

ECONOMIC PROBLEMS OF
NEW ZEALAND AGRICULTURE

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NEW ZEALAND

Before devaluation in November 1967, New Zealand faced the most marked deflationary pressure on the economy since the 1930's. Since 1964, economic policies had emphasised the need for growth, based on an expanding flow of exports to finance essential imports. During 1966 and 1967, export prices steadied and then declined sharply, especially in the case of wool. The deficit in the balance of payments widened sharply, and stern deflationary measures were initiated from January 1967. The agricultural industry, which provides 82 per cent of overseas receipts, was caught in the middle of the new investment programme initiated in 1964. Re-trenchment was quickly forced on to the agricultural expansionists. Official policy remained expansionist, however, although there were many pessimists on the manufacturing side who believed N.Z. was not diversifying fast enough. No doubt, everyone hoped that the terms of trade would improve as rapidly as they had declined. But the situation worsened, if anything, in the course of 1967, and a permanent re-adjustment in our overseas trading position was acknowledged on November 20th when the \$N.Z. was devalued by 19.45 per cent.

For many years, the expansion of agricultural output depended on the self-interest of the farming community. Semi-popular folk-lore on output behaviour was based on the depression experience when farmers responded to low prices with a marked expansion of production. Policy itself has been contradictory. On the one hand, internal revenue depreciation allowances and the like have favoured farming and particularly new forms of mechanisation, agricultural research is encouraged and so on; while on the other, national policy toward full employment and stability has effectively drained the countryside of its labour force and has been very wary of measures that would result in larger incomes for farmers. Advanced technology has been forced on agriculture by the social conditions prevailing rather than through direct cost savings. In general, a steady expansion of output had always been forthcoming, and this in turn provided the exports to finance the import demands of the rapidly urbanised society which resulted. Some details of these agricultural changes now follow.

Gross Farm Income
£m.

	<u>1921-30</u>	<u>1931-40</u>	<u>1941-50</u>	<u>1951-60</u>	<u>1961-65</u>
Non-factor expenses	15.1	18.5	44.3	111.1	129.6
Factor Income	41.3	38.0	67.2	168.6	209.5
Gross Farm Income	<u>56.5</u>	<u>56.5</u>	<u>111.6</u>	<u>279.8</u>	<u>339.1</u>

Since the end of the first world war, the money value of gross farm income has increased from an annual average of £56m. to £340m.* The provisional estimate for 1966/67 is £403m. As shown below the price element in this increase is approximately 137 per cent and the volume increase approximately 153 per cent. Up to and including the decade of 1951-60, factor income to land, labour and capital was a declining proportion of gross farm income. In the half-decade since 1960, a new pattern appears to be emerging where non-factor expenses have not increased as fast as gross farm income.

Factor Income
£m.

	<u>1921-30</u>	<u>1931-40</u>	<u>1941-50</u>	<u>1951-60</u>	<u>1961-65</u>
Paid Wages	8.5	8.9	13.2	24.6	34.6
Paid Interest & Rent	11.3	10.4	8.9	13.8	25.3
Rates and Land Tax	3.4	2.6	3.6	7.2	10.9
Net Farm Income	<u>18.1</u>	<u>16.1</u>	<u>41.5</u>	<u>123.1</u>	<u>138.8</u>
Factor Income	<u>41.3</u>	<u>38.0</u>	<u>67.2</u>	<u>168.6</u>	<u>209.5</u>

Net Farm Income is that proportion of Factor Income which accrues as owners surplus. It is a disposable income concept and not a true return to management. In the period up to 1960, net farm income was an increasing proportion of factor income, with the actual payments to other factors declining proportionately. Since 1960, there has been a shift to relatively higher wage rates and farm capital values, and the proportion of net farm income in factor income has declined.

Gross Farm Output
£m. (1949-50 prices)

	<u>1921-30</u>	<u>1931-40</u>	<u>1941-50</u>	<u>1951-60</u>	<u>1961-65</u>
Non-factor Inputs	26.3	35.5	53.3	81.8	82.2
Net Output	<u>77.8</u>	<u>110.0</u>	<u>113.4</u>	<u>125.3</u>	<u>179.4</u>
Gross Farm Output	<u>104.0</u>	<u>143.5</u>	<u>166.7</u>	<u>207.1</u>	<u>261.6</u>

In real terms, the growth of farm output in the period has been more modest. At constant 1949-50 prices, real output has increased from an average of £104m. to an average of £261m. The long term rate of growth of this series has been 2.6 per cent per annum. The division of

* All data from B.P. Philpott, B.J. Ross, C.J. McKenzie and C.A. Yandle, "Estimates of Farm Income and Productivity in New Zealand 1921-1965", Agricultural Economics Research Unit Publication No. 30, Lincoln College, 1967.

gross output between non-factor inputs and net output (\equiv factor income) follows that in money terms; non-factor inputs increasing relatively up to 1960, and then falling away as the real use of capital began to dominate returns in the 1960's.

Prices Received and Prices Paid

	<u>1921-30</u>	<u>1931-40</u>	<u>1941-50</u>	<u>1951-60</u>	<u>1961-65</u>
Prices Received	100.0	71.3	121.3	247.9	236.9
Prices Paid	100.0	93.4	140.3	244.2	286.4
Terms of Exchange	100.0	76.3	86.5	101.5	82.7

Trends in prices received by New Zealand farmers have followed world-wide patterns. On average, there was a 30 per cent decline from the 1920's to the 1930's, but from 1940 to 1960 very rapid increases took place. But since 1960, world prices have declined markedly. The prices of goods and services used by farmers fell less in the 1930's, and rose more in the 1940's, 1950's and 1960's. Only in the 1950's were the terms of exchange of farmers maintained at the 1920's level; the terms of exchange falling by 24 per cent in the 1930's, by 14 per cent in the 1940's and by 17 per cent from 1961 to 1965. Since 1965 a further fall has occurred.

Real Capital and Employment

£m. (1949/50 prices)

	<u>1921-30</u>	<u>1931-40</u>	<u>1941-50</u>	<u>1951-60</u>	<u>1960-65</u>
Value of Land					
Improvements	206.5	271.6	303.1	470.4	643.2
Plant and Machinery	20.3	30.2	40.9	67.0	73.9
Livestock	114.5	141.4	152.8	185.6	224.9
Total	341.4	443.2	496.8	721.9	941.9
Farm Labour Force (000)	145.0	159.4	132.0	129.8	121.7

There has been a marked swing away from labour intensive methods to capital methods in the period. In the 1930's farm employment increased more rapidly than real capital employed, but since 1940 the farm labour force has declined relatively and absolutely. The proportions of plant, livestock and land in the total capital stock were relatively constant up to 1950, but since then, an increasing proportion of the total capital stock is explained by the land improvement element.

Output, Capital Investment and Employment

1921-30=100

	<u>1921-30</u>	<u>1931-40</u>	<u>1941-50</u>	<u>1951-60</u>	<u>1961-65</u>
Gross Output	100.0	139.8	161.9	200.2	252.8
Net Output	100.0	141.6	143.0	151.4	230.9
Real Capital	100.0	127.8	143.4	208.6	271.7
Employment	100.0	109.9	91.1	89.6	83.9
Aggregate Inputs	100.0	116.4	129.7	167.1	181.0

Over the whole period since 1920, capital employed has increased by 171 per cent while labour employed has decreased by 16 per cent. Some of this latter decline is explained, of course, by the

transfer of some tasks from the farmer to outside contractors and the like. The volume of aggregate inputs, measured at 1949-50 prices, and including all land, labour and capital inputs and current inputs, has increased by 81 per cent over the period. With these increases in capital and current inputs, and the decline in labour inputs, gross output increased by 153 per cent and net output by 131 per cent over the period.

Trends in Productivity
1921-30 = 100

	<u>1921-30</u>	<u>1931-40</u>	<u>1941-50</u>	<u>1951-60</u>	<u>1961-65</u>
Gross Output/Unit Capital	100.0	109.5	113.0	96.0	93.1
Gross Output/Unit Labour	100.0	127.1	177.5	223.2	300.0
Gross Output/Unit Agg. Inputs	100.0	120.1	124.8	119.8	139.7
Net Output/Unit Capital	100.0	110.8	99.8	72.6	85.1
Net Output/Unit Labour	100.0	128.9	157.0	169.1	275.2

With the large increase in capital employed in the post-war years, the average capital/output ratio has slowly declined. On the other hand, the volume of goods produced per labour unit employed has increased most spectacularly. The most important measure, however, at this level of aggregation, is the volume of goods produced per unit of aggregate input. On the decade basis of measurement the increase from the 1920's to the 1960's has been about 40 per cent. On the basis of a fitted exponential curve, over 44 years, the long-run increase in aggregate productivity has been 0.7 per cent per annum. It is this increase in productivity which has enabled the farmer to improve net farm incomes when the terms of exchange have been unfavourable; and which has significantly contributed to the growth of the total economy in more favourable times.

These averages for decades conceal the inherent fluctuations in the terms of trade, however. As is well-known, we have a "stop-go" type of economy where the availability of overseas exchange provides the main regulator or signal. Attention has been drawn to a "three-year cycle" of economic activity in New Zealand,[†] and many commentators have remarked on the coincidence of elections with the easing of the economic brakes. Both overseas export price fluctuations and internal short-term responses to the situation have tended to draw attention away from the longer-term problems of development. In agriculture, in particular, re-investment of profits in farm improvement and expansion has always followed the swings in the terms of trade, and the long-term expansion of output has been sustained by earlier periods of ploughing back.[‡] In fact, with New Zealand's dependence on livestock, disinvestment or a slackening of re-investment involves an increased disposal of stock, and exports show an apparent short-term increase when productive capacity is actually being

† P.J. Lloyd. "Why we have Balance of Payments Difficulties in Years of Record Export Receipts" Canterbury Chamber of Commerce Economic Bulletin, No. 476, October, 1964.

‡ B.J. Ross. "Income and Output in New Zealand Agriculture 1921-22 to 1964-65". Canterbury Chamber of Commerce Agricultural Bulletin, No. 453, August, 1967.

run down or is stable.

The main change in official attitudes come in 1963 and 1964 when forward projections of the country's import needs to 1972 showed that exports were going to fall short of requirements. In the post-war period, agricultural output had been expanding at a compound rate of 3.1 per cent per annum as compared with the 2.6 per cent long-term rate mentioned earlier. This higher rate reflected the marked investment programme which had followed the Korean wool boom, but it was clear that its effects were largely spent by 1960. Livestock numbers were stable and export prices were not indicative of a prosperous future for agricultural products. The farming community were making output decisions which were quite compatible with their individual circumstances, but which were at variance with the needs of the community as a whole.

An agricultural expansion programme was needed, and a national Agricultural Development Conference was chosen as the mechanism to publicise the need and gain co-operation of all parties. The Conference was set up by the Minister of Agriculture in 1963 with terms of reference "to indicate what increases in meat, wool and produce were practicable and desirable over the next two, five and ten years, and to recommend measures for achieving them".* For this paper, the main concern is with the Targets Committee which the Conference of representative parties set up at its first meeting on 30th October 1963 (although the Minister had authorised the formation of the Committee somewhat earlier). The manner in which this Committee was to work is relevant. "It was understood that the Committee would co-ordinate three lines of study, namely : the Producer Boards were to consider how much could be sold abroad, the products to be concentrated on, and the effects on earnings of product diversification; the Department of Agriculture was to complete a field survey of likely trends in livestock production over the next two, five and ten years under existing policies; the Treasury in consultation with others both inside and outside Government, was to make an estimate of future overall export needs. The tentative targets were to be derived from reconciliation of the three approaches."

The Producer Boards gave their views on expected prices and levels of efficiency to be achieved. The official report does not give their comments on diversification. The general conclusion was that "markets will be available".

The Department of Agriculture's evidence to the Target Committee established likely trends in exports if existing policies continued. The rate of increase in the immediate past 15 years in the national livestock

* This and following sections are from "Report on Agricultural Development Conference 1963-64" N.Z. Government Printer, February, 1966.

flock had been 2.5 per cent per year. Assessment of farming trends by districts produced likely targets of livestock numbers which represented a new annual rate of increase of 2.3 per cent per year. From a total of 79.5 million ewe equivalents in 1962/63, the national flock was likely to increase to 99.6 million ewe equivalents by 1972/73.

The Treasury's evidence to the Committee needs to be taken in slightly more detail. It was assumed that gross national product would continue to grow at 4 per cent compound, and that export and import prices would remain roughly constant. It was assumed that the growth of the non-farm sectors would be broadly in line with trends in recent years. On imports, it was assumed that existing imports as a proportion of production would continue, subject to an allowance for a continued trend toward import replacement. In addition to imports, known trends in "net invisibles" (freight, travel, dividends etc.), were assessed, along with movements of international capital.

On the basis of these assumptions, it was estimated that imports would need to rise from £254 million in 1962/63 to £369 million in 1972/73. Net invisibles would rise from £77 million to £138 million. After allowing a further net capital inflow of £12 million over the period, it was finally estimated that export earnings would need to rise from £303 million in 1962/63 to £467 million in 1972/73, a compound rate of growth of 4.4 per cent per year. In terms of the pastoral industries, this increase ran from £282 million to £422 million, a compound rate of 4.1 per cent.*

Finally this rate of increase in pastoral exports was related back to expected home consumption, productivity changes, and the existing livestock projections. It was estimated that the national herd would need to grow to 111 million sheep equivalents to meet requirements as compared with the expected achievement of 99.5 million sheep equivalents. In short, the compound rate of increase of the national flock would have to be stepped up from 2.3 per cent to 3.5 per cent to meet the targets under the assumption made.

In the five years since the Conference first met, the livestock targets have been reached on schedule. But at the same time the economy as a whole has passed through a phase of rapid expansion, and has now entered a period of consolidation with a marked deficit in the balance of payments. With hindsight, it is clear that favourable prices for exports, plus the

* These projections are fairly simplistic, as the following calculations based on the 4 per cent growth of gross national product show: (Data in 1962/63 £N.Z.)

	1962/63	1972/73
G.N.P.	£1 462mn.	£21 64mn.
Imports/G.N.P.	17.4 per cent	17.1 per cent
Imports & Invisibles/G.N.P.	22.6 per cent	23.5 per cent
Exports/G.N.P.	20.7 per cent	21.6 per cent
Agr. Exports/G.N.P.	19.3 per cent	19.5 per cent

higher volume of products coming forward, stimulated the economy directly through farm incomes and indirectly through an unprecedented upward trend in overseas funds available.*

The agricultural industry as a whole has consistently expanded since 1962 without a serious seasonal set-back in any one year. The volume of output index has increased at an average rate of 3.5 per cent per year. As had been expected, the projected rate of increase in livestock numbers was not achieved immediately following 1962/63, but by 1966/67, numbers had expanded to levels in line with the projections.

Livestock Achievement

	<u>1962</u> th.	<u>1967</u> th.	<u>Per Cent Increase</u>
Breeding ewes	33,946	41,500	4.1
Total sheep	48,988	60,100	4.2
Dairy cattle	3,136	3,550	2.5
Beef cattle	3,462	4,050	3.1
Total cattle	6,598	7,600	2.9
Ewe equivalents	81,978*	68,100*	3.6

* weighting by author, sheep/cattle 5:1.
Source : N.Z. Farmer, August 24, 1967.

It is not entirely clear whether the expansion of livestock numbers has been made possible by measures suggested by the Agricultural Development Conference, or whether farmers were undertaking the necessary investment programme as a predictable response to favourable levels of net farm income or both. A recent report of the Wool Marketing Study Group was unable to link farm investment changes with gross and net farm income.*** There are strong incentives, however, (the income tax depreciation allowances, and method of stock valuation allowed), to plough back profits when returns are high, and the Conference has drawn attention to a number of these provisions. If favourable prices for export products had not eventuated in 1963 - 1965, it is likely that the livestock expansion would have had to be financed in some alternative way.

* Part of the subsequent marked increase in imports was probably required to satisfy the increase in consumer demand which took place, but some part must be attributed to increasing needs of raw materials. The important fact that emerged from the expansion was that imports increased at a greater rate than national income. Apparently, on the upswing of the cycle, the pattern of demand is such in New Zealand that an increasing proportion of the economy's needs can only be met by imports. If there is a long-term trend to import substitution in New Zealand, then it seems likely that its expression can be completely masked by short-term export-induced cycles in the balance of payments. J.W. Rowe has examined trends in import reliance by relating deflated values of imports and services to deflated G.N.P. In money terms, it is evident that the ratio has consistently fallen since 1949/50. But this measure is biased by differential movements in import prices and internal prices. In real terms the dependence on imports has stayed remarkably constant. When import controls have increased, the ratio tends to fall; but it rises up again as soon as the balance of payments permits. On this evidence, the allowance for import substitution in the 1972/73 projections is probably too optimistic. See J.W. Rowe "Import Reliance 1950-65" N.Z. Econ. Papers, Vol. 1, No. 1, 1966.

*** N.Z. Wool Marketing Study Group, Final Report, N.Z. Wool Board, November, 1967, p. 29.

Total Farm Production

	<u>1962/63</u>	<u>1963/64</u>	<u>1964/65</u>	<u>1965/66</u>	<u>1966/67</u>
Gross Farm Income \$m.	654.0	763.6	792.1	850.5	806.3
Per Cent increase	+ 10.1	+ 16.8	+ 4.0	+ 7.7	- 5.8
Volume Farm Production					
1938-39 = 100	178	184	189	200	206
Per Cent increase	+ 5.4	+ 3.5	+ 3.0	+ 5.9	+ 3.0
Export Prices					
1962/63 = 100	100	113	111	110	104

Source : Abstract of Statistics

Gross Farm Income has increased from \$N.Z.654 million to \$806 million in the five years, with a record \$850 million in 1965/66. The substantial effect of good wool prices in 1963/64 and lamb prices in 1964/65 gave rise to the rapid increase in values after 1962/63. Lamb prices weakened in 1965/66, and fell in 1966/67; wool prices fell considerably in 1966/67.

Trends in Internal Prices

	<u>1962/63</u>	<u>1963/64</u>	<u>1964/65</u>	<u>1965/66</u>	<u>1966/67</u>
Butter & Cheese 1959-62=100	94.5	100.5	105.7	106.8	106.8
Fat Lamb "	91.4	116.8	137.9	125.2	88.6
Greasy Wool "	103.5	133.0	101.7	100.5	85.2

Source : N.Z. Year Books

Over the same period there has been a sustained and continued increase in national income. However, the balance of payments moved into a moderate deficit on current account in the first quarter of 1965 and bank credit was tightened early in 1965. But serious consideration of deflating the economy was held over until after the 1966 General Election and the Prime Minister actually announced deflationary measures in January 1967.

Trends in National Income

\$N.Z. Million, March years. Current Prices.

	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>
G.N.P.	2721	2924	3200	3483	3736	3937	4080*
Per Cent Increase	+4.0	+7.5	+9.6	+9.0	+10.5	+5.5	+4.0

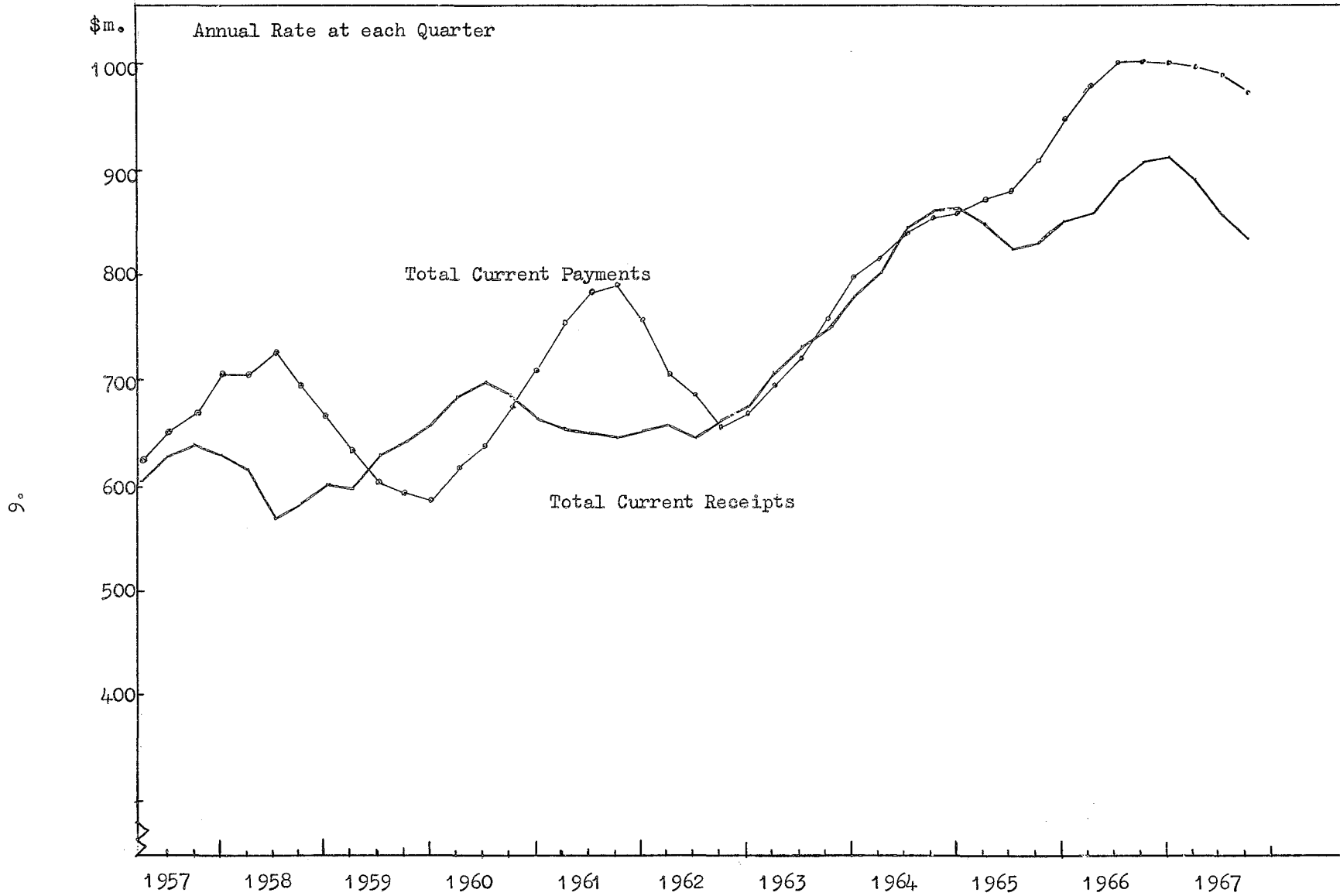
* Estimate of Institute of Economic Research

Sources: 1. Abstract of Statistics

2. Quarterly Prediction, N.Z. Inst. Econ. Res., October 1967.

The pattern of movements in the balance of payments for the rather longer period from 1957 to 1967 are shown in the attached graph. As far as the more recent period is concerned, it can be seen how import payments expanded in step with overseas receipts through 1963 and 1964, and how the relatively minor check on export receipts in 1965 immediately lead to a deficit on current account. In the longer term it can be seen that this pattern was a repetition of past cycles in the balance of payments where imports had taken a full 12 months to respond to controls. But in 1965 and 1966 the delay was much longer as no strong action was taken until February 1967.

BALANCE OF PAYMENTS ON CURRENT ACCOUNT



Source : Reserve Bank Bulletins

Overseas Transactions
\$N.Z.m. years ended June 30.

	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>
Exports	587.4	617.7	773.4	744.2	803.1	759.2
Imports & net invisibles	624.6	660.5	769.5	798.5	911.5	891.4
Balance on current account	-37.2	+11.2	+ 3.9	-54.3	-108.4	-132.2

Source : Bulletin of Reserve Bank, September, 1967.

A breakdown of the export statistics (from the Abstract of Statistics where definitions vary slightly from the Reserve Bank Bulletin) shows that butter and cheese exports were fairly steady over the period under discussion, but that meat and wool were the main commodities that fluctuated markedly. It is important to note that the deficit on current account was brought about by a decrease in the rate of expansion of export receipts rather than an absolute fall. In 1967, receipts did fall as wool was held back unsold.

Export Values
\$N.Z.m.

	<u>1961/62</u>	<u>1962/63</u>	<u>1963/64</u>	<u>1964/65</u>	<u>1965/66</u>	<u>1966/67</u>
Butter	84.4	90.0	109.6	119.6	109.6	109.3
Cheese	43.0	37.0	35.1	40.7	41.7	45.0
Meat	139.9	127.9	183.2	212.5	196.6	204.6
Wool	207.4	214.4	271.4	208.6	231.9	173.9

Export Volumes

Butter '000 tons	173.6	164.6	182.0	189.1	190.4	199.9
Cheese " "	94.8	92.2	87.6	93.2	96.5	102.7
Meat " "	462.4	508.5	514.8	511.8	494.2	496.3
Wool m. lb.	581.3	576.5	564.9	531.4	613.4	499.9

Unit Values

Butter \$ ton	486	552	601	631	573	546
Cheese " "	455	401	400	437	432	438
Meat " "	302	340	356	415	398	412
Wool c. lb.	34.8	37.2	48.0	39.2	37.9	34.7

Source : Abstract of Statistics

On the import side, it is clear that the trends forecast by the Treasury for the Agricultural Development Conference were hopelessly optimistic. The graph shows how from 1957 through to 1967 there have been three very rapid build-ups of import payments. (Invisibles have been rising significantly over the period but at a reasonably steady rate.) Although a three year cycle of "stop-go" was apparent in the period 1957/1962, the period since 1962 has exhibited a new pattern which has perhaps caught the policy-makers off-guard. Continuing rises in export receipts allowed the import boom to continue for much longer than had ever previously happened. In turn the economy of N.Z. as a whole

went through the period of most sustained growth in its history.³⁶ It is difficult to escape the conclusion that such prosperity was almost entirely dependent on the rather unexpected buoyancy of export receipts in 1963 and 1964. It is also clear that the agricultural targets could also not have been achieved without such a period of favourable prices to finance the necessary re-investment.

* The relationship between export receipts, national income, internal prices and imports is shown in the following data. (Percentage increase per year).

	<u>Gross Farm</u> <u>Income</u>	<u>Gross National</u> <u>Product</u>	<u>Consumer</u> <u>Prices</u>	<u>Volume of</u> <u>Imports</u>
	30 June	31 March	31 March	30 June
1956	-1.5	+3.9	+2.3	- 3.8
1957	+11.2	+1.9	+3.7	- 2.7
1958	- 4.0	+5.2	+2.1	+10.3
1959	- 5.1	+2.7	+5.5	+22.2
1960	+10.8	+3.9	+2.3	+ 4.5
1961	- 1.5	+6.2	+1.0	+26.0
1962	- 3.4	+3.3	+2.2	-14.1
1963	+10.1	+3.2	+2.3	+ 4.4
1964	+16.9	+6.0	+2.2	+18.7
1965	+ 4.0	+6.1	+4.0	+ 3.9
1966	+ 7.5	+6.1	+3.0	+ 8.2
1967	- 5.9	+4.4	+3.1	+ 0.4

Source : Abstract of Statistics

The demand for imports appears very closely related to movements in G.N.P. The data represent the flow of imports from overseas and not orders. The orders could well start increasing in a period of buoyant exports, as the import control mechanism tends to be regulated by Treasury views on immediate changes in the balance on current account. The figures show the June change in the volume of imports in relation to G.N.P. changes in the year ending the previous March. If import changes are taken in December years and are related to the following March years G.N.P., the same general relationship between imports and G.N.P. emerges. Thus the build-up of imports could be slightly in advance of G.N.P. and hence be thought of in some sense as a necessary condition for the further expansion of the economy. This proposition is only suggestive at this stage, but it is worth a great deal of further investigation.

The Monetary and Economic Council have noted a relationship between changes in imports and production, employment and productivity in the manufacturing sector. "Since farming output fluctuations are closely linked to climatic influences and import components needed by farming have always been provided for, the main effect of import fluctuations has fallen upon the manufacturing sector. Sufficient information is not available over a period of years to show imports of the particular items needed by manufacturers in relation to their output but the relation even with total imports is clear enough..... Variations in the rate of growth of manufacturing employment have sometimes coincided with, sometimes followed with a lag, the changes in import supplies. Some part of this relation will be indirect, associated with changes in income and spending. Some part must be more directly linked with variations in imported supplies of raw materials and components. It is evident however that the growth of manufacturing output and the growth of employment opportunities must be severely limited if import supplies are reduced." See N.Z. Monetary and Economic Council, Current Economic Situation and Outlook, Report No. 13, February, 1967, p. 31.

In the course of 1967, there was a growing discrepancy between the official policy for agricultural expansion and what in fact farmers could achieve. A large amount of the agricultural investment in 1964-1966 was financed out of farm receipts. The results of this improvement programme were just beginning to show in the 1967 livestock returns. Then wool prices fell sharply. Individual expansion programmes were curtailed immediately; partly because investment in improvements competed with family living from reduced net farm income, and partly because the capital stock required for expansion could be used to supplement farm income as slaughter stock. Some expansion programmes were only economic at more favourable price levels and individual hardship could result if a farmer had borrowed heavily to expand. Late in 1967, Government made arrangements for the relief of long-term debt through the State Advances Corporation; devaluation soon followed and it is not clear (early January 1968) how much debt adjustment will now take place.

It seems inevitable, nevertheless, that the momentum of the agricultural expansion programme will be checked. Official policy still remains to encourage farmers to reach the 1972 targets, but even devaluation will not restore confidence in the future after the price disasters of 1967.

The basic question of overseas markets for New Zealand products is still of great concern. Wool prices are down because of the general lack of activity in the textile field in the major consuming countries and partly because of the increasing competition of synthetics. If the country has to adjust to generally lower world prices for wool, then devaluation has probably achieved this step in a single gesture. But even after devaluation, it is not clear at the moment whether the new levels of wool prices emerging will more than maintain the status quo in sheep farming. At present, further expansion seems unlikely.

The problem of British entry into the European Common Market still hangs over New Zealand's lamb and butter market. Butterfat surpluses in Europe are considerable and disposal of these stocks could seriously disrupt other established New Zealand markets. Under these circumstances, it is difficult to make strong recommendations about the kind of products we should produce in the future. New Zealand has a very efficient agricultural industry; the cost structure can stand fairly high transport charges on exports, and parts of the marketing system are geared to diversification and bulk handling to a remarkable degree. Are some new kind of arrangements necessary in the future to keep existing markets, and open up new ones? This could be interpreted quite widely and include discussion of such matters as the need for bilateral trading arrangements, and the possible need to seek new political affiliations.

No-one can predict the future. Perhaps more favourable trading conditions are not far off. But the recent history of economic expansion

in New Zealand has demonstrated the complete vulnerability of the economy to overseas conditions, and while we may be able to partly insulate ourselves against overseas price fluctuations, we certainly cannot get economic growth with set-backs like that of 1967. The next step is to learn how to combine growth with fluctuations in the balance of payments and to develop institutions which can withstand pressures that delay corrective measures for too long.

The need for foreign exchange is more urgent than the Agricultural Development Conference dared predict. Further emphasis on agriculture would clearly have been up against strongly held views in all circles: except farming on income distribution. Although agriculture still provides 91 per cent of all exports and 82 per cent of all overseas receipts (1965/66 data), policy measures are obviously required to encourage other industries to enter the export field, especially forest products, processed foodstuffs² and other competitive goods.*

* See, for instance, N.Z. Institute of Economic Research, "Prospects for Manufactured Exports" Discussion Paper No. 3, 1963.