Reflections on *Not In Narrow Seas: The Economic History of Aotearoa New Zealand*

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Introduction

It is a pleasure to be asked to speak on Brian Easton's new economic history of New Zealand. I have long admired the breadth and depth of the work Brian has done on New Zealand's economic history and, as always with his work, the joy of reading the analysis was greatly enhanced by the book's readability.

The book has as an epilogue a list of its key themes. For this seminar, we were asked to focus our comments on one or two of these. So for this reflection, I have chosen two: first, that the economy really does matter—but that it is not everything; and secondly, that the non-market production also matters. My comments are also confined to the post-settlement European-style economy as I have not researched Māori economic history and so am not qualified to comment on that section.

Theme 1: The Economy Really Does Matter

You would expect that someone who works for the New Zealand Treasury would argue that the economy does matter, but that confuses the causality. I work there *because* my reading of New Zealand's history is that the economy really does matter. I do not think we can understand New Zealand's history unless we engage with the economic outcomes experienced by New Zealand both in the past and in the present. This leads me to two conundrums that I feel need to be addressed: Why did New Zealand become so rich? And why do we continue to have so much "stuff"?

Why did New Zealand become rich?

One of the biggest mysteries of New Zealand's economic history is why we became rich. It did not have to be so—many settlements were not. And it is not as if we became just somewhat rich: in the nineteenth century, New Zealanders were extremely rich by the standards of the time.

Some years ago, I stumbled across Nicholas Crafts' attempt to reconstruct the United Nations Human Development Index for eighteen rich countries in selected years back to 1870.[1] New Zealand was included in the data other than for 1870 (where I backfilled from other sources). The Human Development Index is used by the United Nations to measure the progress of nations through their development using equally-weighted measures of income, education, and health. In more recent years, the index has used complex measures for each of these, but when it began (and for Crafts' reconstruction) it was based on GDP per capita, literacy rates, and life expectancy.

Based on this index, New Zealand was first or first equal out of these eighteen rich countries from 1870 to 1950. This was not just because we had high income levels, but also because we outperformed the other countries with our life expectancy and our literacy rates. So I read Brian's economic history looking for the answer to this critical question, and as I read it, Brian's answer was that we were particularly lucky with our quarry—our early whaling and our gold.

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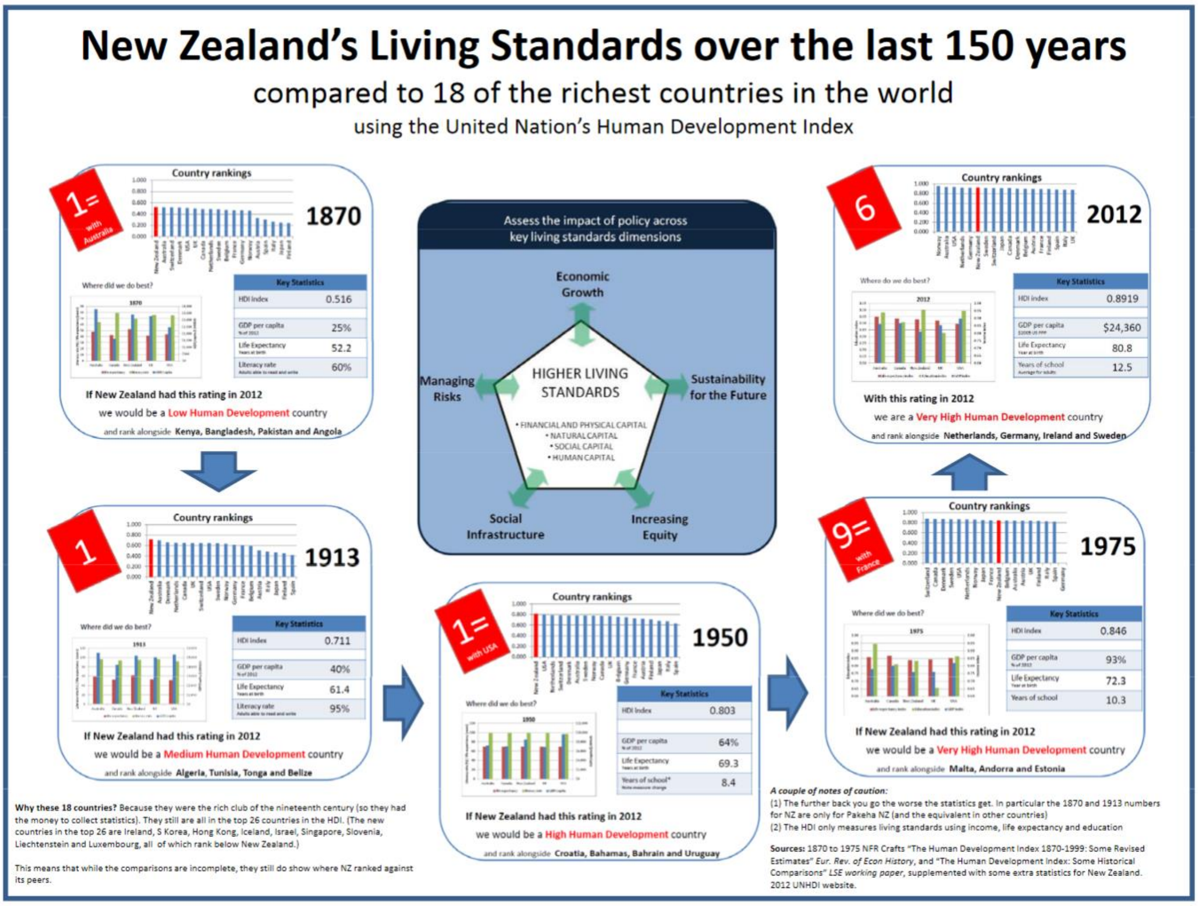

Source: https://www.treasury.govt.nz/sites/default/files/2017-12/hls-performance-150years.pdf

I am not so sure. It does not seem to me that New Zealand gained that much from our early whaling. The whales were just not so abundant a resource that we could build large national wealth on them. And neither was our gold rush; it was neither particularly long nor particularly large. And I certainly agree with Brian that we did not become wealthy because the country attracted rich people.

Further, it is not as if the country was particularly desirable as a place of settlement. While the climate was advantageous, the original vegetation, whether thick bush or un-nutritious tussocks, was not conducive to generating high incomes, and indeed New Zealand's land required the investment of very significant amounts of labour and capital in re-vegetation before it could sustain a high standard of living.

Finally, Brian puts quite an emphasis on Sir Julius Vogel's borrowing and infrastructure projects in the 1870s and the advent of refrigeration in the 1880s. But we were the wealthiest country in 1870—before either of these—so while refrigeration in particular is undoubtedly important in explaining why we *stayed* rich, these factors cannot explain how we *became* rich in the first place.

So how did we? The most interesting research I have seen on this has been done by scholars in South America, especially Uruguay and Argentina, where they have wondered why, when the resources and the timing of colonisation were so similar, they did not become rich when

New Zealand did. My reading of that literature is that they have engaged far more than we have in the role of Douglas North's "institutions". North defined these in this way: "institutions are the rules of the game in a society . . . the humanly devised constraints that shape human interaction. . . . They structure incentives in human exchange, whether political, social or economic".[2] The role of these institutions is seen as pivotal to understanding the relative levels of development amongst countries today.[3]

The research coming out of South America has also suggested that at least some of these are important in understanding the relative performance of New Zealand in the nineteenth century. The argument is that we acquired a particularly advantageous set of institutional structures, notably democratic institutions rather than a dominant elite,[4] our British heritage especially the common law and the legal settings around property,[5] our social norms including high literacy, and the adoption and adaption of technology.[6]

The role of institutions in development is still a contested area, but it is interesting to reflect that the other rich ex-colonies that crowd the upper end of Crafts' Human Development Index—Australia, Canada, and the United States—share the same heritage, as does, of course, the United Kingdom. I would have welcomed Brian's analysis of this important stream of thinking, and as a result I regret that while Brian rightly placed the pre-1840 settlement in the wider story of the history of mankind, he did not continue with this focus on the international patterns in the post-1840 period.

Why does New Zealand continue to have so much "stuff"?

One of the things that puzzles me—and it was a relief to find an equally puzzled speech by the previous Reserve Bank Governor (and chair of this seminar), Alan Bollard,[7]—is the fact that our wellbeing statistics just do not align with our national income numbers. For instance, reverting to the Human Development Index, in 2019 New Zealand was ranked 14th in the world, while our rank in income was 32nd. It is unusual for countries not to have their income and wellbeing measures align and, in fact, New Zealand had the biggest discrepancy between these two ranks in the OECD.

The reason why we do better on the composite Human Development Index is that we are rescued by our education rank (4th) and life expectancy (17th). But that does not really explain the problem. How can we run such good schools and have such long lives when we don't have the income to do it with? And it is not just health and education. For our income level, we have too many and too big houses; too many cars; too many washing machines and dishwashers; too much electronic equipment; even paradoxically too much e-waste (with the implication that we are so rich we can afford to throw it away!) and . . . you name it. If it were just one thing, it could be argued that we preferentially spend our money on that area, but it is not. It is everywhere.[8] And it results in New Zealand being much higher than expected not just in the Human Development Index, but also in all the other major multi-faceted measures of wellbeing such as the OECD's Better Life Index or the Social Progress Index.

This means that just as in the nineteenth century, we have an economy that gives us high living standards—in fact much higher living standards than most countries would achieve with our level of income.

My biggest criticism of this book is that the post-1980s section is too focused on the politics and not enough on the economy. The economy really does matter, as the book's own first theme states, and the post-1980 period has seen some seismic shifts that the book ignores.

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These changes are of a similar magnitude to the impact of refrigeration, which was extensively covered, so they deserve the same treatment.

The popular narrative around the changing economy since the late 1980s has focused on the move between our two traditional grass-based products—from sheep to cows. But even within agriculture, there has been much more change than that—into kiwifruit, wine, honey, and many other products. But the diversification of the agricultural sector is actually minor compared to the big structural shift away from agriculture as a result of the growth of the *high-income* service sector.

The high-income service sector took off in the mid-1980s and, by a decade later, high-income services employed more people than manufacturing. In fact, when embedded services are included (i.e. the value of services that are used in making the goods we trade) the service sector now provides just under 60% of the domestic content of the value of our export trade, compared to 21% for the primary sector.[9] We are now a service exporter, not an agricultural one.

What I mean by services is not just export education and tourism.[10] Rather, it is the growth of firms like Xero (accounting software), or Pushpay (electronic church giving), or MetraWeather (which sells weather graphics around the world), or Les Mills (intellectual property embedded in group fitness programmes), or Datatorque (providing IT for tax systems for small countries around the world like Cyprus, the Bahamas, and Samoa all out of Tory St in Wellington), or . . . you get the idea. Our high-income services are split across so many small companies that it is hard to know who they are or what they do or how to classify them. As a result, the growth of these service industries has not penetrated the national consciousness.

At the same time as we saw the growth of the service sector, New Zealand has also seen a lift in our terms of trade—how much imports we get for a unit of exports—year-on-year for well over twenty years. I know of only one other country that has seen a trend like this—Switzerland in the 1980s and 90s—where they increased the *quality* of their exports, rather than what they exported.[11] It seems that once we stopped trying to control what was produced, our economy also moved into higher value, higher quality spaces largely through the service sector and not in our traditional agricultural sector at all, nor through the industrialisation that we had tried to promote over the previous thirty years.

Theme 9: The Nonmarket Economy Is Important Too

I want to thank Brian for the acknowledgement and extensive coverage of the household economy and for avoiding imposing our contemporary values on the past. For me, this was the most uniquely valuable contribution from his book.

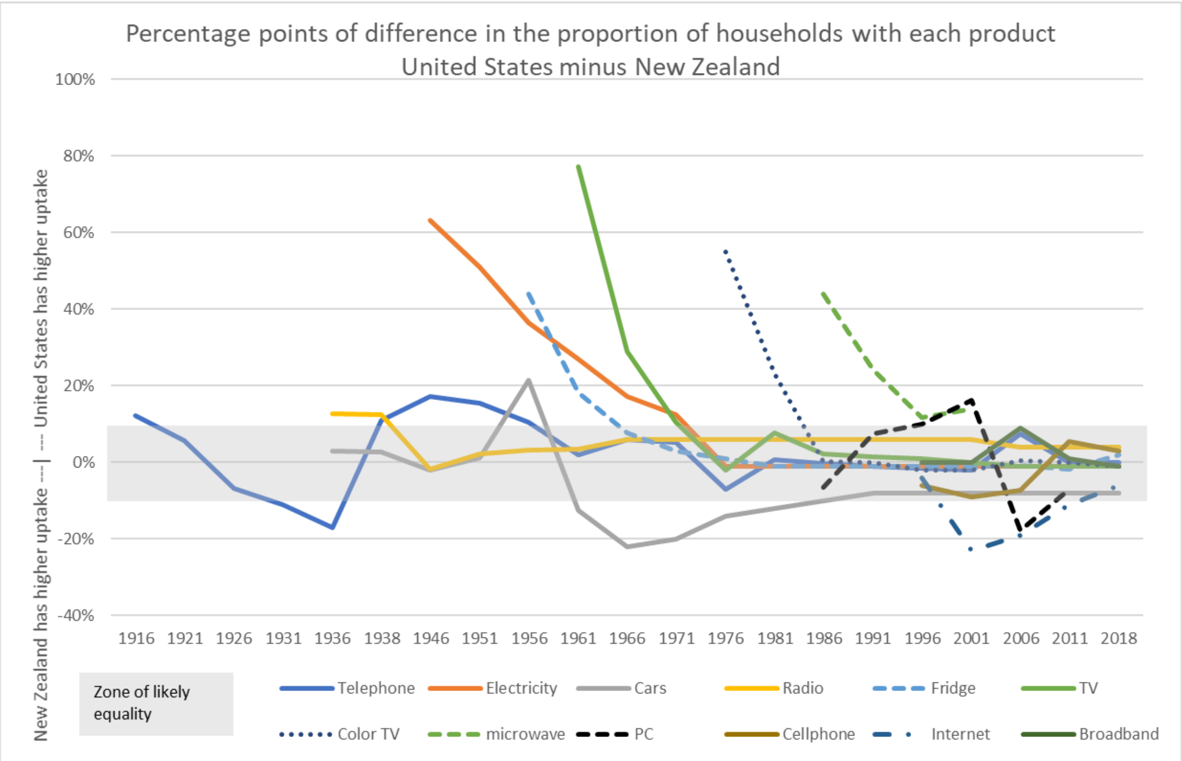
It has moved us forward through a significant improvement in the lens we bring to the economy of the past for two important reasons. First, the divide between home and work was less clear cut—and income and home production were both important for living standards. Brian describes how the statistics intermingle paid and unpaid work, but this reflected a reality that needs to be acknowledged. It also meant that your comfort level was not only determined by the money you earned, but also by the skills you possessed for home production. Lady Catherine de Bourgh in *Pride and Prejudice* summarises the "value" of a wife when she advises Mr Collins to look for one who is "an active, useful sort of person, not brought up high, but able to make a small income go a good way." Many parents would have been saying the same to their sons.

Secondly, home production was a skilled occupation. You had to have a lot of skills to be able to take care of children, cook and preserve food, do laundry and cleaning, and make things like clothing and household furnishings. Brian talks about the "relatives assisting". Many of these were girls doing their apprenticeship for the household economy. I think domestic service in nineteenth-century New Zealand also played this training role. It was not a permanent occupation, but rather a way to serve an apprenticeship for the home production occupation that most young women could reasonably expect to work in.

I totally agree with Brian that technology changed the role of the household economy, particularly after 1950. Mechanisation removed many of the heavy jobs—especially washing, heating, and cooking—and the Pill changed the family by making childcare predictable and controllable. In fact, US research suggests that mechanisation in the home was as important as the Pill—if not more so—in freeing up women's time. It dropped the average time to run a home from about forty hours a week in the 1930s to about twelve hours in the mid-1980s.[12]

But this makes me wonder if the book gives enough thought to the impact on women of the 1950–80s protectionism. In trying to reduce New Zealand's imports to preserve our overseas reserves, the government was particularly hard on consumer "luxuries".

One way to assess the impact of this is to compare the proportion of homes with different technological innovations in New Zealand with those in the United States (as the world's richest country of the time). So how rapidly did our households get things like the telephone, radio, electricity, cars, fridge, microwave, PC, or cellphone compared to the world leader?



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Note: For instance, if 50% of US households have an appliance but only 30% of NZ ones do, the difference is 20 percentage points. Because of the imprecision of the data, I have taken anything between -10 pp and +10 pp as implying that the two countries had equally fast technological adoption.
Sources: United States: Our World in Data, https://ourworldindata.org/technology-adoption; New Zealand: The Official Yearbooks and Statistics New Zealand, and a few other sources. Most of the data comes from the census.

As the diagram shows, New Zealand had very rapid technological adoption over the 1920s, 1930s and 1940s and we were largely equal to the United States in the rate at which households adopted new appliances. But there was a noticeable slowing over the 1950s, 60s, 70s, and 80s. New Zealand was markedly slower at adopting new appliances.
So, what did the 1950s–80s New Zealand housewife—particularly the low-income housewife—miss out on?

- In 1956, 99% of American homes had electricity available for cooking—only 62% of New Zealand homes did.
- In 1961, 99% of American homes had a fridge—only 80% of New Zealand homes did. I suspect the washing machine was equally slow, but I have not found numbers for New Zealand.
- In 1986, 60% of US homes had a microwave, but only 16% of New Zealand homes.
- We also know the high rates of protection through our import licencing and tariffs made clothing very expensive, so that housewives continued to sew for their families rather than buy; and it may have slowed the move to convenience foods, meaning cooking and preserving remained home production intensive.[13]

All of these "luxuries" reduced the time involved in home production—and mainly they reduced the input of female labour.

But how do we know that this was because of protectionism? Well, I would argue the most compelling evidence is that in the late 1980s/early 1990s New Zealand reverted to being equally fast, and sometimes even faster, adopters of technology as the United States. So, we were as fast in getting the PC in the late 1980s/early 1990s; then in the 2000s, fast in getting the cellphone, the internet, and, most recently, broadband.

This suggests there is a strong case that one unintended consequence of the protected economy was that it trapped women at home doing labour-intensive jobs when technology could have reduced the burden. It is possible that this, as well as the rigid labour market settings that protected full-time jobs, stopped women going into the labour market. It is interesting to note that the end of protectionism coincides with the take-off in our female labour market participation. Following middling rates compared to other OECD countries in the 1960s and 70s, these took off in the 1980s (along with part-time work) and we now have one of the highest female participation rates in the OECD.

Conclusion

So, does the fact that I have raised some issues with Brian's book mean that I think it is inadequate? Far from it. The fact that he has written an insightful 700-odd pages and there are still areas to be covered tells us how much there is still to be done. In my view, Brian has done more than his fair share in helping us to understand our own economic history, and the challenge to the rest of us to be as productive and insightful as he has been.[14]

[1] Nicholas Crafts, "The Human Development Index, 1870-1999: Some Revised Estimates," *European Review of Economic History*, 6, no. 3 (December, 2002): 395-495; Nicholas Crafts, "The Human Development Index: Some Historical Comparisons," Economic History Working Papers (33/96), Dept of Economic History, London School of Economics and Political Science (1996). The 2012 numbers came from the UNHDI website.

[2] Douglas North, *Institutions, Institutional Change and Economic Performance* (New York: Cambridge University Press, 1990), 4.

[3] For instance, one highly cited study suggests that institutional determinants are more important than geography or trade in determining the differences in incomes between rich and poor countries today. D Rodrik, A Subramanian, and F Trebbi, "Institutions Rule: The Primacy of Institutions over Geography and Integration in Economic Development" *Journal of Economic Growth*, 9, no. 2 (2004): 131-65.

[4] Andre Schlueter, *Institutions and Small Settler Economies. A Comparative Study of New Zealand and Uruguay, 1870-2008* (Palgrave MacMillan, 2014); Jeorge Àlvarez, Ennio Bilancini, Simone D'Alessandro, and Gabriel Porcile, "Agricultural Institutions, Industrialization and Growth: the Case of New Zealand and Uruguay in 1870-1940," Center for Economic Research (RECent) 053, University of Modena and Reggio E., Dept. of Economics "Marco Biagi" (2010).

[5] Richard Boast, "The Effects of Tenurial Change in Nineteenth-Century Latin America and New Zealand: A Search for Parallels and Origins," *Journal of New Zealand Studies* 11 (2011): 35-52.

[6] For instance, Jorge Álvarez Scanniello, "Technological Change and Productivity Growth in the Agrarian Systems of New Zealand and Uruguay (1870-2010)," Documentos de trabajo 43, Programa de Historia Económica, FCS, Udelar (2015). Other, to my mind less compelling, studies regarding the role of energy include R Bertoni and H Willebald, "Do Natural Energy Endowments Matter? New Zealand and Uruguay in a Comparative Perspective, 1870-1940," *Australian Economic History Review*, 56, no. 1 (March, 2016): 70-99 and Emiliano Travieso, "United by Grass, Separated by Coal: Uruguay and New Zealand During the First Globalization," *Journal of Global History*, 15, no. 2 (July, 2020): 269-89.

[7] Alan Bollard, "Could we be better off than we think? A speech delivered to the Trans-Tasman Business circle, 2012" https://www.rbnz.govt.nz/research-and-publications/speeches/2012/speech2012-02-17.

[8] One of the more systematic assessments of the "too much stuff" hypothesis is Sean Hyland and Arthur Grimes, "A New Cross-Country Measure of Material Wellbeing and Inequality: Methodology, Construction and Results," Motu Working Paper 15-09, 2015.

[9] Calculated from the OECD Trade in Value added database (TiVA), 2018. This is the most recent data. The value-add statistics are complex and it takes time for all the information to become available.

[10] Tourism is largely in the low-income service sector.

[11] See for instance, Ulrich Kohli, "Real GDP, real domestic income, and terms-of-trade changes, *Journal of International Economics*, 62 (2004): 83-106.

[12] See for instance, Tiago V. de V. Cavalcanti and José Tavares, "Assessing the 'Engines of Liberation': Home Appliances and Female Labor Force Participation," *Review of Economics and Statistics*, 90, no. 1 (2008): 81-88. The story is more complex than this quick summary suggests because there is evidence that in the United States the initial impact of home appliances was to transfer time from home production to childcare and leisure, but the main point remains that unless the time requirement for home production is reduced, the ability of women to work outside the home is, under prevailing norms, heavily circumscribed.

[13] The convenience food observation is based on personal experience. In 1972, my family spent a year in Britain and my mother was amazed she could buy not only fruit but vegetables in cans or frozen already sliced and diced, and that these "luxuries" were cheap enough for daily consumption by a family with four teenagers. She had very strong views on this in the subsequent family "bottling" sessions after we got back!

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