financial benefits resulting from public decisions, and of coping with the increased costs of providing public services which followed these decisions. Many subdividers/builders saw the situation differently and felt trapped in a vicious circle - on the one hand, having to pay increasingly higher prices to private individuals and companies for land and on the other, having to meet the increasing service requirements of local authorities within the loan limits set by the S.A.C. This problem, as far as local authorities were concerned, was one for the central government to resolve through action which did not entail sacrificing their financial interests.

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Before completing one year in office the Labour administration was already on a confrontation course with the building industry and a range of other groups and individuals engaged in property dealings of one kind or another. Given the highly liquid state of the economy, practically every builder, from the largest to the smallest, was hoping to exploit the opportunity to make sizable profits from property development. There was no shortage of financial support from finance houses and other money market intermediaries. Ironically, the Labour Government, through its efforts to stimulate construction in high priority areas, had perpetuated conditions appropriate for all this activity. Legislative measures, such as the speculation tax, had proved to be ineffective against the machinations of speculators and had become treated as the objectionable products of those determined to upset the operations of the "free market". Exhortations for co-operation were just as easily dismissed.

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CHAPTER FIVE

CONSTRAINT, 'FINE TUNING' AND THEIR CONSEQUENCES

Efforts to control inflation and, at the same time, to maintain employment and increase production were shortly to be overtaken by events over which the Government had little control. It is not the object of this analysis to provide a detailed account of New Zealand's changing economic circumstances during the Labour administration. However, in order adequately to understand the Government's policy decisions in regard to housing during 1974 and 1975 it is necessary to refer briefly to the economic environment within which these decisions were taken.

The 1973 Budget aimed to stimulate the economy and was followed by a series of measures designed to cope with a high level of cost-push inflation. Increased imports, in particular, was seen as a means for dealing with inflation and sustaining production.

Research at the time indicated that certain Reserve Bank officials and others were worried about the Government's economic strategy. With a recession looming overseas, which would have grave consequences for the country's export position, there did seem to be reason to move cautiously. Buying imports at the top of the overseas business cycle with no guarantee of maintaining a high level of export income in the near future was likely to aggravate economic difficulties arising from a recession. The strategy received strong criticism from the research director of the New Zealand Bankers' Association who was to observe that, "Had we learned the lessons of history, we would have been careful then not to allow the export-lead boom to develop into a consumption-lead boom...", and:

...we would not have embarked on a strategy to damp-down demand by allowing imports in, including the

\$70m of extra imports. Instead, we would have damped down demand, especially consumption, by such measures of restraint as tighter hire purchase controls, which would have been easy politically, and a much less rash housing policy which would not have been so easy politically but could have been done in apparent response to material shortages and labour shortages.(1)

During 1974 New Zealand was caught in "a general world recession", the severity of which, because it occurred at a time of rapidly rising oil prices, was considered "unprecedented". With the help of a one hundred million dollar special oil facility from the International Monetary Fund the Government managed to offset the effects of the rapid increase in the country's oil bill from \$100 million to \$350 million. What really exacerbated the country's economic difficulties was the rapid dissipation of overseas reserves as a result of increased imports at a time of decline in export markets. The balance of payments worsened during 1974 and imports, which were supposed to sustain economic activity, became a major problem in themselves. The Reserve Bank was to observe:

In 1974 the flow of imports was abnormally high. With a trend towards recession overseas, scarce goods turned up more quickly and many importers became embarrassed. Port facilities and internal transport were congested, and the need to pay for the goods added to the liquidity problems of companies.

It was the coincidence of weak export markets with the temporary but rapid surge in imports which caused such a violent change in New Zealand's balance of payments. The current account swung from a record surplus of \$347 million in the 12 months ended May 1973 to a record deficit of \$993 million in the year March 1975, at which level it was equivalent to 10.5 per cent of the estimated G.N.P.(2)

The Opposition referred contemptuously to the whole situation as the product of "gross mismanagement". Although having political value, National's comments did not take account of the complexity of the difficulties facing the Government, among which were the variety of problems that it had inherited from the previous administration. One of the conditions which applied to special oil facilities was that recipient countries would not implement import restrictions. In other words, the Government's hands were tied. Having accepted assistance from the I.M.F., it could not now use import controls as a means of relieving internal congestion and for restoring some order to the country's balance of payments. This is not to suggest, however, that the Government wished to introduce such controls. Its commitment to the principle that the "needs" of New Zealanders were not to be sacrificed in the interest of the "economy" remained paramount. Apparently no such principle had importance in the thinking of the National Opposition.

Mortgage Finance

1974 began with a plea from builders, particularly those situated in the large urban centres, for Government action to alleviate what they considered to be the severe shortage of mortgage finance. Unless the Government moved quickly, they argued, bankruptcies would occur and the country would experience a severe economic recession.

Chief among the builders' concerns was that a number of prospective home buyers had found it impossible to obtain mortgage finance. One builder revealed that, "They went to their insurance companies, bank managers and solicitors", who, "...all blamed the Government and passed the buck". Two large life offices, the A.M.P. Society and Metropolitan Life Assurance, were identified as being among the institutions which had "...been turning

away home finance borrowers and blaming the Government for it".³ The Minister of Finance responded with a statement clarifying the Government's position. The accusation that the Government was discouraging institutions from providing mortgage finance received a firm rebuttal. Further, the Minister explained that:

...the credit restraint measures introduced toward the end of 1973 were designed to restrict the supply of funds available for personal consumption expenditure and speculative purposes, and specifically avoided affecting any institution which provided house finance.(4)

The Life Offices Association, represented by its chairman, was not prepared to ignore builders' accusations either. Corroborating the Minister's statement that neither the Minister nor the Reserve Bank "...had at any time asked lending institutions to restrict or reduce the priority of their investment in residential house mortgages", the chairman retorted that the members of the L.O.A. "...are this year advancing substantially more in house loans than ever before".⁵ It was important for the general public, and more particularly policyholders, to understand, however, that due to a "great demand" for mortgage finance "...some offices (had) temporarily used up budgeted allocation of money for such purposes".⁶ Moreover, in the circumstances of having to provide larger mortgages fewer loans could be accommodated.

Continuing criticism of the investment practices of life offices led the New Zealand deputy manager for the A.M.P. Society to justify the position of his company. The fact that 25% of its investments were now in equities reflected, he explained, the Board's desire to fulfil its "fundamental responsibility" by obtaining "...the best possible deal for each one of its many thousands of individual policy holders".⁷ Nevertheless, an analysis conducted by the N.Z. Herald revealed that, "Although the A.M.P. Society has been announcing substantial

increases in the amount of money it is lending for housing loans, the proportion of its total investments now going into housing is almost half that of 1960". It was observed:

In 1960, the A.M.P. Society had 17.6 per cent of its investments in housing loans, that represented \$31.9 million.

Now, the Society has only nine per cent of its investments in housing loans, that represents \$48.7 million.

In 1960, the New Zealand A.M.P. operation had 2.5 per cent of its funds invested in shares; it now has 6.8 per cent, a \$32.1 million increase.

In 1960, the Society had 32 per cent of its funds invested in property; now 17.7 per cent of total investments are in property, an increase of \$90.2 million.(8)

Although there was growing public criticism of the investment decisions of life offices, especially from those unable to obtain mortgage finance, there was no strong expression of disapproval from the Government. Both life offices and the Government seemed equally reticent about commenting on the mortgage situation other than to make general statements about the continuing availability of finance. Neither, in fact, wanted a major change in current investment programmes, although for largely different reasons. Life offices had no wish to commit more funds to the relatively unattractive home mortgage market. The Government, on the other hand, did not want to upset the tenuous balance which was beginning to emerge between a sufficient flow of finance to sustain building activity and the containment of inflation.

At the beginning of February 1974, the Minister made it clear that, despite mounting pressure from various quarters, he had not been convinced by the arguments of those who felt that there was a critical shortage of

mortgage finance. The Government, the Minister explained, was watching the situation on a daily basis and while he was prepared to concede that liquidity was tighter, "...there is still a good deal of unexercised mortgage money to be taken up for the building industry". He noted, in addition, that "...while solicitors maintained that mortgage finance was still as tight as ever, some real estate agents claimed they were having little trouble in financing property sales". The real issue as the Government saw it was to ensure "...that finance should not become so easily available that we start a further wave of property and housing price escalation".⁹ This comment reflected a dramatic change in the Government's monetary policies. The easy credit conditions of 1973 had led to widespread speculative activity despite repeated requests to builders that they make low cost and State housing a priority. This experience had shown that builders, property developers, solicitors and other professionals, real estate agents, finance companies, and so on, were far more interested in seizing opportunities to make large profits than co-operating with the Government's social policies. Unable to introduce radical changes in monetary policy without creating the conditions for new and more serious problems in relation to both the money market and its own financial affairs, and faced by a variety of financial intermediaries prepared to take advantage of, rather than to co-operate with, its policies, the Labour administration seemed to have reverted to the "fine tuning" methods of former National Governments. Explained through such phrases as "daily surveillance" this approach to the conduct of monetary policy was to continue to the end of Labour's term of office and, as comments from the Reserve Bank bore out, hindered efforts to establish a framework for more effective long term policy. In speaking of its attempts to "follow a comprehensive and consistent monetary policy" the Reserve Bank was to observe:

This has meant trying to bring about an equitable position as between the several types of financial institution while at the same time taking the overall policy stance appropriate to changing monetary pressures. On occasions steps have had to be taken to meet an urgent short-term need in a manner which is not fully consistent with longer term objectives.(10)

On February 19, the Government moved to provide some mortgage relief by reducing its stock ratios for both the trustee and private savings banks by one per cent. This action, which would release 11.3 million dollars, was to be regarded as a "limited" one that would "...be supplemented by more moves later if the need developed".¹¹ It was aimed at offsetting a possible tightening of home finance resulting from the deterioration of the country's balance of payments.

The Minister's announcement came in a speech to the Annual Conference of the Trustee Savings Banks, in which he was also reported as saying: "It was clear from recent experience that the limiting factor on the building of new houses is not finance, but men and materials ...More mortgage finance would not have produced a single additional house".¹² According to the Minister, house prices were beginning to stabilise and to reflect that a more "normal state" was developing in the housing market. The reason for this, he explained, was a drop in demand caused by the tighter mortgage situation. He repeated his observation that the Government was not now going to lose the "advantage" by relaxing its controls:

To make mortgage money freely available to everyone who wants a loan would ensure a continuation of this price inflation, and that is not a sensible way to improve the housing situation.(13)

Importantly from the Government's point of view there were now reports of a movement of "self-employed" builders, whose activities had been geared to the construction of

'spec' homes, back to employment with the larger building companies because of "money problems". The latter were pleased with the turn of events. The president of the Waikato Council of the Building Industry, expressed their attitude in the following way:

Most builders had lost men to professional businessmen - lawyers, doctors, dentists, accountants and so on, who were employing carpenters to build flats and on other money-making undertakings.

It was unfair ...that genuine builders had spent considerable time and money training apprentices only to have them enticed away by men who trained no workers but could afford to pay big prices.(14)

He also pointed out that those with ready cash had been able to purchase materials more easily, thus placing "genuine builders" in a difficult position in this area also.

Even more welcome for the Government were reports about another, but related, trend: the shortage of materials and mortgage finance were encouraging builders to construct "lower-cost" housing. It was reported that "...builders have found it undesirable to have large amounts of capital tied up in buildings which cannot be completed and sold because of shortages of materials."¹⁵ The diminished availability of mortgage finance was not only causing builders to be more circumspect about undertaking heavy financial commitments in the construction of high-priced homes but was also having a decided effect on the property sales of companies involved in the production of expensive or "quality" sections. For example, the chairman of the Broadlands Group was to report:

There was, throughout the year, a shortage of mortgage finance which inhibited sales as neither potential individual purchasers could raise money for erection of a home, nor would builders who had comprised a large proportion of our purchasers, commit themselves when they could see difficulty in effecting a sale of the completed house and section because of problems their purchaser would have in raising finance.(16)

During 1974 the tight liquidity situation in the business sector together with the Interest on Deposit Regulations resulted in a rapid growth of trading company debenture issues. In December, the Chairman of the F.H.A. reported:

Investigations indicate that public debenture issues by trading companies during the 1974 year were five times greater in volume than those announced in 1973. Reports would indicate that these debenture issues are largely successful, particularly since there has been no abatement in the number of these issues being offered on the market, and some companies are now seeking oversubscription.(17)

However, under the existing Regulations finance houses had been unable to attract sufficient investment funds to service the term credit needs of small businesses. While larger companies were finding it possible to get the finance they required through debentures, it was observed that "Small and medium sized businesses suffer and bear the brunt of the tight liquidity conditions...".¹⁸ That the shortage of finance was having severe consequences for small companies was borne out by Mr J.G. Russell. Speaking of the decision to raise the reserve assets ratio of the trading banks and the finance companies by 2% the previous year, he noted:

...liquidity tightened to such an extent that the financial stability of some institutions came into question. In this respect, the financial screws were tightened far too strongly toward the end of last year, resulting in an artificial liquidity shortage of such dimensions that it would have been

possible for a major financial collapse to occur. The traumatic effect on some businessmen had to be seen to be believed.(19)

It may be assumed that the immediate worry for the Government was to ensure a flow of investment capital to large companies. Increased production and the maintenance of full employment, apart from other concerns, depended on their financial viability. The chairman of the F.H.A. went so far as to suggest that the Government had deliberately oriented its policies to the advantage of what he called the "big boys" and observed: "Industrial investment and expansion should not be limited to the large industrial companies".

It would seem the liquidity and the industrial extension of the "big boys" is being maintained in preference to that of the "smaller fellows". The Interest on Deposits Regulations must be modified in order to remove this economic and social inequity.(20)

While there was some reason for finance companies to be concerned about the financial difficulties being experienced by their small business clients, an equally, and probably more important issue for them was their inability to compete against the "uncontrolled" market. Again, through excessive Government control they were being denied, so they felt, the opportunity to play their rightful role in the financial system. They argued: "Large industrial companies are to an increasing extent borrowing short-term finance from the public by way of debentures at rates of interest which exceed by as much as 3% per annum the rates which the finance industry is permitted to offer for the same terms".²¹

The Government was not feeling particularly sympathetic towards finance houses, nevertheless it decided to permit the Reserve Bank to assist "some financial intermediaries" with "short-term liquidity needs" by authorising "...them to obtain special stand-by

facilities either in overseas markets or from New Zealand banks". The Bank explained that, "These are of a short-term nature, are costly, and are under close surveillance by the Reserve Bank. They provide immediate relief but do not solve the more fundamental problem".²² The latter was not made explicit but was alluded to by way of an injunction to financial institutions, or what the Bank called "lessons" which should have been learnt from "the experiences of recent months":

Any very strong and unusual trend in the economy is likely to be only temporary, because either it will tend to be self-corrective or official action will be taken to correct it. Thus, policy decisions in the financial sector should not be based on the assumption of a continuation of that trend. To cover the continuing possibility of fluctuation in the availability of funds, financial intermediaries should always keep a free margin of genuinely liquid assets, over and above any statutory requirements; the only truly liquid assets for this purpose are bank deposits and Government securities.

It is always dangerous to "borrow short and lend long".

The Reserve Bank should use whatever powers it can to prevent undue fluctuations in money flows; and while it can and should provide relief from the worst consequences of such fluctuations as do occur, it is no part of the Bank's function to protect individual institutions from the consequences of their own financial mismanagement.(23)

The moves to restrict the availability of credit had placed several lending institutions in quite serious financial difficulties. Some were known to have undertaken heavy longterm financial commitments in property ventures of one kind or another, working on the assumption that they would continue to have access to a flow of short-term borrowed funds. Although the Government had voiced strong criticism of this activity, it was prepared to

spare them from serious financial difficulties. Presumably it had no other alternative. Major difficulties among lending institutions would have serious consequences in an already difficult economic situation. It was probably also assumed that the "lesson" had been learnt, and that the promise of continuing credit restraints would cause institutions to take steps to adjust their investment portfolios. But there was also another factor and that was the extent to which the Government itself could be seen to have a responsibility for "distorting" investment patterns. In this regard, the Bank's "lessons" also included one which was clearly aimed at the Government and its policy of maintaining interest rate controls: "There is really only one market for funds, so that rigidities in one part of the market, while the remainder goes free, inevitably cause distortions and inefficiencies".²⁴

As events turned out there would be a series of investment company failures over the next three years involving one of the country's oldest lending institutions and climaxing in the spectacular collapse of Securitibank. More will be said of this towards the end of the analysis.

General Monetary Control, 1974

The Government was becoming worried about how smaller industries were weathering the tight credit situation. It acted by way of an adjustment to security ratios. On March 1, the ratios applying to finance houses was reduced from 12 to 10%. This decision was accompanied by a "recommendation" that the industrial sector should be assisted in the purchase of plant, equipment and so on. Predictably, it attracted immediate criticism. Mr J.G. Russell referred to the sum of \$5 million which would be released as "only a

drop in the bucket to what is required".²⁵ The chairman of the F.H.A. held a similar view, saying that:

Although a welcome easing, this change in ratios was insufficient to greatly affect overall liquidity conditions, which have continued to tighten largely as a result of the reversal in the balance on current account.(26)

Two weeks later, in an effort further to reduce pressure on the domestic finance market, the Government varied its policy regarding internal borrowing for working capital by predominantly or wholly owned or controlled non-finance companies. Explaining this decision the Minister of Finance observed:

...the favourable level of interest rates operating in New Zealand compared with overseas made New Zealand a most attractive market in which to borrow. Because the requirements of all New Zealand ventures could not be met fully from within the presently tight local market, some companies have to borrow overseas. The Government believed that companies with significant overseas ownership were generally able to raise overseas loans more easily. Also, there was some justice in expecting companies whose profits accrue in the main to overseas residents to bring a larger part of their financial requirements from overseas.(27)

Companies were to be restricted in their domestic borrowing to a maximum of 10% of annual turnover. This was a return to the policy that had prevailed before the 1973 Budget. Under the new policy "special consideration" would be given to those companies requiring working capital to increase their export sales.

This new policy was unlikely to have much effect. Companies could be expected to continue to use the commercial bill market to meet their financial requirements.

Interest rates of upwards of 18% on bills were still cheaper than the cost of borrowing funds from overseas sources. As commercial bills involve, in principle, the sale of assets this source of finance did not come within the scope of the new regulations. They also had the advantage of not coming under the purview of the Interest On Deposits Regulations and thus provided a very attractive form of investment.

By September 1974, rumours were circulating that the bill market was on the verge of collapse. The N.B.R. reported:

Commercial bills have grown so fast in recent years that they have attracted suspicion and doubts.

There seems little doubt that some companies financing from the bills market will encounter difficulties when they try to 'roll over' or extend their bills.

One or two could even find themselves unable to meet their commitments.(28)

However, the Review also pointed out that there was little chance of a collapse occurring. Its assessment drew attention to "one great safety" valve and shed insight into the complicity of large overseas banks in the development of the commercial bill market.

The bills dealers are financially supported by some of the world's largest banks, such as Lloyds and Bank of America, and most of the finance companies and merchant banks would quietly absorb and make good any loss.

This is to stop any large-scale outflow of funds from an already hard-pressed market.

The bills market dealers admit that any financial disaster would be quietly 'hushed up' and paid by themselves.(29)

Further on, it was noted:

If a line failed the dealer would automatically pay out and all commitments would be honoured.

If they could not be met locally, the finance houses and merchant banks would simply borrow overseas.

Most of the dealers have standby lines arranged in case of a failure.

Broadlands, for example, is believed to have a standby credit arrangement with Wells Fargo of the United States.(30)

Interestingly, in his 1975 review the chairman of the Broadlands Group felt it "pertinent", in discussing his company's ability to meet calls on short-term money, to observe "...that the company has substantial fallback facilities available to it, both locally and overseas".³¹ In essence, much of the bill market had the backing of virtually unlimited overseas finance. This, it may be argued, placed large financial institutions, in an extremely secure position. With such support they could afford to take risks and evolve ways to circumvent the constraints being placed on them by the Government in regard to property investment. From the Government's position there was little that could be done. The bill market was not only financing property ventures but also serving as an important source of industrial finance. In September 1973, for example, New Zealand Forest Products Limited had repaid 70% of an overseas loan by refinancing through commercial bills to the amount of 13.7 million dollars.³²

At the beginning of March, the Minister of Housing announced that in respect of urban renewal the Government had decided to lift the annual ceiling from \$4 million to \$7 million per annum for the next five years. Allowance, in the form of grants and subsidies, had also been made for some additional expenditure; what this

meant was not made clear. The new larger amount was intended for land purchase loans, public rental accommodation, construction loans, and for a new policy of providing, under certain conditions, loans to local authorities for the production of serviced sections. The Minister reaffirmed the existing policy of granting concessional loans (3½% interest) only for projects within Comprehensive Urban Redevelopment Areas and Reclamation Areas. Other loans for urban renewal would be available at 5% and not easy to obtain.

Through the new policy, loans could be made available to local authorities for land subdivision work at current local authority interest rates. At the time the rate was 6¼%. It was stipulated that in cases where these loans were approved up to 50% of the sections produced would have to be made available to the Crown for purchase at an agreed price.

In a press release the Minister explained that the Government had increased the allocation for urban renewal as a step to meet "...the increasing need to curb urban sprawl and to bring more people into inner-city areas, close to employment, health services and other amenities". He also observed that, "The object is to increase both the quality and quantity of inner-city housing, making best use of valuable land through higher-density accommodation".³³

Control and Local Government Co-ordination

On April 1, Section 327 of the "Municipal Corporations Act 1954" was amended to allow local authorities to purchase land for housing purposes both within and outside their districts. Previous to this authorities had been restricted in the use of their acquisition powers under the "Public Works Act 1928" to land within their existing municipal boundaries. The potential significance of this change for the ability of local councils to acquire

greater planning control over their growth and to reduce opportunities for private speculative gain resulting from their decisions will become evident in the next section.

Through a complex of decisions the Government was putting in place the legislative framework for a co-operative and co-ordinated approach to such matters as increasing the supply of developed land for housing, curbing urban sprawl, promoting regional development, providing certain types of housing, and generally improving local and regional planning. This partnership with local government was expected to grow in strength and to become more clearly defined through radical structural changes to the country's local government system and to the statutory relationship between central and local government in the planning field. Already the "Local Government Bill" had been introduced and new legislation had been promised to replace the "Town and Country Planning Act 1953". The first of these was viewed as "a genuine attempt to provide the machinery for the evolution of a better basis for local government",³⁴ while the second was expected, following the recommendations of the "Town and Country Planning Act Review Committee",³⁵ to have the effect of binding the Crown to local and regional planning schemes. As an interim measure an amendment to the existing Act had been passed requiring that in the preparation, implementation, and administration of regional and district schemes matters of national importance "shall be recognised and provided for". Under the new section, 2B, these matters were:

- (a) The preservation of the natural character of the coastal environment and of the margins of lakes and rivers and the protection of them from unnecessary subdivision and development:

- (b) The avoidance of encroachment of urban development on, and the protection of, land having a high actual or potential value for the production of food:
- (c) The prevention of sporadic urban subdivision and development in rural areas.(36)

Promises of a more efficient and autonomous local government structure working in co-ordination with central government were viewed with great scepticism by local authorities. As far as they were concerned the most pressing problem to be resolved was the provision of a new source of local body revenue to take the financial strain off ratepayers. Until something practical was implemented in this direction changes in the local government structure were to be strongly opposed and treated as a threat to the ability of local councils to "protect ratepayers" and as a devious device to push an increasing proportion of government expenditure onto rates rather than taxes. Capturing the feelings of delegates at the 1974 Municipal Association Conference the Mayor of Auckland said: "Both the Deputy Prime Minister and the Minister of Local Government had said the Government's intention was to enhance the prestige of local government, but all it had done so far had been to denigrate that prestige by refusing to give local government the tools it needed to carry out the work it had to do", and, "...local government was regarded by the central government as a junior and inferior partner. It assigned to local government specific vital functions, and then compelled it to fight the central government for the responsibility to carry out those responsibilities".³⁷ In a joint submission to the Government concerning the "Local Government Bill" the New Zealand Counties Association and Municipal Association had made known their concern that no provision had been made to expand the base of local authority financing: "A clear indication should be given of the Government's intentions

regarding the provision of an additional source of revenue for the regional bodies and if legislation is required for this purpose appropriate provision should be made in the Bill".³⁸

The country's economic difficulties diminished local authorities' chances of additional revenue sources. Existing avenues of financial support for loans and assistance in the form of grants and subsidies were already being tightly regulated by the Local Authorities Loans Board. Finance was being directed into "essential works". At the 1974 Municipal Association Conference, the Minister of Local Government explained that, "The board will ...continue to examine carefully all loan applications and defer those relating to projects not considered to be essential at this time".³⁹ He also pointed out that the "general drying up of funds available for capital works" was directly related "...to heavy borrowing by large companies following revaluation and to others expanding their undertakings to meet increasing demands".⁴⁰

Scepticism about the Government's sincerity in wishing to devolve more authority to, and co-ordinate its activities with, local authorities grew with the passing months as the new administration proved only too prepared to follow the traditional pattern of subverting local interest in the process of achieving so-called "national" objectives. That local authorities, faced with deepening financial difficulties, would also follow tradition in compromising planning principles in the rush to obtain what financial assistance was made available from time to time was a cause for concern in certain quarters. For example, Mr McGrane reported that the Community Services Officer for the Wellington City Council was worried about the possible consequences of the increased allocation for urban renewal. The Officer was quoted as saying that, "Since money will be

more readily available to local authorities, they may go ahead and develop areas with little reference to the people living in the area to be developed...".⁴¹

Additional support for urban renewal, it is relevant to note, was also questioned on other grounds. A Wellington real estate agent expressed the view that, "In a development programme where 1000 people have their houses torn down and replaced with modern units, all that has been done is that 1000 people are better housed".⁴²

The Low Cost House

By this time relations between the Government and the building industry were under considerable strain. Instead of making its building programme attractive with appropriate financial inducements, the Government had chosen to use a variety of measures, including credit restrictions, price controls and directives to financial institutions, to reduce inflationary pressures and to force builders away from the prestige home market and low priority commercial construction. Accusing the Government of using the industry as an "economic tool" and of reneging on its election promises, the Auckland Master Builders' Association blasted it for the decision not to make the latest general wage order recoverable. The previous June amendment (No. 4) to the Stabilisation and Prices Regulations, which had limited labour cost recoveries to 5%, had been followed a few weeks later, on July 10, by a new set of stabilisation measures, including an 8.5% general wage order. Rumours soon circulated that the Association was preparing to give strength to its demands for more sympathetic treatment by dissuading builders from tendering for the second stage of the North Shore Hospital. Speaking on the general question of construction projects, the president of the Master Builders' Federation pointed out that unless the Government exempted "long-term building projects ...from the price stabilisation regulations

contractors were likely to be increasingly reluctant to tender for projects which last longer than a year...".⁴³ Regarding the hospital, the Association informed the hospital board, on behalf of prospective tenderers, that unless the second stage construction was made exempt from the regulations there would be no commitment to contracts which would normally extend over a six-year period.

The stalemate over State housing was also a factor in the growing disharmony between the Government and the building industry. An Auckland builder was reported as commenting that "...builders may become reluctant to tender for State housing contracts unless they are allowed to pass on the 9% general wage increase".⁴⁴ The Auckland Star also observed: "Builders in Christchurch have withdrawn from contracts covering nearly 30 State houses in protest against the refusal to allow the full 9% wage increases to be recovered".⁴⁵ Thus the Government's strategy to move builders into low cost home production and anti-inflationary measures such as making the general wage order non-recoverable were leading to a major confrontation between the Government and the building industry. At the same time the increased costs of imported materials were having their own inflationary effects on house prices. All in all, the momentum of the situation was ^{to} soon require the Government to make major changes in its housing policies. Meanwhile, announcements of plans to construct major new commercial buildings continued to be reported in the business sections of newspapers. On the housing front, 'spec' building had shown little sign of slackening. Neither had investment in real estate; indeed, new property investment companies, such as Dominion Property Bond Managers Limited, had been recently established.⁴⁶

The Minister of Housing was becoming extremely exasperated with the building industry. Viewing the

industry's lack of interest in "houses for the people", as a major obstacle to the Government's housing objectives, the Minister used the 1974 Master Builders' Federation Conference as the forum from which to make his feelings known. He admonished builders for placing, "Too great an emphasis ...on high-cost homes that yielded larger profits".⁴⁷

That the Minister had cause to be alarmed was made clear by the B.I.A.C.

At the end of February 1974 Government had 1,077 State rental units let to contract but had been unable to get any site progress on 434, some of which have been out to contract for over six months. Also because of a large backlog of committed work in the private sector prospects for accelerating Government's construction programme in 1974/75 were not good and there were indications that the implementation of the new policy could be delayed.(48)

The following table adequately illuminates the problem which faced the Government. For an administration committed to increasing State housing stock the year had been a disaster.

GOVERNMENT HOUSING COMPLETIONS

<u>Years Ending 31 March</u>	<u>State Services</u>	<u>State Rental</u>	<u>Total</u>
1968	443	1,489	1,932
1969	253	1,534	1,787
1970	332	1,241	1,573
1971	387	1,194	1,581
1972	264	661	925
1973	376	765	1,141
1974	341	650	991
1975 (Forecast)	646	2,354	3,000 (-49)

In an effort to deal with this situation the Cabinet authorised the Minister, on February 25, "...to invite tenders for the supply and erection by 31 March 1975 of

2,000 low cost home units from overseas suppliers, and from within New Zealand for the provision of up to 2,000 low cost units per annum with an option of expanding such contracts to a higher maximum.⁵⁰ In addition, it was also decided that the following actions should be taken:

To approach building contractors and discuss entry into design and build contracts with maximum output on builder/developers own land, the general standards to be in accordance with the standard code/local building bylaws or what would be acceptable to meet S.A.C. standards.

To make state land available where necessary.

To attract contractors into the field by undertaking to provide continuity wherever practicable over the next three years.

To speed up approval of acceptable modules and where necessary to provide advice urgently regarding steps necessary to gain approvals.

To inspect existing surplus housing in the State sector (e.g. Manapouri) and cease private sales in favour of purchase for family housing in towns.(51)

Observing at the builders' conference that while "The Government was prepared to negotiate large design-and-build housing contracts with New Zealand companies and to co-operate with them in every way in producing lower-cost housing",⁵² the Minister hammered home the point that should the industry not respond to this new gesture the Government would not hesitate to import lower-cost units. While this may have been a calculated warning to the building industry, some observers believed that, even with a good response, the Minister might have to boost the supply of low cost houses by importing pre-fabricated units. Even so, the Minister's speech earned him a sharp rebuke. In reply, the Federation

vice-president noted that "threats will not produce the number of houses the Government needs to house urgent cases".⁵³ Many builders joined in the angry reaction to the Minister's remarks. Calling for the Minister's resignation, the owner of Keith Hay Homes Limited pointed to the financial problems which would be created by the superannuation scheme, extra holidays, equal pay, and the rising amount of imported goods used in houses. Stressing the last matter he added: "It will be impossible to stop the continual rise in housing costs because it's all controlled by the overseas market. We just have to make sure we get value for the money we have to spend".⁵⁴ The Minister refused to accept this argument and stated: "There (has) been ample opportunity for New Zealand builders, including Keith Hay Homes Limited, to assist in meeting the demand for lower cost homes in the rental field...".⁵⁵ Meanwhile, an indignant president of the Sawmillers Federation entered the fray with the comment that timber exports were not contributing to a claimed shortage of building materials in New Zealand: "Sawn timber exports for the 12 months up to last December 31 were slightly below those of the previous year and production had increased from 752 to 847 million board feet".⁵⁶

The Minister of Housing was being forced into a major reappraisal of his Department's approach to obtaining the co-operation of the building industry to construct the desired quota of low cost and State houses. The industry had proved to be a formidable foe and his colleagues were becoming dismayed with the failure to reach housing objectives. The following report from the Minister did little to ease their concern:

The year ended 31 March 1974 witnessed a tremendous upsurge in dwelling completions. The figure, 31,800, is an all-time record and is 4,400 higher than the next best year, 1973. It is apparent from this achievement that

the building industry in general, has responded to the Government's lead and request for co-operation and with effort from all sectors, this very creditable result has been reached despite shortages for serviced sections, labour, and materials. For the first time, completions actually exceed the 30,000 yearly average recommended by the 1971 Commission of Inquiry into Housing to meet an estimated need for 300,000 additional houses by the early 1980s.(57)

The Minister observed, at the annual conference of Building Inspectors, that even though more dwellings had been built during the previous year than ever before, the shortages of housing for low-income people and prospective state tenants called for action: "Too few houses are being built for those of limited means particularly young families".⁵⁸ On March 19, he was reported as explaining to the New Zealand Guild of Master Painters and Decorators that, "State housing ...was at its lowest ebb for some time, and builders had moved away. There were now 14,000 on the waiting list for State housing and 4,000 of these were cases of urgent need".⁵⁹

...there needed to be a six per cent shift from the production of prestige homes and speculative flats to the production of lower cost homes.

I hope the New Zealand builder will rise to the occasion.(60)

Blaming the previous government for increasing the inflation of house prices by neglecting to purchase residential sections for State and private development he concluded that, "Mortgage finance was no use if rising costs of section absorbed it".

Taken in the context of the Government's housing objectives, the new construction record was a hollow

accomplishment and could even be interpreted as an expression of failure. The Opposition was certainly not ignoring the opportunity to embarrass a Government which had promised to give priority to "social needs" as opposed to "numbers" and "balancing the books". The Opposition spokesman on housing was quoted as saying:

They have just gone ahead and built them

The emphasis seems to have been on building up the number to reach the 30,000 target with little effort to determine who gets to live in them.⁽⁶¹⁾

This statement completely ignored the variety of actions taken by the Government, including public pleas, to get the building industry to construct more low cost homes. Despite all this, builders wanted more concessions. Apparently the "design-and-build" programme was the compromise which they had been waiting for. Soon it was reported that Neil Housing "...had contracted to build 40 State houses and negotiations were taking place for up to several hundred".⁶² Keith Hay Homes was also negotiating a contract to build houses on their own land in accordance with its own designs. In addition, there were rumours of a further contract of 150 houses. Furthermore, E.P. Maddren and Sons Limited had obtained a contract to build 50 State houses in Mangere, reported as "...the biggest single State rental housing contract let in the Auckland district for 20 years".⁶³ As opposed to the others the latter would be built in conformity with Ministry of Works Housing Division plans and specifications. Approximately ten days later the Minister of Housing announced that contracts had been negotiated with Universal Homes Limited and BHA Construction Company Limited for the construction of 76 design and build homes in Manurewa and Otara.⁶⁴

The Minister of Housing reported in Parliament that, "Builders response in the last week to the challenge of

providing sufficient housing has been most encouraging - more encouraging that it has been over the past 15 months".⁶⁵ Now the confrontation had taken place, the Minister was presumably anxious to restore some accord with the builders. But he failed to mollify certain representatives of the industry. The chairman of directors of Lockwood Buildings Limited, informed those attending the firm's annual convention that the Minister's threat to import prefabricated homes was "misdirected".

Imagine the further pressures and stationary effect which this would have as the importer competed for erection labour, subtrades, and subdivision services.(66)

Saying the industry had "responded magnificently to the call to increase its productivity", he went on to add that part of the problem of supplying housing was impaired efficiency resulting from overcommitment.

When orders reach 110 per cent of capacity, efficiency is lost, the industry scrambles to compete for resources of labour and materials, and prices must inevitably go up.(67)

The rest of the problem he attributed to the continuing shortage of mortgage finance. More mortgage money, he suggested, would enable those who wanted to purchase an "improved standard of home" to do so, leaving vacant a number of low to medium priced older homes. The fact that, "Rows of spec. houses and home units stand empty in popular suburbs, like Pakuranga, not awaiting buyers, but searching for today's mirage - the mortgage", confirmed his point, the chairman claimed.⁶⁸ The implementation of his suggestion, it may be assumed, would also assist to alleviate the tenuous financial positions of those builders who had invested heavily in high-cost "spec housing". While the Government

appeared to be reaching some accord with the building industry in the area of State housing, many builders were still trying to sell their 'spec' homes.

Despite the sudden interest in State house construction, there remained some pessimism about the overall housing situation.

But welcome as it may be, the move of private firms into the state house design-and-build area, still merely scrapes the surface of housing problems.

Mortgage money continues to be scarce and inflation continues.(69)

The B.I.A.C. pointed out that the shortage of mortgage finance was working to the detriment of low income people as well as the 'spec' builder.

...non-institutional lending appears to have reduced in volume due to tighter liquidity and reductions by trading banks of loan periods for bridging loans to a maximum of three months. While these factors have showed new demand from the middle income groups and inhibit some 'spec' building, they have also excluded the low income groups, or those with little equity from home ownership.(70)

The Council also observed that "...the S.A.C. concedes that it is no longer building for the low income groups, even with family benefit capitalisation, cannot bridge the gap between the amount available under first mortgage and the total market cost of house and section" and reported that, "While there are no longer fixed loan limits the system is administered on an averaging basis effectively limiting loans to \$11,500 - \$12,500".⁷¹ Expanding on the last point the Council said:

As 'low cost' houses including land now sell at \$18,000 to \$25,000 depending on the area, the prospective homeowner requires considerable equity to bridge the gap between purchase cost and finance available on first mortgage. Usually this involves a combination of cash deposit and second mortgage. The position is particularly difficult for the low income groups because at the present time second mortgage money is virtually unobtainable at reasonable interest rates.(72)

In reviewing the trend towards high-priced house construction and the difficult circumstances of lower income people the Council observed:

It is clear that during the last year the type of housing construction has reflected the better availability of first mortgage finance to income groups with equity of at least \$6,000 to \$10,000. A large part of the new demand is believed to have been caused by inflationary expectations, or the movement of those already reasonably housed, but taking advantage of capital gains from inflation to improve their personal circumstances. This has caused upward movement in community living standards and has freed housing for the lower income group, but has had three important effects on these groups:

- (a) It has accelerated cost of inflation in the housing sector and lifted the cost structure more rapidly than the ability of low income groups to save.
- (b) It has resulted in greater consumption of building materials per house (i.e. less units can be built with the limited resources available).
- (c) It has progressively excluded the low income groups or those with little equity from home ownership. (This is reflected in the increasing size of waiting lists for State rental units and accelerated construction of rental flats in the private sector).(73)

As well as providing incentives to attract builders into low-cost construction the Government had also introduced immigration controls to reduce the strain on the country's resources and to ease the pressure on the country's existing housing stocks. The Minister of Immigration provided the following summary of the principal purpose of the controls: "We have introduced these controls to keep the number of immigrants to those which New Zealand can absorb and to ensure that we get migrants with the skills we need and with the ability to settle down well".⁷⁴ In the view of the B.I.A.C., however, the high net inflows of immigrants during 1972/73 (+26,000) and 1973/74 (+33,000) had "...increased housing requirements to such an extent that demand (assuming that finance remains available) is likely to exceed 35,000 new units per year for the next few years irrespective of whether or not new immigration policies reduce the net inflow to more tolerable levels during 1974/75".⁷⁵ Nevertheless, the controls did have some political value. They gave the impression that the Government was taking some concrete action to deal with the country's housing problems.

On April 17, the Cabinet announced it had approved an allocation of twenty-five million dollars to the State Advances Corporation for the direct purchase of houses from builders for State rental purposes. In addition, the new programme would "...also provide for reciprocal land deals between the Government and developers".⁷⁶ The Minister of Housing was reported as saying that it was "...his intention...to provide a rolling supply of land and housing construction as distinct from the 'stop-go' policies (which) were a hallmark of the National Government".⁷⁷ Not only did the Government intend "to buy land from genuine land developers" but to negotiate land exchanges, using its much enlarged land holdings. Over the previous financial year, the Minister was pleased to point out, "...a total of 9093 unit dwelling sites (building sections) had been acquired by the State...more than the total of 8676

over the previous eight years".

The \$25 million was the promised financial support for the recently announced "design-and-build" proposal. The scheme, to be administered by the State Advances Corporation rather than the Housing Division of the Ministry of Works, traditionally responsible for overseeing the construction of State housing, was a radical departure from past policies. Instead of having to satisfy the rental housing specifications of the Division, builders, intending to use their own land, could seek approval for their own construction designs from the S.A.C. This, it was hoped, would encourage builders to use their land for State house construction, thus having the effect of increasing the amount of developed land available for this purpose. As well, exchanges with private developers would make it possible to achieve housing objectives in areas where shortages of developed sections were an obstacle to State housing targets.

Despite extensive land purchases, the Government was still seriously short of developed sections. In the middle of February the Minister of Housing had expressed some satisfaction with the Government's land acquisition programme:

Between last April and January 31 the Government has purchased land equivalent to 4932 dwelling sites at a cost of 2.1 million. Total expenditure on purchase and development in this period was \$3.6 million.(78)

The Government had purchased more land for section development in one year than the previous administration had managed to purchase over a period of approximately 7 years. These acquisitions, however, did not remove concern about the "availability of serviced residential land, particularly land suitable for low cost housing".

The B.I.A.C. pointed to this problem and also drew attention to the difficulty of estimating supply given the lack of "an authoritative inventory of residential sections".⁷⁹ The managing director of Paramount Homes also commented on the low cost section shortage and was reported as saying: "There's just no cheap land available any more: obviously builders would not use expensive land for low-cost housing".⁸⁰ Equally obvious to the Government was that the continuing high level of investment in the production of expensive sections meant that private development companies were not interested in the "cheap" market.

In addition to being prepared to enter into "design-and-build" and land exchange agreements with private companies, the Government also intended to take action on the matter of local authority servicing requirements. The B.I.A.C. observed:

A key issue on the supply side is the provision of serviced land for low cost housing. There is no immediate solution to this problem because of slower private development following 1967/68 recession and delays in extension of local authority investment appears to have been inhibited by difficulties in obtaining loan finance with the result that some local authorities are now requiring builder/developers to bear the cost of bulk services outside of subdivisions. This is making it even more difficult to provide low cost sections for housing. (Emphasis in original).(81)

The proposed solution to this problem indicated how far the Government was prepared to go to accelerate the construction of State dwellings. The Minister announced that construction would be permitted to proceed before such amenities as sealed roads, kerbs, and footpaths had been provided. Joining in the effort, the Minister of Works also announced the Housing Division "...had been instructed to adopt a new policy of building houses first, then providing facilities such as sealed roads and

footpaths later".⁸² In addition, he indicated that he would be "...seeking the co-operation of local bodies in implementing the new policy. Previously all facilities had to be provided before a house could be built". It was reported: "In the present circumstances he believed people would rather have a roof over their heads first - with a guarantee that the work would be done - and all the amenities provided later".

The reaction of the Hamilton City Council to the decision to defer servicing sections will receive detailed examination in the next section. Suffice to say, at this point, that local authorities generally were highly critical of this move. Their feelings were similar, in most cases, to those expressed by The Auckland Star.

It is a great pity...that Mr Fraser's announcement should be accompanied by Mr Watt's statement that the Government is 'moving to lower the standard of facilities required before a section could be built on'. True, that will put more sections on the market quickly. But at what a community cost if there are unsealed roads, unpaved footpaths and unsown verges even for a short time. Lowering standards is bad policy; 'temporarily' in the New Zealand context can mean years.(83)

Overall, the new policies appeared to have been carefully worked out, probably with the assistance of representatives of the building industry, to make State housing an attractive proposition to builders. The Minister of Housing explained: "The small core of firms which had remained geared to building State dwellings designed by the housing division was not fully committed and without help could not relieve the acute need for lower-cost rental housing".⁸⁴ Representatives of building companies reacted very positively to the announcement. Even Mr Keith Hay was pleased, observing: "It gives builders greater opportunity to move with what is available and will definitely speed up the rate of

housing".⁸⁵ He was also reported as saying:

The scheme would allow for improvements in building standards. Builders would have the discretion to cut out unnecessary items - such as large numbers of power points and opening windows which are never opened - and they would be 'a little more in charge of the situation'.(86)

This statement seemed to confirm the Minister of Housing's prediction that the "design-and-build" approach would "change the image of State housing". He further commented that, "They won't be recognised as State houses". This statement was clearly intended to imply that future construction would be a definite improvement over the traditional rather unimaginative State design. Builders were arguing that it was quite within their capability to produce innovative designs that would not lower standards and yet meet the Government's cost criteria. Furthermore, with a variety of building companies submitting separate designs, there would be the additional advantage of diversity of design rather than the "sameness" which typically characterized State housing completed through the Housing Division. New designs would permit a more imaginative and efficient use of new building materials.

Elsewhere there were serious reservations about the entire proposal. Officials of the Housing Division reacted with scepticism and expressed their concern about what was probably going to happen. They did not question that builders were now "more in charge"; however, so-called improvements, in their opinion, were more likely to end up being equated with cost savings rather than advances in structure and design. For one informant the Minister's announcement reflected a "breakdown" not a "breakthrough" in the Government's housing policy. To some degree, the Division was unhappy with what could be interpreted as an invasion of what it

had come to accept as its area of jurisdiction. That the Government's new policies gave the State Advances Corporation a role in the field of State house construction had not gone down well. Over the years the Division had become sensitive to criticism about its design specifications and construction standards, feeling, quite justifiably, that it had done a good job. However, the critical issue remained: to what extent was the Government promoting a scheme which would result in a lower standard of State house? As time went on, it became evident that the Division's fears had not been unwarranted.

Remarks made by Mr Hay concerning building costs suggested that there was every possibility that the Government would continue to face difficulties in its dealings with the building industry.

Mr Hay said he did not see how a price ceiling could be put on houses because builders were governed by inflation of building materials.

'When the wage order is announced there's no question that housing prices will rise'.⁽⁸⁷⁾

Speaking in a similar vein, the president of the Waikato Master Builders' Federation offered the view that the success of the proposal would depend largely on a realistic approach by S.A.C. officials to the valuation placed on builders' houses and sections. The Government, on the other hand, was making it clear that it would only purchase land and houses at what it considered to be "reasonable prices".⁸⁸ The determination of the latter, it may be assumed, would become the subject of very hard bargaining.

Initial optimism from building industry spokesmen about the new policies was tempered by a warning that they offered only a temporary solution to the housing

shortage. Mr Hay noted that "in five years the shortage will be more serious than it is today". He argued:

The only long-term solution to the housing shortage was for the Government to help the builder in every possible way.

This could be achieved by negotiated contracts and agreements with personal involvement between builders and heads of Government departments.(89)

To the question whether, under the new policies, "...builders would take advantage of having an extra buyer on the market", he answered: "The building industry is renowned for its sense of fair play. It has never taken advantage of the market".⁹⁰ Taking account of what had been occurring in the housing market for a period of over 2 years, and the difficulties encountered in getting the industry to construct low and medium cost homes, it is unlikely that many members of the Government shared this view of the industry. Nevertheless, for the Minister of Housing the future now looked brighter. Certainly his colleagues were waiting, by now impatiently, for some positive action. In the middle of May the Minister predicted that there would be an "increase almost 10-fold over the next two or three months in the construction of new houses". It was reported: "He told the Labour Party Conference that several hundred new houses would be started during the next two or three months as a result of builders' response to the new design-and-build policy on low-cost housing".⁹¹

Despite the Minister's optimism, the new policies represented, as Mr Hay indicated, more of an emergency measure than the basis for longterm planning and stability within the building industry. In taking up this point, the B.I.A.C. also warned of the possible inflationary implications of the "design-and-build" programme:

...council is concerned that current efforts to accelerate construction of State rental units do not put further pressure on an industry which is already overcommitted in terms of available resources. Also questions of continuity and stability of the industry in the medium and longer term arise because of the possibility that current levels of demand for dwellings do not represent the real needs of the community.(92)

The actual implementation of the new policies reflected the Government's desire to avoid stimulating a further round of inflationary price increases. Soon it became evident that the S.A.C. was buying houses which had already been completed before the introduction of the "design-and-build" programme. The B.I.A.C. observed: "...to overcome the backlog negotiations were also initiated with builder/developers to purchase part of their output (houses plus sections) for State rental purposes".⁹³ A few months later an informant within the Housing Division was to note that the S.A.C. was tending "to buy any bloody thing" under the auspices of the "design-and-build" scheme. He said, "There seemed to be a determination to spend the money", and that, "They were buying structures that the Housing Division wouldn't build". The Corporation was also, in many cases, "paying far too much for sections", he observed. In addition, building contracts had been entered into with firms which the Division had found it impossible to do business with because of their poor quality work. One of these firms, it is interesting to note, had been among the most vocal critics of the Government's housing policies. There was also evidence to suggest that as well as introducing the "design-and-build" scheme the Government was also prepared to moderate Housing Division requirements. The Minister of Housing said a few months later: "Documents for traditional Government designs were also trimmed".⁹⁴

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CHAPTER SIX

THE NEW MONEY LENDERS

Housing Politics

During these months the passage of the "Housing Corporation Bill" through the House of Representatives gave the Opposition ample opportunity to criticise the Government's housing policies or, to take its view, the lack of such policies. This legislation, introduced by the Minister of Housing on March 29, provided for the creation of a new Corporation based on the merger of the urban divisions of the State Advances Corporation, the Housing Division of the Ministry of Works and Development, and the pensioner housing administration of the Department of Health. The Corporation was "...to put an end in very large measure to the existing fragmentation and lack of co-ordination in the administration of the Government's housing activities, which are at present carried on by some eight departments and agencies".¹ The Minister further explained:

The Housing Corporation will be the principal Government agency for the selection, planning, development, and administration of housing land and allied services; the disposal of such land by sale, lease, or otherwise, for private as well as State Housing purposes, and for associated commercial, industrial, recreational, and community purposes; the design and construction of State rental and Government department dwellings; the administration of State housing; of elderly people; the lending of money for housing purposes; and in suitable cases the giving of guarantees and indemnities.(2)

In the Government's view, the housing functions of the Maori and Island Affairs Department should remain autonomous as they served "special needs". Speaking to the Bill, National's spokesman on housing indicated that the Opposition had "no disagreement with its concept".³ He argued during the second reading, however, that the Corporation would be

merely "an administrative convenience, and not very much more" without positive policy direction from the Government.

Quite clearly the Government is looking for some kind of gimmick to cover the deficiencies in its present housing record. The proposed Corporation will do nothing to halt the galloping increase in the prices of land and building. (4)

During the debates most^{of} the comments from Opposition M.P.'s were directed not so much at the Bill as the Government's failures in the housing field. The tight control over mortgage finance, it was suggested, was part of a strategy to force the entire building industry into State control with the Housing Corporation having a monopoly over the availability of finance. Outside the House, the Leader of the Opposition was declaring that under a National Government the industry would be protected from such control and policies introduced which would enable young people to afford homes.

We will rely on and encourage the building industry. We will not build a vast State housing building constructing department as the Labour Government is now attempting to do. (5)

Government members were quick to reply. Rather than attempting to resolve people's housing problems, the Honourable A.J. Faulkner argued, the previous administration paved the way for speculative land dealing.

How reliable are members opposite? When they took office in 1960 the preceding Government had been coming into the market with sections for homes at the rate of over 5,000 a year. In the last full year of their office, notwithstanding the increase in population, the figure was down to 1,100, virtually an 80 per cent cut. And what happened in the meantime? Their friends went into land development and made millions at the expense of families - with strong and direct National support....(6)

The National Party was busy attempting to exploit the growing public disquiet about compulsory land acquisition without, at the same time, appearing to be supporting speculative interests. This was well illustrated at a Hamilton branch meeting of the National Party where the City's Mayor participated in an open discussion about the Government's acquisition moves on the City's northern perimeter with a representative of the affected property owners and a National M.P., Mr Hightet, former Minister of Local Government. The representative voiced her opposition, in a rather confused fashion, to the principle of compulsory acquisition and her support for "overall planning".* She expressed puzzlement that the Government had found it necessary to involve itself in urban development, when, in her view, it was "better to have the job done by private concerns and architects"; and, in any case, she observed, the Government only proposed to use 40 per cent of the land for State housing. Adding to her confusion was the fact that "the largest private concern has been left out" of the Notice of Intention. The Ministry of Works and Development, she reported, had responded to queries about this matter with the comment: "They are going to develop it anyway". But above all she deplored the idea that "Horsham Downs people are supposed to be speculators". They had become in reality the victims of a Government which wished to prevent them from subdividing their land for reasons other than desire for speculative gain. In her case she "would like to have helped my daughter". At the end of her brief statement, the Chairman proffered the view that "one has the impression that Big Brother is watching all the time". The Mayor's assessment was a reiteration of his views concerning the need to provide reasonably priced sections for young couples, to stop the rampant speculation in land, and to ensure the availability of reasonably priced land for public purposes, and so on. He and his Council, he also pointed out, were committed to ensuring that property owners received a "fair deal": "When the

* This and following statements recorded at meeting.

Minister puts on jack-boots then I will scream".

Mr Highet argued evasively that, before compulsory acquisition was used, all the land within the City should be utilised, and in appropriate areas redeveloped with financial assistance from the Government. While he was prepared to concede that steps should be taken to prevent unreasonable profits being made on land, he felt he was not "as socialistic as Mayor Minogue because he maintained that "supply and demand" was still the "operative approach to land prices". The Mayor quickly pointed out that he was "neither a capitalist nor a socialist, just a concerned individual". Apparently to reassure the audience that he too was concerned, the National M.P. referred to his Party's position on the Government's speculation tax: "We did not oppose the speculator's tax, however, we thought it went too far and hit the small fellow". He went on: "Each person is entitled to every penny he can get for work he has done. He has earned his money the hard way. If we take away incentives then the country is defeated". After this exchange, the Mayor and the M.P. seemed to reach some sort of agreement on the principle of a "just reward". The Mayor expressed the view that there was "common ground on the speculation question" but the problem of an alternative approach to land acquisition remained to be explored. Following this, in his closing remarks, the M.P. informed the audience that he believed in the principle of "a home for a home" and although it was impossible to "write it into legislation our policy in the next election will approach this". Regarding his political philosophy he commented: "I agree with most of what Mayor Minogue has said. I look upon myself as a liberal: a cross between a socialist and a conservative". At this point an extremely frustrated official of a local branch of the National Party, who was to become, after the next election, the M.P. for the Hamilton East constituency, sharply criticised Mr Highet for having offered "very cold comfort", instead

of a clear cut policy on land prices.

The Government became increasingly pressured to act on the mortgage finance shortage. Some financial institutions had discontinued lending altogether. Mr Warren Page, in an article for The Auckland Star, quoted the general manager of the Wellington Trustee Savings Bank as saying: "We are not lending at the moment. We have not been lending for the past month. We have just not got the funds".⁷ He was also reported as saying: "The extra \$6,800,000 made available to trustee savings banks for housing purposes earlier this year when Mr Rowling announced a one per cent change in the banks' government stock ratio was absorbed within weeks". Mr Page noted that a current "retail spending spree" was also causing severe problems for banks. A representative of the Auckland Savings Bank commented: "In the past three or four months savings have dropped considerably and we can't lend money we haven't got". Real estate firms were also being affected. The percentage of sales collapsing through lack of finance had reportedly risen drastically "...and these are good honest buyers either on transfer from other centres or else coming back to their home town".⁸ Continuing, Mr Page said: "This time last year solicitors were ringing real estate agencies almost daily looking for investment for their client's funds in mortgage channels. Today, agencies are ringing solicitors daily to see if they have any funds available".

The president of the R.E.I.N.Z. also issued a warning about other consequences of the finance shortage.

Speculative builders are slowing down their activities because of the lack of bank accommodation preventing them from buying land ahead. In some cases they are dismissing their tradesmen.

The effect of all this is not reducing prices of new or second hand homes, but it is definitely slowing down the turnover with a result that the demand for new developed sections is also affected.

Land developers will be reluctant to proceed with any further activities until there is a greater flow of money.

Another effect is to push up the interest rates on first mortgage finance to a point where today 10 per cent is not uncommon, whereas this time last year 8.5 per cent was the ruling rate.(9)

Such complaints as the above had been coming forward since the beginning of the year. A governing director of Universal Monarch - a group of home-building companies - had been reported as saying that an "arbitrary" decision of trading banks to restrict their lending period for trading finance had resulted in a further shrinkage of the mortgage market.¹⁰ The period had been cut back from twelve to three months, thus limiting the possibility of law firms to undertake short term loan arrangements.

When the longer period operated solicitors were prepared to give undertakings to trading banks to the effect that they would arrange alternative finance to be made available to the home purchaser.

But when the maximum period was reduced to three months this reduced substantially the number of undertakings which solicitors could give because they were unable to guarantee alternative sources of finance within that period.(11)

In April the N.Z. Herald's "Property Roundsman" reported that from the comments of one solicitor he got the information that, "Investors were not prepared to tie their money up for the normal three to five years... because of the uncertainties created by inflation".¹² The solicitor had said: "Only an idiot will put his money out at 8½ per cent if he is losing 1½ per cent through inflation". Importantly, the solicitor also broached the matter of contributory mortgage schemes. This growing avenue for investment, able to advertise interest rates of up to nine and ten per cent and supported often by guarantees, was drawing investor clients away from some solicitors and creating a noticeable strain on their

mortgage resources. The "Roundsmen" noted: "These companies were lending out again at up to 12 per cent, including guarantee payments and administrative costs". The solicitor was quoted as saying: "I understand they have money galore". Concluding, the "Roundsmen" said: "The problem was that their very high rates of interest could only be afforded by commercial borrowers and the effect was that this money was being directed away from housing".¹³

Not all solicitors, however, were experiencing difficulties obtaining finance for mortgages. There was evidence to suggest that national firms were successfully exploiting the shortage of mortgage finance from institutional sources. They and large firms of accountants were doing a brisk business in "loan arranging" through their nominee companies. Practically every day the major newspapers carried advertisements offering high interest returns through contributory mortgage schemes supported by guarantees. Progressive Nominees Limited, for example, was actively soliciting investment through the mail. This company, with offices in Auckland, Lower Hutt, Christchurch and Dunedin, was offering mortgages guaranteed by the Investors Protection Company. The accountancy firm of Kendon Mills Muldoon and Browne acted as secretaries for P.N.L. and Mr Browne was a director. The Investors Protection Company was also guarantor for other mortgage schemes such as Protected Securities Limited and Sound Attractive Funded Equities Limited. These operations were linked through common directors. Indeed, business was so brisk for some firms that solicitors were expressing concern about the possibility of their activities coming within the scope of the "Moneylenders Act 1908". The Auckland Star reported: "Many Auckland lawyers are worried that they may become statutory 'moneylenders' and subject to the requirements of the Moneylenders Act 1908 because of soaring interest rates - up to 20 per cent, says one lawyer".¹⁴

And while there may have been a shortage of "institutional finance", large institutions were developing nominee company operations of their own and offering management and investment facilities to solicitors and accountants. The Allied Mortgage Guarantee Company Limited was active in the market and had the following shareholders: The National Insurance Company New Zealand Limited, The New Zealand Insurance Company Limited, The South British Insurance Company Limited and United Dominions Corporation Finance Limited. Similarly such companies as Marac Nominees Limited of the Marac Corporation Limited and Broadlands Fund Managers Limited of the Broadlands Group were actively seeking funds. The latter company not only operated its own contributory mortgage fund but also administered "...a new legal practitioners' mortgage banking plan designed to offer solicitors trustee investment security for trust funds under the terms of the current debenture prospectus. Supporters of the plan are eligible to receive mortgage loan offers for their clients".¹⁵ The advantage to solicitors in having links of this kind during a time of tight mortgage finance was indicated in the following comment: "Because of overwhelming demand for mortgage finance, Broadlands Fund Managers has been quite unable to lend freely, and it had to limit its mortgage investments to reciprocation with those professional firms supporting it".¹⁶

Research indicated that the "uncontrolled" sector of the private mortgage market was monopolised by a complex network of large legal and accountancy firms acting both independently and in association with each other and large financial institutions and real estate firms. At a time of tightening liquidity those outside this network were likely to be experiencing difficulty in meeting their clients' financial requirements. This was a serious matter for them as the ability to provide finance was

often the basis for attracting and retaining legal business and sustaining the profitable property conveyancing side of their practices.

As the "Roundsmen" indicated, those seeking mortgage finance through non-institutional sources were faced not only with a tight market but with having to pay high interest rates for what finance was available. The credit squeeze had combined with demand from private companies to force up interest rates. It was becoming virtually impossible to obtain mortgage finance except on the basis of expensive short-term arrangements.

The commercial bill market, as has been observed, had become an important source of finance for companies and was also being used to support property investment. It was under the control of substantially the same network of financial intermediaries exploiting the contributory mortgage field. For people seeking mortgage finance the situation was to become more invidious as the weeks passed by. Not only were they having to compete with high-yielding commercial bills and debenture issues and, as a consequence, to pay exorbitant rates of interest for short-term finance, but also having to purchase sections in a speculative property market supported by this "uncontrolled" finance. All of this was apparent to the Government which found itself in a position of not being able to act without creating a new and more serious set of problems.

Despite calls for more finance the Minister of Finance refused to relent. As far as he could judge the mortgage situation was not as desperate as some people were making it out to be. In addition, and more importantly, he was not going to risk stimulating another round of price increases.

I cannot find any evidence at the moment that suggests there is a need yet for anything that would be regarded as a dramatic change in the mortgage flow situation.

I am not denying there are a lot of would-be home owners frustrated in the hunt for home finance, but for every home on the market there seems to be three to four prospective buyers, most of whom have access to mortgage finance.

I am wary of any new approach that might again set house prices on the way again and put them out of reach of the people who need homes.(17)

Presumably the Minister was also still wary of creating a climate of confidence for 'spec' builders. However, while the Minister appeared to be unruffled by accounts of an imminent crisis in the mortgage market it was still necessary to ensure a sufficient flow of finance to sustain building activity. Mr Page provided the following succinct assessment of the Government's dilemma:

Whatever is done has to be a delicate balancing act between providing sufficient money to encourage new house building and turnover of existing homes, without fuelling prices to new astronomical levels and over-straining building industry resources.(18)

Not only this, but there also remained the problem of meeting the demand for State and low cost housing.

Indeed, the problem of finding a way to meet housing demand, in the Minister's opinion, far outweighed the mortgage issue: "Units of housing built in this February year totalled 31,275, but this is not going even reasonably close to satisfying the demand for home ownership".¹⁹ Presumably he was referring to the specific need for more low cost homes. He also noted that, "The simple

fact of the matter is that the demand for housing has completely outstripped the industry's ability to supply". And went on to say: "It appears that it will be necessary therefore, to import on a once-only programme a number of lower cost homes to supplement our domestic output".²⁰

Problems of supply, in fact, were still being created by 'spec' builders. Despite the Government's attempts to shut-off avenues of finance for such builders, they were still finding it possible to get the support they required from "uncontrolled" intermediaries. The Minister's comments about importing houses was, it may be assumed, a further attempt to dissuade builders from continuing with 'spec' construction. Not only this but it was also notification of the Government's intention not to be pressured into attempting to ameliorate housing shortages by easing the supply of mortgage finance for high-priced homes. It was being argued that a movement of people into such dwellings would have the automatic effect of increasing the stock of lower cost homes. On the surface this argument seemed to have merit; however, it totally ignored the likely inflationary consequences of such a course of action. The Government's position was clear: it would choose to import homes as opposed to running the risk of fostering another round of inflationary price increases which would work to the disadvantage of those in need, typically low-income families.

Builders were expressing concern about additions to state housing contracts. These were adding to the expense of construction. As well, builders argued that cost limitations and supply shortages prevented them from building State houses on a profitable basis. The same was true for low to medium cost housing. Mr D. Wederell observed: "While these improvements - especially the parking provisions - may be warranted, the ill-housed may well ask if this is the time to spend money on them?"²¹

In March the Master Builders' Federation had strongly criticised the Minister of Housing "...for allowing his department to produce more troublesome and more costly designs for low-cost Government houses".²²

Nevertheless, there was much more to the situation than was revealed by the comments from builders. The "design and build" programme was failing to reach its contract targets in certain urban centres. And large companies, including subsidiaries of finance houses, were continuing to invest in high-class residential and beach front property developments. Because of the shortage of finance for expensive houses and sections, many newly constructed dwellings and developed properties remained vacant. Under the circumstances it was not surprising that the Minister of Housing remained frustrated with the building industry. While hundreds of sections and homes, suitably equipped with modern conveniences, could not be sold, the Government was expected to take action against local authority standards and deny State tenants basic amenities. It was time for strong measures. These were to be forthcoming in the 1974 Budget.

Adding to the Government's difficulties, schemes were being promoted on the market which had been designed to avoid the speculation tax and to take advantage of the shortage of mortgage finance. Dr Bassett drew attention to the "...activities of some speculators who are seeking to capitalise on the shortage of house finance while at the same time taking steps to elude the Property Speculation Tax Act, and who are selling the houses bought

by them over a five year period on terms of interest that could be as high as 27 per cent profit each year..."²³ In answer to the M.P.'s question of whether anything could be done about such activity, the Minister of Finance observed that the "anti-avoidance" provision in the Act could be used by the Inland Revenue Department in cases where the terms of a leasing arrangement with option to purchase were considered unreasonable.²⁴ Notwithstanding this answer, it was becoming evident that it was beyond the ability and resources of the Department to police all such arrangements and to come to some objective assessment of their reasonableness. Moreover, it may be assumed that given the shortage of mortgage finance the Government would be hesitant to shut-down remaining sources of supply.

Compounding the Government's problems, there continued to be a constant stream of new, and often highly ingenious and risky investment schemes. The chairman of Property Securities Limited, Wellington based developers and property investors, issued a warning about them.

During the period under review inflationary pressures continued to sustain a high level of demand for property. Many new investors and developers have entered the property market and various schemes of arrangement have once again appeared, offering attractive returns to the investor.

Unfortunately, many of these concepts appear to be unsoundly based, are propagated by 'hard-sell' marketing techniques and are subject to various deficiencies, not the least of which is the apparent lack of any firm provision for realisation of the investor's asset in due course. Such schemes have failed in the past and can only result in a loss of confidence in property investment generally. (25)

Continuing and growing investment in property was apparently causing the Minister of Finance to have second thoughts about the introduction of a capital gains tax.

For some time he had opposed such a move and on one occasion had expressed his disagreement with a statement by the Postmaster General that it could be introduced to replace company tax. The Auckland Star observed:

Now continuing Government concern over house and land prices is said to have prompted Mr Rowling to give more thought to the suggestion.

The main cause of concern is the number of investors said to be moving into property as a hedge against inflation.(26)

At that point, the paper observed, the Minister "declines to comment on these reports".

On May 25, a few days before the 1974 Budget, the Government moved to stem the flow of investment money into property ventures by changing the Interest on Deposits Regulations. Two amendments were passed:

- (i) A revised schedule of rates of interest which could be paid on deposits which were subject to the Regulations. Broadly, the same maximum rates of interest can be paid on deposits, but the scale now reaches a maximum for deposits for periods of four years, rather than deposits for six years, as was the case previously.
- (ii) Secured deposits with financial institutions for periods of five years and over are now exempt from the Regulations.(27)

These changes were aimed, the Minister of Finance explained, at "a more balanced distribution of available finance".²⁸ The Government hoped the new policy would lead to a change in the flow of investment funds from the "uncontrolled sector" back to the "controlled".

Mr D. Wederell, writing for the N.B.R., interpreted the May amendments in the following way:

In that move the Minister was giving the finance companies the chance - and encouragement - to counteract the superficially attractive activities of a large number of inexperienced and inadequately backed unregulated financial intermediaries.(29)

The Minister of Finance was quoted as saying that without the change "...someone is going to be badly hurt".³⁰ In effect, the Government had been forced to choose between keeping its stringent controls over finance houses and allowing the uncontrolled market to increase in size, or relaxing the controls and giving these institutions an opportunity to compete for investment funds. The latter course of action was considered the only reasonable one under the circumstances.

The Minister was particularly concerned about the way in which the proliferation of "unregulated financial intermediaries" was affecting the mortgage market. In referring to "...the movement of savings away from traditional lending institutions engaged particularly in housing mortgages", he was reported as commenting:

The movement is into peripheral lending operations not under restraint of interest on deposit regulations, therefore pushing up interest rates for prospective home owners.

These people are being forced into borrowing at very high cost, a matter under close examination at the moment...(31)

Under tight money conditions and the growth of the uncontrolled market, the tide had apparently turned in favour of the finance houses. The manager of one of them certainly thought so, viewing the Government's decision as a form of capitulation. He was reported as saying: "It now appears that the Government has recognised the place of finance companies in New Zealand. They said they were

out to get us, and they did, but now we are clearly here to stay".³² Mr Wederell offered this assessment:

The finance companies might not have become respectable, and they may never become so, in the Labour Party's eyes, but they are there and have to be accommodated.(33)

For the Finance Houses Association the May change was an important step towards "the complete revocation of the Regulations". While the Association was prepared to concede "...that it may be necessary to dismantle the Interest on Deposits Regulations by steps, in order to create the least disturbance amongst other financial institutions",³⁴ it felt obliged to warn the Government of the eventual effects of debenture borrowing on the financial situations of larger companies. The chairman of the F.H.A. pointed to the possible longer term consequences of short-term borrowing.

Most trading company debenture issues are short term, or at least are successful in the shorter terms offered, but funds are being utilised in expansion programmes and for expenditure of a longer term nature. There is need for caution, as short and medium borrowings require a company to maintain a high level of liquidity if corporate stability is to be maintained. The nature of manufacturing and industrial company investment does not normally generate a high level of liquidity.(35)

He concluded:

Bearing this in mind it is indeed odd and unfortunate that the finance industry has been forced into the situation of being able to compete effectively for long term deposits (5 years and over) when manufacturing and industrial companies, which should only be accepting deposits of a longer term, are being given every encouragement to seek short and medium term debenture funds from the market.(36)

Some commentators were particularly critical of the

limited nature of the interest rate adjustments, one observing that they "...continue to require that lenders commit their money at a rate which fails so far to keep up with the rate at which money is losing value as to be almost absurd. And there would be no takers if there were anywhere better to go".³⁷ The decision to improve the competitive advantage of finance houses also prompted complaints from the trading banks. One banker, it was reported, "...claimed the Reserve Bank had 'been duped by the finance houses'".³⁸ The research director of the N.Z. Banker's Association noted that the "upshot" of the Government's monetary policy was "...to deplete the trading banks, and hence to cut back on their lending capability. As this takes place, the Government will tend to lose what control it has over the direction of lending by its powers to direct the banks as to priority sectors. And the price of money will rise in the free market".³⁹ Elsewhere he was reported as saying:

The Reserve Bank didn't have the faintest idea what this would do to interest rates and the sharemarket.

Rowling said he did it to create a better balance between the institutions - but what does this mean?

The trading banks have been put at the bottom of the borrowing ladder and the funds position is very bleak.(40)

Rather than giving finance houses the edge in the market it would have been more sensible, the trading banks argued, to have allowed the banks to increase their lending to these institutions. The N.B.R. explained:

This way, they argue, the small investor wouldn't lose out if the company went broke.

Here they believe the Government has been inconsistent and point to the fact that, as the credit squeeze was starting last November, they received instructions from the Reserve Bank not to increase limits to finance companies.(41)

The Chief Economist of the Bank of New Zealand was able, a few weeks later, to point to the problems created by the May amendments: "This move has precipitated a major rise in long term interest rates and a fall in stock exchange values - a trend which was not anticipated by the Government's monetary advisers..."⁴²

In an interview, the Minister of Finance was reported as having told the Review that "...he regretted the trading banks had been adversely affected".⁴³ And: "The idea was for finance companies to get money back from the uncontrolled sector, an area for which I have very little regard". The Minister indicated that "...the subject was under review and it wouldn't be surprising if the trading banks were allowed to increase some interest rates to eliminate present disadvantages". The Government, the Review suggested, was most unlikely to follow Australia where interest rates had been allowed to rise almost to the rate of inflation.

...Rowling wants to cling to our low official rate structure and one of his reasons must be the trustee savings banks who are not in a position to up rates greatly to depositors.

They have their money tied up in Government stock at 5-5½ per cent and mortgages around the 7 per cent mark and there is no way they can afford to enter the high-interest market.(44)

Whether or not the Government had been "duped" by the finance houses will not be examined here. The interest rate decision coupled with the extensive debate and criticism that followed it illuminated the tenuous position in which the Government found itself with respect to the implementation of monetary policy. Each course of action

open to the Labour administration seemed fraught with difficulties. In contrast, financial institutions were not so handicapped in their decisions. Their financial power enabled them not only to create the conditions for maximum profits but also to force the Government to take those decisions from which they could benefit in the future. For some financial commentators the May amendment was quite predictable. Mr J.G. Russell had written the following in April:

If the position which currently exists persists indefinitely, it will eventually lead to finance companies going out of business. Naturally, such an event will not occur because Government will eventually come to appreciate the need for the services of the finance companies and will amend or repeal the regulations.(45)

There was evidence to suggest that the interest rate adjustments represented more than just the pragmatic acceptance of "fine tuning" techniques. The Government, it seemed, was becoming increasingly interested in a flexible interest rate policy and the adjustments could be interpreted as a move in this direction. In Parliament an M.P., Mr Smith, put the following question to the Minister of Finance:

Does the Minister not agree that much of the problem with interest rates arises from the Interest on Deposit Regulations introduced by the Leader of the Opposition when he was the Minister of Finance; and has the present Minister not taken some action to bring about liberalisation in this field?(46)

The Minister's reply was somewhat ambiguous; nevertheless, it did not reflect any fundamental opposition to the principle of a free market but rather drew attention to the need to proceed slowly.

Inevitably when regulations of this kind are introduced they create some distortions, but any adjustment of them also tends to create further anomalies. At the moment, a complete removal of the regulations would undoubtedly lift interest rates across the board in a way that is simply not acceptable to the present Administration.(47)

Over the next year and a half the Minister of Finance, who was soon to become the Prime Minister, would carefully steer his Government towards a less regulated financial system.

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