

Rural crises and adjustment in an agrarian country, New Zealand, 1975 to 1990^{*}

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Abstract

During the 1980s, New Zealand's primary producers experienced a crisis that derived from a combination of world-wide circumstances and previous governments' policies. Low productivity, global trade unfairness, and policy missteps thrust thousands of farmers into a debt emergency. At the moment of this crisis, a Labour Government was reorganizing the fiscal, monetary, and structural fundamentals of the entire economy with policies that increased burdens for primary producers. Within its principles of economic reform, Labour acknowledged the scale of the rural crisis, but it would not intervene to lower interest rates, return to a control of the currency, or reintroduce subsidies. Instead, it sought to guide producers to business-like practices, notwithstanding appeals that the sector was a cultural good. It devised ways to help thousands of farmers restructure debts, but expected to see a winnowing out of 'unviable' farms. Whilst there was hardship and protest, farmer representations were respectful. The sector was complex; the crisis was short-lived. Productivity gains and adjustments to more profitable products accompanied the hard-times. The crisis contributed to rural entrepreneurship, product diversification, and farm consolidation.

New Zealand has long relied on sending a limited range of primary products to a few developed industrial countries whose economic cycles have been synchronized and whose options for suppliers have been extensive. The concentration on farm, fishery, and forest remains. Today, with only 0.06 per cent of world population, New Zealand is a dairy powerhouse, accounting for 3 per cent of world production and accepting world-market prices. There are countries with big oil, big electronics, or big finance. New Zealand has big milk. The country exports about 95 per cent of its dairy production, making dairy the largest export sector (18 per cent of total goods and service exports) with leading markets in China,

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the United States, the United Arab Emirates, Australia, and Japan.¹ Dairy expansion has encountered cyclical economic hazards similar to those experienced over the long period of reliance on wool and sheep meat exports.²

The transition from sheep to dairy was progressing gradually when the country experienced shocks of internal and external origins in the 1970s and 1980s. This article examines those shocks and the response of both governments and farmers to cyclical as well as structural challenges. For purposes of this enquiry, it is handy that the two governments which spanned the period of adjustment had contrasting economic policies: National, led by Prime Minister Robert Muldoon (1975–84), intervened in the agrarian economy; Labour, led by David Lange (1984–90), liberalized. It was Lange's government, but it was his unflinching Finance Minister, Roger Douglas, a free-market advocate, who determined the Cabinet's economic policies. National's interventions were *ad hoc* and contradictory while Labour's liberalization practices were undeviating.

Reliance on farm exports and on manufactured imports meant that the balance of payments (BOP) current account was an important matter for a small country. From time to time, the BOP was affected by adverse terms of trade. The country was 'flotsam and jetsam on global volatility'.³ Cyclical fluctuations challenged governments to smooth farm income. In good periods, the Reserve Bank contained liquidity arising from BOP 'surpluses' by reining in the trading banks; in downturns the Reserve Bank, Treasury Department, and independent producer boards intervened with price support mechanisms. After the United Kingdom joined the European Economic Community (EEC), structural difficulties, not just cyclical ones, challenged rural producers. The EEC's subsidization of domestic producers enabled cheap exports. Tariffs, embargos, quotas, import licensing, and outright prohibitions restricted New Zealand's access to a number of overseas markets. In 1985, the executive board of the International Monetary Fund (IMF) sympathized that 'other countries' trade barriers disadvantaged New Zealand more than in the case of virtually every other member of the fund'.⁴ Twice in its first term Labour hosted commissioners from the EEC (September 1985 and April 1986). On both occasions the Cabinet boasted of its liberalization and asked, without answer, when the EEC would follow.⁵

As a traditional market for New Zealand sheep meat, wool, and a few other products, the United Kingdom took 55 per cent by value of New Zealand exports in 1960 but only 14 per cent in 1982. During 1975, the economy experienced unsustainable imbalances, externally with

¹ Kiwirail, *The Backbone*, 2013 (www.kiwirail.co.nz/uploads/Publications/The_Backbone-2013.pdf); Dairy Companies Association of New Zealand, *About the NZ Dairy Industry* (www.dcanz.com/about-the-nz-dairy-industry); Worldometers, *New Zealand Population* (www.worldometers.info/world-population/new-zealand-population). All accessed 15 Oct. 2017.

² The theme of external dependence is well-covered in Jim McAloon, 'Staples and the writing of New Zealand's economic history,' *New Zealand J. Hist.* 49, no. 2 (2015), pp. 3–22.

³ The expression came from Opposition Finance Spokesperson, Ruth Richardson. National Library,

Alexander Turnbull Library (hereafter Turnbull), Roger Douglas Papers (hereafter Douglas Papers), 90-287-20, Further Papers, Privatisation, Newtel Log: Ex-RNZ 'Good Morning NZ', 31 May 1988.

⁴ AALR W5427 873 Box 1744 Record 70/5/85 Part 2, IMF Article 4 Consultations with New Zealand 1985, Executive Director, 'Executive Board Discussion of New Zealand,' to Treasury, 11 June 1985.

⁵ AAFD W4646 7581 Box 52 Record 11/7/43 Part 2, Cabinet Policy Committee, Minutes, 4 Sept. 1985; AAFD W4646 7581 Box 52 Record 11/7/43 Part 3, Cabinet Policy Committee, 4 Apr. 1986.

the BOP and internally with a fiscal deficit (9 per cent of GDP) and double digit inflation. The terms of trade had suffered due to the first oil shock (1973–4). Devaluations and export incentives, plus good weather, helped the BOP briefly. However, the second oil shock (1979), National's domestic expansion of liquidity, and its fiscal outlays increased import outlays. An international recession trimmed export returns.⁶

In the early 1980s, agricultural exports accounted for about 70 per cent of export earnings with a dependency on sheep meat and wool exports; subsidies and concessions supported pastoral agriculture but the established cyclical management practices were incapable of dealing with structural changes in the world economy and new consumer tastes and standards. National's response was to increase intervention, contributing to delays in adjustments, fiscal trouble, and land speculation as farmers and investors capitalized the farm production subsidies. Promoting bulk production of meat and wool provided neither incentives for productivity gains nor for shifting to other forms of produce, though a fine climate made both feasible.

In a 1978 study of the country's economic policies, Ian McLean, former Chief Economist for the Ministry of Agriculture and Fisheries (MAF), warned that interventionist practices had failed and would continue to 'fossilise outdated patterns of economic activity'.⁷ Economic performance supported his pessimism. In the ten years to 1982, the World Bank ranked New Zealand 125th out of 150 countries for economic performance.⁸ Arguing that agriculture's future depended on new policies for the economy as a whole, McLean concluded that a "more market" strategy offers the best chance of success.⁹ Low productivity, global trade unfairness, and local policy missteps set the country up for a rural crisis. McLean's position that agriculture's problems 'cannot be solved within the sector itself' foreshadowed Labour's programme of reforms which set out to reorganize the fiscal, monetary, and structural fundamentals of the entire economy.¹⁰

I

Production subsidies plus concessionary interest rates on farm loans had diverse origins but their expansion in the late 1970s derived from Muldoon's controlling personality. Many forms of support predated his government, but acting as his own Finance Minister, he alone was

⁶ There are a number of accounts. The one cited here warned in 1982 that currency and other controls were unsustainable. Muldoon rejected the advice. Turnbull, Douglas Papers, 88-353-182, Parliamentary Papers, Subject Files E-F, D. L. Wilks, Governor, Reserve Bank, to Muldoon, 'External Adjustment,' [unclear date] Dec. 1982 [copy].

⁷ Ian McLean, *The future for New Zealand agriculture: Economic strategies for the 1980s* (1978), pp. 13, 57.

⁸ Turnbull, Douglas Papers, 86-003-142, Labour Party, Electorate Secretariat, 'Minister Comments on Key Features of Tax and Benefit Reform,' n.d. [Sept. 1985].

⁹ McLean, *Future for New Zealand agriculture*, p. 57.

¹⁰ Anthony C. Rayner and Ralph Lattimore, 'New Zealand', in Demetris Papageorgiou, Michael Michaely, and Armeane M. Choksi (eds), *Liberalising foreign trade: The experience of New Zealand, Spain, and Turkey* (1991), p. 22. Similar information appears in Paul Dalziel and Ralph Lattimore, *The New Zealand macroeconomy: A briefing on the reforms* (1996 edn), p. 106. They reject the idea that reforms resulted from a neoliberal project and instead assert that reform arose from the country's poor economic performance. Jim McAloon, *Judgements of all kinds: Economic policy making in New Zealand, 1945-1984* (2013) provides a detailed account of shifts in economic strategies, primarily as expressed in government budgets.

responsible for the Supplementary Minimum Price Scheme (SMP) that gave price assurance to producers by payments from the consolidated state revenues. Each year from 1978 the Cabinet approved minimum prices for beef, sheep meat, wool and dairy products. If international market prices did not meet these levels, publically funded top-ups went to the farmers. As it happened, falling world prices ramped up payments.¹¹ McLean advised against such supports, predicting that they 'produce too great quantities of those products for which world demand is relatively inelastic'.¹²

The SMP functioned in tandem with older Price Stabilisation schemes operated by the New Zealand Meat, Wool, and Dairy Boards. They too were intended to stabilize farm incomes but by a different mechanism. The Treasury and the Reserve Bank provided Producer Boards with overdraft coverage at subsidized interest rates. If the market price fell below a price set by the boards, they paid affiliated producers the set price. In years when the market price went above this set level, boards repaid the concessionary loans that had financed the top-ups in poor years. By the early 1980s, sheep and beef farmers gained most from the SMPs and price stabilization; nearly 40 per cent of their average gross income derived from the government.¹³ Some farmers received almost 30 payments from various forms of support.¹⁴

The producer boards, which were not government agencies, originated in the 1920s as response to the fall in market prices for export produce following the boom in demand during World War I.¹⁵ Explaining Muldoon's SMP scheme is more controversial. His biographer, Barry Gustafson, argued that Muldoon 'rejected as socially and politically unacceptable a tight monetary and fiscal policy'.¹⁶ His introduction of SMPs, as a social and political act, could be justified as providing farmers with predictable and stable incomes. A further justification was that it compensated farmers for the high cost of manufactures resulting from protection and a controlled currency.¹⁷ There is more to the story.

When reviewing the crisis in 1987, officials at Federated Farmers (Federation) argued that pastoral farmers had been induced to 'to develop new land and increase production for the benefit of the nation', more precisely, 'to boost exports'.¹⁸ Treasury economist Howard Fancy offered this explanation during an IMF consultation (1988), noting that the current government (Labour) 'did not consider the balance of payments in the way that it had been in the 1970s, with the resulting range of assistance to exports'. Labour wanted neutrality among sectors

¹¹ AAFD W4646 7851 Box 110 Record 241/1 Part 1, Agriculture General, 1979–86, 11 May 1979, Budget Report 5040; 'Report by the GATT Secretariat,' *Trade Policy Review: New Zealand* (1990), pp. 200–1, 205–14.

¹² McLean, *Future for New Zealand agriculture*, p. 40.

¹³ Neal Wallace, *When the farm gates opened: The impact of Rodgeronomics on rural New Zealand* (2014), p. 33.

¹⁴ Ibid, p. 24.

¹⁵ Turnbull, Douglas Papers, 90-287-51, Further Papers, Flat Tax and other economic files, Douglas to Cabinet, 'Review of statutory producer boards: summary report', 13 July 1988.

¹⁶ Barry Gustafson, *His way: A biography of Robert Muldoon* (2000), p. 274.

¹⁷ Ibid., pp. 247–8; AALR W5427 873 Box 1743 Record 70/5/83 Part 2, IMF Article 4 Consultations with New Zealand, 1983–4, 'IMF New Zealand Consultation, 1983: Answers to Written Questions', 135; AALR W5796 873 Box 1 Record T83/2/5, Farming finance needs – rural debt, current issues, and proposals, 1986–8, Peter McKinlay to Ron Hamilton, 19 June 1987.

¹⁸ Turnbull, Douglas Papers, 88-353-182, Parliamentary Papers, Subject Files E–F, Alastair Bruce, Secretary, Dominion Economics Committee, Federated Farmers, to David Caygill, Minister of Trade and Industry, 27 Aug. 1987.

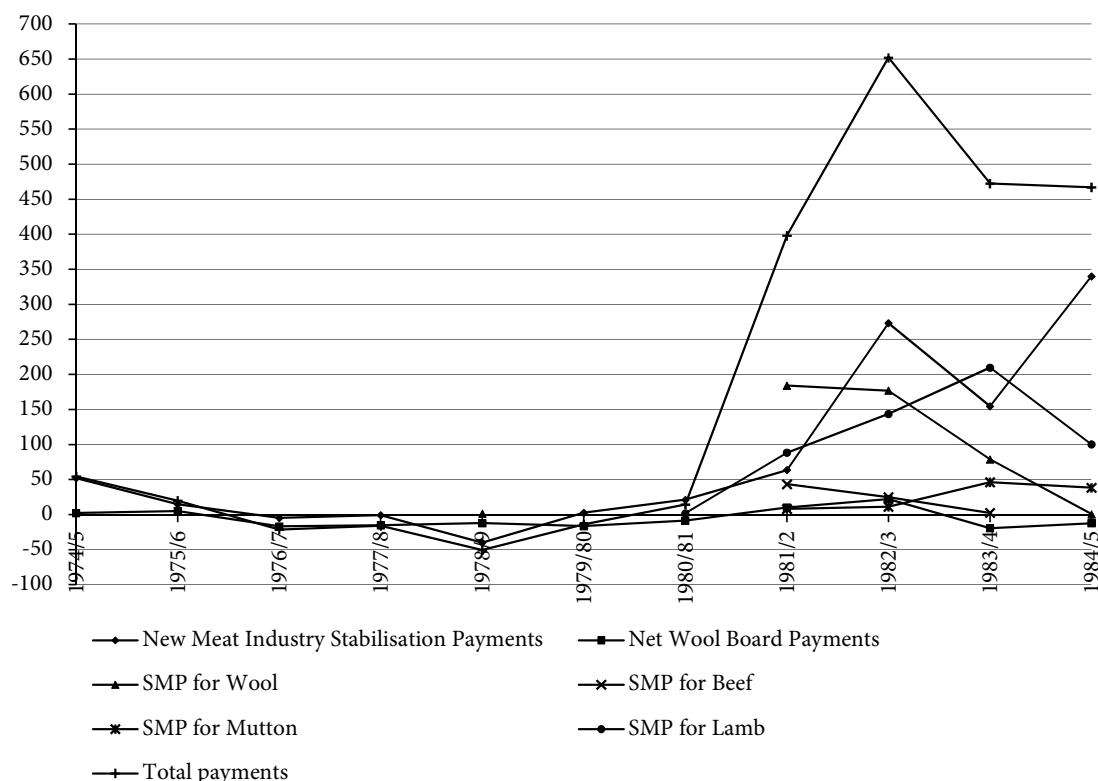


FIGURE 1: The collapse of commodity markets and the soaring price support outlays (millions of NZ dollars), 1974–1985

Source: AAFR W5796 873 Box 1 Record T83/2/1/3 Part 1 Farming Finance Needs – Case Study Material 1986–90.

‘rather than favouring one of them’.¹⁹ Whether or not Muldoon thought of the SMP as a device to improve the BOP and generate foreign currency, rural producers believed that they had had a tacit compact with his government and someday would ‘once again be called on to increase production and performance to try and cover the shortfalls in overseas income’.²⁰

When fiscal circumstances started to deteriorate badly in the early 1980s, Muldoon initially refused to abandon subsidies and concessions, but the old and new price supports mechanisms proved unsustainable. When export markets slumped, pay-outs correspondingly soared (Figures 1 and 2). Unlike the EEC, New Zealand, along with other small open economies, had no rich manufacturing ‘provinces’ to carry the burden of a socio-cultural policy that privileged rural living and rewarded ‘rent-seekers’.²¹ Government spending exceeded the country’s current

¹⁹ AALR W5427 873 Box 1745 Record 70/5/88 Part 1, IMF Article 4 Consultations with New Zealand, 1987–8, ‘Minutes of Meeting no. 2’, 22 Mar. 1988, pp. 5–6.

²⁰ Turnbull, Douglas Papers, 88–353–182, Parliamentary Papers, Subject Files E–F, H. D. Nelson, Federated Farmers of New Zealand, Auckland Province, to Douglas, 24 Feb. 1986.

²¹ See New Zealand Ministers meeting with EEC delegations: AAFD W4646 7581 Box 52 Record 11/7/43 Part 2, Minutes of Cabinet Policy Committee meeting, 4 Sept. 1985; Part 3, Cabinet Committee on Policy, 4 Apr. 1986. McLean, *Future for New Zealand agriculture*, p. 22.

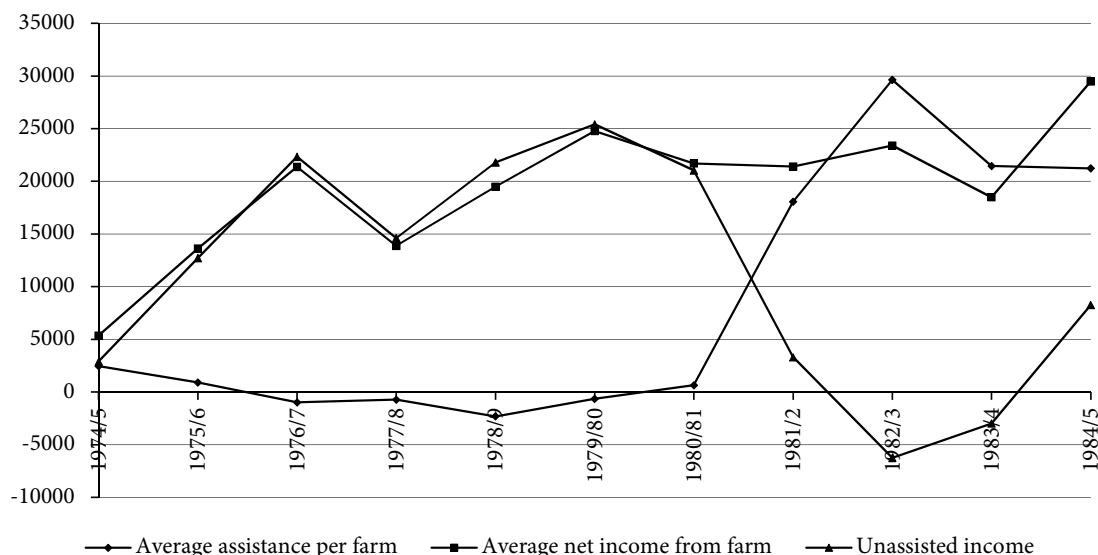


FIGURE 2: Assistance measures per farm, NZ dollars, 1974–1985

Source: AALR W5427 873 Box 970 Record 61/1/40/5 Part 1, Rural Bank Discounting Scheme, 1986–7, Parts 2, and 3, Rural Bank Discounting Scheme 1986–7, 'Rural Policy Measures Report' [Monthly].

means and jeopardized its reputation in the financial markets.²² In 1982 the Treasury argued that the SMP ought to be held as close to market prices as possible, otherwise there would be a budget blowout.²³ Direct payments alone rose from \$52 million in 1981–82, to \$241 million in 1982–83, and to \$500 million in 1983–84. They fell slightly to \$334 million in 1984–85.²⁴ Estimates of the total annual cost of all forms of assistance in the early 1980s was in the order of \$1000 million.²⁵ Given runaway costs, Muldoon had little choice but to wind down the SMP and his government announced its intention to do this in June 1984.

In his account of economic policy making from 1945 to 1984, Jim McAloon judged price supports after 1981 as 'extravagant', a point also made by the economist Brian Easton.²⁶ Writing about the crisis in 1997, Easton navigated 'a complicated tale', accepting that subsidies inhibited diversification. As well, he noted that farmers were attracted to capital gains from land speculation and had an ability 'to work harder' to get out of trouble.²⁷ Both observations ring true. But he skimmed over Muldoon's flip-flop on the SMPs, conduct that, if studied, would have shown the distorting and destabilizing consequences of intervention. While director of

²² A Bank of England scoring system would have given New Zealand in 1985 a rating of 14 where 10 and above was cause for a debt provisioning alert. AALR W5427 873 Box 366 Record 39/4 Part 14, Reserve Bank of New Zealand – Policy and legislation, 1989, 'Memorandum for the Monetary Policy Committee: New Zealand economic credit worthiness indicators' [Dec. 1989].

²³ AAFD W4646 7851 Box 110 Record 241/1 Part 1, Agriculture General, 1979–86, Cabinet Meeting Minutes, 14 June 1982.

²⁴ Wallace, *When the farm gates opened*, p. 24.

²⁵ Brian Easton, *In stormy seas: The post-war New Zealand economy* (1997), p. 152.

²⁶ McAloon, *Judgements of all kinds*, p. 196.

²⁷ Easton, *In stormy seas*, pp. 152–4.

the New Zealand Institute of Economic Research, Easton promoted state management. 'My gut feeling,' he wrote early in the crisis:

is that modern economic management requires government to change expeditiously a wide range of instruments of economic management, without prior approval of parliament.²⁸

Labour's liberalizations ended such aspirations and wrong-footed interventionist economists.

Efficiency, productivity gains, and diversification, the objectives of liberalization, were not Muldoon's motives in reversing direction. He was not that *au courant* with developments in Economics. Fiscal exigency forced his hand. In June 1982, public servants examining farm subsidy data warned that the fiscal burden was unsustainable and attempts to place government bonds at lower than market interest rates to dampen inflation encountered market resistance.²⁹ The managed economy was costly and now 'sacrifice is necessary. It becomes a choice between painful options'.³⁰ Muldoon bowed to realities and in June 1984 announced a phasing out of the SMP.³¹ The estimated annual drop in farm income was delayed while SMPs were reduced over several years. This, coupled with the reforms of the incoming Labour government, meant that farm incomes changed violently from year to year: 1984–85 (15.8 per cent); 1985–86 (–33.4 per cent); 1986–87 (–7.4 per cent); 1987–88 (29.3 per cent); 1988–89 (40.0 per cent).³² By early 1989, banks were starting to increase their exposure selectively to the rural sector showing that the crisis was over.³³

Besides their fiscal burden, SMPs attracted the enmity of trading partners, weakened the incentive to increase efficiency, obscured the cost structure of pastoral farming, and sent incorrect price signals to producers.³⁴ In reply to questioning from the IMF in 1982, officials conceded that subsidies 'may be distorting investment patterns'.³⁵ We will consider later whether the end of subsidies helped redirect farm resources and precipitated productivity gains.

²⁸ University of Canterbury, Macmillan-Brown Library (henceforth Macmillan-Brown Library) Geoffrey Palmer Papers, Acc. 142, Reference Number 87410, Economy – Speech Notes, Brian Easton to Palmer, 22 Aug. 1983.

²⁹ See correspondence and minutes in AALR W5427 873 Box 951 Record 61/1/10/8 Part 3, Tendering of government securities, 1983–4.

³⁰ AATJ W3566 7428 Box 1267 Record 79/2/4 Part 1, Economics – price indices and prices – inflation, E. A. Woodfield to The Minister of Overseas Trade, 'Effect of inflation on New Zealand's exports', 16 June 1982, Appendix, pp. 1–2.

³¹ ABJZ W4644 869 Box 184 Record 47/1/0 Part 2, Government statement of rural policy, 2 July 1986; AAFD W4646 7851 Box 110 Record 241/1 Part 1, Agriculture, General, 1979–86, Cabinet Meeting Minutes, 14 June 1982.

³² AALR W5427 873 Box 1746 Record 70/5/89 Part 1, IMF Article 4 Consultations with New Zealand, 1989, IMF, European Department with Consultation with other Departments, Approved by P. de Fontenay and Thomas Leddy, 1989 *Staff Report on Interim Article IV Consultation Discussions*, p. 28.

³³ Turnbull, Douglas Papers, 90-342-2, Further Papers, Interest Rates, Jim Macaulay, Chairman New Zealand Bankers Association, 'Interest Rates: An Address to the Waikato Division of the Federated Farmers', 4 May 1989.

³⁴ Turnbull, Douglas Papers, 90-342-6, Further Papers, Ibis Group, *New Zealand agricultural industry into the 1990s and beyond* (Sept. 1988), pp. 2–5, 15–18.

³⁵ AALR W5427 873 Box 1742 Record 70/5/82 Part 1, IMF Article 4 Consultations with New Zealand, 1982, IMF 'New Zealand Consultation, 1982: Answers to IMF Questions', p. 49.

II

When David Lange secured the parliamentary Labour Party's leadership in early 1983, he and his supporters backed the liberalizing ideas of Roger Douglas. In his 1980 call for reform, *There's got to be a better way*, Douglas described subsidies as 'sheer economic madness', a source of 'complacency', 'a national pastime', and tantamount to promising 'free sex'.³⁶ Even without the fiscal cost, the odds are that Labour would have ended subsidies since Douglas wanted to increase efficiency and individual productivity to strengthen the rural sector's ability to compete internationally.³⁷ After it was elected in July 1984, Labour set out to end all manner of state intervention.

Labour's principles in pursuit of restructuring were hard on many famers. First, efficiency in finance, production, and transport was the stated means for henceforth competing in world markets.³⁸ In agriculture, there was too much invested in land and not enough in innovation. Peter McKinlay, a Treasury Department official at the 'Agriculture desk' during the crisis, reported that 'asset values were out of kilter with the productive potential of the land and too much help would only exacerbate that'.³⁹ Labour's second rule was debt reduction. Muldoon had started to run down the SMPs, but Labour eliminated numerous lesser subsidies, in part for fiscal reasons. When Labour embarked on selling state assets in 1987–88 to assist with debt reduction, the farmer-friendly Rural Bank and Finance Corporation (RBFC) appeared on the list. Third, the government had rejected the introduction of farm rescue packages and relied on welfare programmes available to all citizens. To qualify, farmers had to report their assets and leave the land.⁴⁰ Social welfare rules supplemented the government's intention to let the crisis sort out overcapacity and inefficiency. It accepted that some farmers would have to leave production. Fourth, except for one interlude that Cabinet regretted (in 1985–86), Labour tightened liquidity. It kept interest rates high to combat inflation, and fully funded the deficit by bond sales rather than permitting inflationary injections from the Reserve Bank. All Labour's actions in the crisis had to agree with these priorities. It received important encouragement. After a site visit in April 1985, an IMF team praised the government for 'a courageous and enlightened course,' but warned that the policies 'will certainly bring short-term costs. Benefits will only become apparent later, so patience as well as firmness will be needed'.⁴¹ That accorded with the fifth rule. There would be no softening.

There were modest steps to help farmers without sacrificing principles. Many exporters had problems handling the strength of the New Zealand dollar after it had been floated in March 1985. A survey of producers revealed that 'over half had taken no measures to manage the

³⁶ Roger Douglas, *There's got to be a better way: A practical ABC to solving New Zealand's major problems* (1980), pp. 12, 32, 48, 61–3.

³⁷ *Ibid.*, pp. 18–20.

³⁸ Turnbull, Douglas Papers, 86-003-142, Labour Party, Electorate Secretariat, Philip Woollaston, Secretary, Policy Council, 'Agriculture and Horticulture', *Notes to the Remits* 1985, pp. 29–30.

³⁹ Turnbull, Douglas Papers, 87-121-144, Farm

Package, Douglas's Notes on a meeting with McKinlay, n.d. [July 1986].

⁴⁰ University of Otago, Hocken Library (henceforth Hocken Library), Stan Rodger Papers, 87/137, Ann Hercus, Minister of Social Welfare, to all Labour MPs, 19 June 1986.

⁴¹ AALR W5427 873 Box 1744 Record 70/5/85 Part 2, IMF Article 4 Consultations with New Zealand 1985, Executive Director, IMF, to Treasury, 25 Nov. 1985.

exchange risk in their business'. Consequently, the government arranged for Treasury and Reserve Bank officials to hold regional seminars on managing the strong dollar by forward exchange contracts.⁴² To assist with farm exports, it engaged five of Japan's top import buyers to conduct seminars.⁴³ In keeping with liberalization measures, Labour decentralized the management of ports, bringing 'manning levels down to international levels'.⁴⁴ At the urging of sheep farmers, Douglas promoted the export of live sheep to develop new markets in Islamic countries and encourage 'the drive toward cost efficiency in the processing industry'.⁴⁵ He encouraged producer boards to convert themselves into shareholder corporations which could raise private capital and hire specialists in marketing and finance. 'This is a specialist age', he wrote. Export producers needed top-notch assistance and in his estimation it would not come from boards which lacked shareholder pressure to perform.⁴⁶

By far the most substantial assistance attended the mortgage crisis. Warnings intimated the scope of trouble and showed how a fall in land prices jeopardized farm working capital. A New Zealand Treasury study prepared for the IMF visit in 1985, mentioned that there was clear evidence that the price of land had been declining prior to the July 1984 election and, as agricultural assistance is reduced, 'then the price of capital assets in which the assistance is embodied will also decline'.⁴⁷ A MAF report in December 1985, estimated that 5 to 10 per cent of the country's approximately 82,000 farms faced trouble. Three months later a study reckoned that 1750 farmers were at 'severe risk' and 6590 'at risk'.⁴⁸ A farmer at 'severe risk' had less than 20 per cent equity; 'at risk' farmers had 65–85 per cent equity. As property values fell, the principal owing remained; farmers' equity carried the loss of falling property values.⁴⁹ Farmers at 'severe risk' could not realize enough from a forced sale to meet their mortgage principal and it followed that they lacked sufficient equity to stake as collateral for operating loans. When prudent lenders realized the risk, they stopped overdraft coverage and denied seasonal operating loans. As early as 1980, the South Island's Stock and Station Agents Association, worried about mounting overdrafts, unsuccessfully lobbied Muldoon for a new programme of concessionary finance to assist sheep-meat producers.⁵⁰

Labour's course for restructuring the entire economy and reducing the fiscal debt was not entirely straightforward. Initially (1984–85), the government increased the fiscal debt due

⁴² Hocken Library, Rodger Papers, 87/41, Box 3, Overseas Trade, Mike Moore, Minister of Overseas Trade, to all Labour MPs, 16 Sept. 1985.

⁴³ Hocken Library, Rodger Papers, 87/41, Box 3, Overseas Trade, 'Japanese experts to advise New Zealand companies', n.d. [late 1985].

⁴⁴ AALR W5427 873 Box 1746 Record 70/5/89 Part 1, IMF Article 4 Consultations with New Zealand, 1989, Minutes of meeting on general economic strategy and structural reforms, 4 Apr. 1989, p. 2; Wallace, *When the farm gates opened*, p. 144.

⁴⁵ Turnbull, Douglas Papers, 88-353-182, Parliamentary Papers, Subject Files E–F, Douglas to R. J. Philip, Secretary, Palmerston Federated Farmers, 24 Nov. 1986; Wallace, *When the farm gates opened*, p. 99.

⁴⁶ Turnbull, Douglas Papers, 90-287-51, Further

Papers, Flat Tax and other economic files, Douglas to Cabinet, 'Review of statutory producer boards: summary report', 13 July 1988.

⁴⁷ AALR W5427 873 Box 1744 Record 70/5/85 Part 2, IMF Article 4 Consultations with New Zealand 1985, 'Agriculture sector response to devaluation and other policy changes', p. 2.

⁴⁸ AAFH W4160 Box 27 Record 100/3/9 Part 1, Social Impact Unit – SOE rural package, Minister of Agriculture Memorandum to Prime Minister and Minister of Finance, 23 May 1986.

⁴⁹ Ibid.

⁵⁰ Turnbull Library, Roderick Deane Papers, 2004-159-03/2 Monetary Policy, Roderick Deane, 'File Note: Farm Finance', 27 May 1980.

to public-sector wage and benefit increases that responded to the distorted economy of the preceding government's wage, price, and interest rate freeze with its 'concealed inflation that had then worked through into prices'.⁵¹ The real policy drivers, those that took precedence after the first year, were fiscal adjustments (spending restraints; broadening the revenue base), combating inflation by freeing interest rates to rise to market levels, and ending regulations and supports. Interest rate increases were hard on rural producers and compensatory moves to reduce barriers to imports and liberalize labour markets were slow in coming.

Labour was led by non-socialist professionals who wanted a 'modern centre party'.⁵² The caucus included more university graduates and fewer trade unionists than would have been thinkable a decade earlier; it had no country voter base outside mining and forestry towns. One of Douglas' guiding ideas was the cultivation of business investment, a goal that translated into a rapid deregulation of finance and a gradual removal of protection (import licensing and tariffs) for manufacturing. Douglas wanted a rapid reduction in tariffs, in fact a rapid everything, but negotiations with manufacturers stalled, and finally produced a so-called Swiss formula: larger reductions of high tariffs and major changes early. Tariffs were to be reduced in five steps over four years; import licences were to be abolished on 1 July 1988.⁵³ Manufacturers claimed they needed time due to a slowness of liberalization in Australia.⁵⁴ How profoundly disabling this retention of protection was for farmers is uncertain, because farm inputs had relatively low import content in New Zealand (20–25 per cent).⁵⁵ Some in the farm sector suspected that 'frontier protection' for manufacturers allowed favoured industrial employers to agree to high wage settlements that fed through the economy to the detriment of rural producers.⁵⁶

In a 1991 study for the World Bank, Rayner and Lattimore praised the government's drive for economic restructuring, but criticized the swift removal of subsidies in the agricultural sector. In their assessment, the timing and depth of reforms were 'significantly greater than need have been the case'.⁵⁷ They would have preferred a gradual removal of subsidies and interest rate concessions. But these were factors contributing to the distortion in land prices. As well, they favoured a faster liberalization of factor costs such as easing import restrictions and tariffs on equipment and promoting flexibility in labour relations. These concerns were well known; however, the government determined not to alter policies for the sake of the farm sector if such bending violated its restructuring principles.

⁵¹ AALR W5427 873 Box 1743 Record 70/5/83 Part 2, IMF Article 4 Consultations with New Zealand 1983–4, IMF, 'New Zealand: Staff Report', 3 Feb. 1984, p. 4; AALR W5427 873 Box 1745 Record 70/5/88 Part 1, IMF Article 4 Consultations with New Zealand, 1987–8, 'General economic strategy and issues', 18 Mar. 1988.

⁵² Mike Moore, *Hard Labour* (1987), p. 20; Wallace, *When the farm gates opened*, pp. 50–1.

⁵³ AALR W5427 873 Box 1745 Record 70/5/88 Part 1, IMF Article 4 Consultations with New Zealand, 1987–8, IMF, 'New Zealand: Staff Report for the 1988 Article IV Consultation', 25 May 1988.

⁵⁴ AALR W5427 873 Box 1745 Record 70/5/88 Part 1, IMF Article 4 Consultations with New Zealand, 1987–8, 'Minutes of Meeting', 25 Mar. 1988.

⁵⁵ AALR W5427 873 Box 1745 Record 70/5/88 Part 1, IMF Article 4 Consultations with New Zealand, 1987–8, IMF, 'New Zealand: Staff Report for the 1988 Article IV Consultation', 25 May 1988, p. 13.

⁵⁶ Turnbull, Douglas Papers, 88–353–182, Parliamentary Papers, Subject Files E–F, Peter Elworthy, President, Federated Farmers, to Douglas, 23 Oct. 1986.

⁵⁷ Rayner and Lattimore, 'New Zealand', p. 99.

III

At the annual consultations with the International Monetary Fund (IMF) in 1988, a Treasury official remarked that a 'relative bias against agriculture has decreased over 1987'.⁵⁸ The comment draws attention to policies that added to the burden on farmers, but mention of change was also an acknowledgment of Labour's 'soft' help for producers and its farm refinance scheme. For the moment, the burdens on producers and their lobbying for relief deserve attention. In respect to farming, Labour withdrew a farrago of subsidies. Douglas's first budget (November 1984) eliminated nearly thirty forms of support plus export incentives and tax concessions.⁵⁹ The government invoked a user-pay approach to state run farm-services including meat inspection, animal health examination, and farm advisory services.⁶⁰ It ended concessionary interest rates on farm mortgages and floated the dollar (March 1985). The exchange rate promptly 'overshot the equilibrium,' a common but not enduring experience when central banks float.⁶¹ Exporters and interventionist economists who favoured a controlled dollar considered it 'over-valued'.⁶² For a while, it was over-valued and that created difficulties for produce exporters.⁶³

Complaints about the sequence in which changes were introduced were elaborated in letters to the government from rural families. They figured too in briefs prepared on behalf of producer lobbies, and in resolutions passed at farmers' meetings.⁶⁴ As the architect of economic restructuring, Douglas received and answered complaints from rural families. A letter from Ann Jarman of rural South Canterbury indicates both rural respect and attention to policy. 'Mr Douglas,' she wrote 'while your Government's budget has hit farmers hard, we can see the reason and fairness in it provided you deliver the same medicine to manufacturers and other sectors of the economy'.⁶⁵ The Federation's executive accepted the end of subsidies, but like Ann Jarman complained about interest rates, import controls, tariffs, high exchange rates, and labour relations.⁶⁶ They wanted to retain as many farmers as possible during what they

⁵⁸ AALR W5427 873 Box 1745 Record 70/5/88 Part 1, IMF Article 4 Consultations with New Zealand, 1987–88, Minutes of Meeting, 'Balance of Payments and Competitiveness', 24 Mar. 1988, p. 3.

⁵⁹ Federated Farmers, *Life after Subsidies* (2005).

⁶⁰ AALR W5796 873 Box 1 Record T83/2/5, Farming finance needs – rural debt current issues and proposals, 1986–8, Peter McKinlay [henceforth McKinlay] to Ron Hamilton 19 June 1987.

⁶¹ AALR W5427 873 Box 986 61/9/5/7 Part 1, Balance of payments: invisibles, services, and transfer forecasts (ex. trade,) 1984–90, Roger Greville to Treasury Staff, 'The government and the current account', 5 July 1991, pp. 1–27.

⁶² Robert A. Buckle, 'Sequencing and the role of the Foreign Exchange Market', in Alan Bollard and Robert Buckle (eds), *Economic liberalisation in New Zealand* (1987), pp. 236–60.

⁶³ On the benefits of the float to the fiscal conditions

see Carl Walsh, 'Financial deregulation and monetary policy in New Zealand', in H.-S. Cheng (ed.), *Monetary policy in Pacific Basin countries* (1988), pp. 279–97.

⁶⁴ AALR W5427 873 Box 1011 Record 61/14/1 Part 5, Monetary policy general (general monetary) 1989, David Shepherd, Jan Whitehall, Allan Catt, Paul Frater, Kel Sanderson, Bryan Philpott, and Sue Bingham, 'The recent conduct of monetary policy in New Zealand: The theory and evidence' (prepared at the request of New Zealand Manufacturers' Federation, July 1989).

⁶⁵ AALR W5427 873 Box 1462 Record 62/60/5 Part 38, Expenditure – Electricity Division of Ministry of Energy 1984–5, Ann Jarman to Roger Douglas, 27 Nov. 1984.

⁶⁶ Hocken Library, Rodger Papers, 87/41, Box 1, Agriculture, Peter Elworthy, President, Federated Farmers, to Rodger, 5 Dec. 1985; Stuart Green, 'Public Meeting at Stratford', to Rodger, 13 Nov. 1985; AALR W5796 873 Box 1 Record T83/2/5, Farming finance needs – rural

perfectly understood was 'this restructuring period for agriculture'.⁶⁷ In a brief prepared for the Dairy Board, the interventionist economist Bryan Philpott suggested that the government could run a 'dirty float', intervening to drive down the dollar to help exporters. Without some remedial steps, he insisted, there would be 'irreparable damage to the primary producers'.⁶⁸ No irreparable disaster materialized.

These criticisms emphasized that as the sequence of reforms unfolded it required rural producers to shoulder an unfair load during an economy-wide restructuring. At the tail-end of the crisis, there were private acknowledgements of the imbalance by Douglas and the Secretary of Treasury Graham Scott. Worried that Labour, in its expenditure-cutting drive, might have made it too easy for a later government to change social welfare benefits, Douglas remarked that a such a government 'could do to those people what we did to farming'.⁶⁹ Scott mused at a meeting with IMF consultants that an economic slowdown in 1987–88 might have been aggravated by an 'imbalance between adjustment pressures on the exposed and protected sectors'.⁷⁰ Concerns about the sequence of reforms were valid and quietly conceded, but they should not escape review in context. The claim of irreparable damage proved erroneous; the crisis was short and more farms came through than had been predicted. It produced overdue adjustments.

Furthermore, the crisis not only involved production costs and export woes. Land speculation expressed the capitalization of subsidies and below-market interest rates. Inflation added to the demand for farm land, which was presumed to be a wealth-holding asset. Poor rates of return in current farm income had recently been offset by tax-free capital gains from land sales. Land prices had nearly doubled in the early 1980s. Curious about who was being affected by the crisis, the Federation found one region (east of Dannevirke) where, indicative of speculation, thirty farms had been sold since 1979.⁷¹ The country had a high capital to labour ratio, not because of technology but 'on the valuation placed on agricultural land, which forms by far the greatest capital stock of this sector'.⁷² There were long- and short-term consequences of misplaced investment. Long-term, the country's low trend growth rate suggested a diversion of investment away from productive efficiency. Short-term, from 1980 to 1988, there was a sharp

Note 66 *continued*

debt, current issues, and proposals, 1986–8, McKinlay, File Note: Meeting with Brian Chamberlain, Rob McLagan, and Owen Symmens, 5 Aug. 1987; Turnbull, Douglas Papers, 88-353-182, Parliamentary Papers, Subject Files E–F, Brian Chamberlain, President, Federated Farmers, to David Caygill, Minister of Trade and Industry, 24 Nov. 1987; same file, Federated Farmers, *The case for tariff reform* (1987).

⁶⁷ Turnbull, Douglas Papers, 88-353-182, Parliamentary Papers, Subject Files E–F, Tim Dodd, Federated Farmers to Colin Moyle, Minister of Agriculture, 1 May 1987.

⁶⁸ AALR W5427 873 Box 1011 Record 61/14/1 Part 3, Monetary policy research (general monetary), 1986–7, Bryan Philpott, 'Management of the floating exchange rate: Paper prepared for the New Zealand Dairy Board'

(10 July 1986), pp. 14–23. As interventionist see Macmillan-Brown Library, Palmer Papers, Acc. 142, Reference Code 87364, Economy and discussion of Labour Party, Bryan Philpott, 'Appropriate economic policy for New Zealand', Mar. 1980.

⁶⁹ Turnbull Library, Douglas Papers, 90-287-51, Further Papers, Flat Tax and other economic files, 'Timetable of Events', n.d. [Feb. 1988].

⁷⁰ AALR W5427 873 Box 1745 Record 70/5/88 Part 1, IMF Article 4 Consultations with New Zealand, 1987–8, 'Minutes of Informal meeting with Graham Scott, Secretary to the Treasury', 18 Mar. 1988.

⁷¹ Hocken Library, Rodger Papers, 87/41, Box 1, Agriculture, Federated Farmers, 'Open letter to all members of parliament', 24 Sept. 1985.

⁷² Rayner and Lattimore, 'New Zealand', p. 26.

fall in rural land prices by nearly twenty per cent; for both grazing and finishing farms it was over thirty per cent.⁷³ Addressing this erosion of farm equity, Labour reversed its 'bias' during 1986–87 and reacted vigorously to the land market and farm credit crisis, albeit it would not retreat from its principles.

The representations by protesting farmers were civil. There may have been threatening assemblies when foreclosures on specific properties were expected. However, the diversity of farmers with respect to their main commodity, their equity, their access to additional family income, and their inter-generational assets precluded formidable protest.⁷⁴ The Federation and government collaborated on remedies for the immediate farm debt crisis and the Federation talked down protest demonstrations. In 1989, after the worst of the crisis, consultants from the IMF were astonished that so few farmers had exited and assumed that many had determined 'to tough it out'.⁷⁵ Labour was fortunate that producers were by and large civil and resilient. Ministers did their best to listen and reply, although they were never going to deviate from the restructuring agenda.

For Douglas, who carried the Cabinet with him on economy-wide restructuring, interventions were habits of the past that had to be shed and backing off would give impressions that restructuring was being abandoned.⁷⁶ He intended nothing less than a cultural revolution. Entrepreneurs required confidence that policies were consistently directed toward ensuring a stable financial position and that 'invitation to capital', hopefully, would bring investment and employment opportunities. The OECD and IMF supported Douglas' determination to avoid fiscal expansion and loose credit, but IMF consultants also recognized that the pace and processes of restructuring had varied widely and that 'the first and most affected has been the export sector, especially agriculture'.⁷⁷

Labour could not deliver on the full set of labour reforms sought by the Federation and lobbyists.⁷⁸ The party's historic roots, Left elements in the party organization, and labour union opposition prevented the government from taking wage-fixing completely out of an arbitration system and into the mainstream of the Western world which had long 'centred on the notion of free collective bargaining'.⁷⁹ Cabinet could eliminate subsidies and user-pay measures by strokes of the pen through Orders-in-Council; however, ministers and public

⁷³ Turnbull, Douglas Papers, 90-342-6, Further Papers, 'Agricultural Land Prices', in *New Zealand agricultural industry into the 1990s and beyond*, pp. 32–4; Meat and Wool Boards' Economic Service, 'Land Values', *Annual review of the New Zealand sheep and beef industry* (1989), p. 41.

⁷⁴ Wallace, *When the farm gates opened*, pp. 60–1.

⁷⁵ AALR W5427 873 Box 1746 Record 70/5/89 Part 1, IMF Article 4 Consultations with New Zealand, 1989, 'Minutes of meeting on general economic strategy and structural reforms', 4 Apr. 1989, p. 2.

⁷⁶ AALR W5427 873 Box 1746 Record 70/5/89 IMF Consultations 1989, IMF, 'Minutes of meeting on general economic strategy and structural reforms', 4 Apr. 1989.

⁷⁷ AALR W5427 873 Box 1745 Record 70/5/88 Part 1, IMF Article 4 Consultations with New Zealand, 1987–8, IMF, 'New Zealand: Staff Report for the 1988 Article IV consultation', 25 May 1988, p. 13.

⁷⁸ AANK W3580 947 Box 733 Record 61/4/20 Part 1, Industrial Relations – Policy – Review of industrial legislation (Green Paper), 'Memorandum for Cabinet Policy Committee: Viability of farming', 30 Oct. 1985; Hocken Library, Rodger Papers, 87/41, Agriculture, Peter Elworthy, President, Federated Farmers, to Rodger, 5 Dec. 1985; Stuart Green to Rodger, 13 Nov. 1985, reporting on public meeting at Stratford.

⁷⁹ Rob Campbell and Alf Kirk, *After the freeze: New Zealand unions in the economy* (1983), p. 49.

servants consulted the public before reforming the labour relations regime. Douglas was about as impatient with the labour-relations reform process as the farm lobbyists. Discreet with his assessments, appropriate for a Minister of Finance, he complained only to colleagues about the absence of even-handedness, about government foot-dragging when the heat came on. He was worried about the backlash from farmers.⁸⁰

For fiscal reasons, wholesale taxes on imports more or less remained in place while the government prepared proposals for a Goods and Services Tax.⁸¹ As for tariff protection, Labour was slow to negotiate with manufacturers and only began reducing protective tariffs in October 1987. The notion of a dirty float or any other currency play was pure fantasy. Prior currency management had been accomplished at a fiscal cost. The issue had been studied from all angles.⁸² There would be no reversal or surreptitious intervention. The Labour Cabinet was not about to compromise the drive to earn New Zealand a reputation for transparency and reliability in world financial markets. All of this was cold comfort for farmers who felt they deserved reductions in costs to balance the precipitate loss of subsidies and supports. Trade union officials' resistance to changes in industrial relations, the government's determination to stick to a tight monetary policy, its objective of national economic efficiency, and its concern with the debt, left rural representations at the back of a queue. State intervention, moreover, was suspect since there was an institutional example of its failings in the countryside, namely the Rural Bank and Finance Corporation.

IV

The Rural Bank and Finance Corporation (RBFC) was a source of distortions that illustrate a downside to state financial institutions assigned a social mission. The attitude is traceable to 1894 when the Government Advances to Settlers Act of that year established an office that lent public funds to settle landless farmers on their own properties. The agency went through successive reorganizations, becoming the State Advances Office (1909), the State Advances Corporation (1936), and finally the RBFC (1974). Since 1960s the agency had the further goal of increasing farm production, although into the early 1980s, RBFC promotional material cited young farmers as prime candidates for loans.⁸³ RBFC employees were not bankers but farmers' friends, a role that eroded its aptitude for sizing up the credit risk of potential borrowers. A tacit guarantee of the bank's bonds by the government meant that it escaped pressure to perform for depositors and bondholders.

The RBFC's longstanding duty was to lend public money at below market rates to help farm labourers, tenants, and farmers' sons to purchase properties. Hard-nosed credit reviews were at

⁸⁰ Turnbull, Douglas Papers, 90-287-31, Further Papers, Handwritten Note, n.d. [Dec. 1986].

⁸¹ John Weaver, 'Deep in the heart of taxes: Fourth Labour, the GST, and fiscal reconstruction, 1981-1986,' *New Zealand J. Hist.* 49 no. 2 (2015), pp. 44-80.

⁸² Turnbull, Douglas Papers, 90-287-31 Further Papers, Bernard Galvin, Secretary to the Treasury, 'The exchange rate and the foreign exchange market',

to Douglas, 12 Dec. 1984; Spencer Russell, Governor, Reserve Bank of New Zealand, 'Exchange rate regime', to Douglas, 7 Dec. 1984.

⁸³ ABPY W4596 Box 1, The Rural Bank - Profile - Past and Present, 1983, *The Rural Bank: Profile Past and Present* (n.p. 1983), pp. 2-6; ABJZ W4644 869 Box 184 Record 47/1/o Part 2, Government statement of rural policy, 2 July 1986.

odds with a national purpose of multiplying and nurturing farmer-owned properties. Another agency, the Marginal Lands Board in the Department of Lands and Surveys, provided loans for improvements deemed too risky for even the RBFC.⁸⁴ Lands held by Māori were eligible for improvement funding at concessionary interest rates through another programme. For a small country, the accumulated sums lent by the time of the crisis in 1985 were substantial: RBFC, \$2451 million; Lands and Surveys, \$231 million; the Department of Maori Affairs, \$62 million.⁸⁵ A few subsidized farms in the Māori region of East Cape had never been viable during fifty years of support.⁸⁶

These concessionary loans had social and political rather than economic objectives. In lending relationships, there is a promise of reimbursement but an asymmetry of information since lenders have to investigate to establish the quality of that promise. Furthermore, in periods when interest rates are high, as they were during most of the 1980s, 'the pool of applicants becomes riskier' and 'borrowers have an incentive to use borrowed funds in ways that increase their return but are not in the interest of the bank'.⁸⁷ New Zealand's rural land speculation, a rising market blessed with concessionary loans, exemplified the distortion. Determining land value for collateral and appraising the risks associated with a borrower's use of a loan were well-known problems dealt with in commercial banking, but disregarded at RBFC. As a state-owned operation with social and political objectives, it lacked the conventional banking incentives to act prudently. Concessionary lending ignored the problem of imperfect information.

From 1974 to 1983, loans totalling \$730 million helped settle 10,000 farmers on their own farms. An additional \$760 million was lent to assist 40,000 farmers through various farm development programmes administered by the RBFC, including the Livestock Incentive Scheme (1977, which encouraged farmers to carry more stock) and Land Development Encouragement Loans (1978, which advanced subsidized loans to develop unproductive land).⁸⁸ The RBFC dominated the farm credit industry, holding a 40 per cent share of farm loans by 1984.⁸⁹ Numerous farmers answered the government's call to expand production by buying more land, investing to improve marginal land, and taking on more debt than they would have without below-market finance and subsidies.⁹⁰ Urban investors joined in. The props contributed to the rising land prices. Prices started to tumble in mid-1984, reacting to the global fall in commodity prices and demise of the SMP.

⁸⁴ AAFD W4646 7581 Box 75 Record 55/65 Part 2, Government Departments – Rural Banking and Finance 1983–9, David Thomson, Minister of State Services, to Chairman, Cabinet Committee on Expenditures, n.d. [June 1983].

⁸⁵ ABJZ W4644 869 Box 184 Record 47/1/o Part 1, Rural lending under section 331/54 – policy and general – rural debt restructuring package, 1986–7, Graham Scott for Secretary to the Treasury to the Minister of Finance, 'Government lending to the farming sector: restructuring proposals', 23 May 1986.

⁸⁶ ABJZ W4644 869 Box 184 Record 47/1/o Part 1, Rural lending under section 331/54 – policy and

general – rural debt restructuring package, 1986–7, A. R. Mudford, Regional Manager, Rural Bank, to Miss M. G. Young, Department of Maori Affairs, 19 May 1987; Mrs M. E. Tinkler for Director Hamilton Region, Rural Bank, to Head Office, 'Rural debt restructuring: discounting', 21 Aug. 1987.

⁸⁷ Louis Philips, *The economics of imperfect information* (1988), p. 143.

⁸⁸ Ibid.

⁸⁹ Wallace, *When the farm gates opened*, p. 20.

⁹⁰ Michael Bassett, *The state in New Zealand, 1840–1984: Socialism without doctrines* (1998), p. 353.

Concessionary lending rates contributed to another distortion. The RBFC's farm-purchase-enabling activities crowded out mortgage lending by the country's four commercial banks. They shied away from this line of rural business, but offered overdraft coverage and seasonal operating loans. Due to the specialized nature of pastoral farming on the South Island, its graziers continued to be served by specialists, namely the Australian Mutual and Provident (AMP), the state-owned Bank of New Zealand (BNZ), and the stock and station agencies Wrightson-NMA (National Mortgage Agency) and Dalgety-Crown.⁹¹ The stock and station agents knew their clients well; imperfect information was less of a problem for them.

The RBFC's crowding-out had reduced the exposure of private-sector lenders to poor credit risks. Executives from these institutions believed that they had to urge only 5 to 10 per cent of farm clients to leave the business. The great remainder could adjust during the crisis because 'farming [by these borrowers] overall has been lowly geared so that even with a significant write-down from peak values, most farm businesses will still have a favourable debt to equity ratio'.⁹² The core crisis was concentrated among RBFC's clients. Understandably, ministers with economic portfolios had misgivings about the quality of the RBFC's banking judgement, yet had no choice but to enlist it to ameliorate the crisis. It had the lion's share of risky accounts and occupied regional offices that could accommodate debt conferences.

V

In November 1985, the Treasury circulated a paper that described a debt discounting scheme that enlisted the RBFC. Employees would have to turn from overlooking risk toward stressing it. Only debtors dealing with the RBFC were eligible for the discounting solution, because the government could tell this institution what to do. Ministers hoped that news of RBFC's debt adjustments would spread, embarrassing private-sector institutions into announcing their own debt relief schemes.⁹³

The Treasury's scheme proposed that the principal on farmers' debts should be discounted to increase their equity. In keeping with the government's set of principles, debtors would receive no grants to reduce the principal owing on their mortgage. There was to be no nurturing of moral hazard. Debtors had to agree to pay back the amount owing; however, this would be achieved by accepting an increase in interest rates from the comparatively low concessionary ones to current market rates. During the current period of serious inflation, interest could advance from 11 per cent to the market rate of 20 per cent.⁹⁴ Interest payments increased,

⁹¹ AAFD W4646 7581 Box 110 Record 241/1 Part 1, Agriculture – general, 1979–86, Secretary to the Treasury to Minister of Finance and Minister of Agriculture, 'Memo: Supplementary Minimum Price', 11 May 1979; AAFD W4646 7581 Box 90 Record 103/1 Part 5, Economic policy – general, 1985–8, Douglas, Minister of Finance, and Moyle, Minister of Agriculture, 'Farm debt: institutional approach to debt management', 9 Dec. 1985.

⁹² AAFD W4646 7581 Box 90 Record 103/1 Part 5, Economic policy – general, 1985–8, Douglas, Minister

of Finance, and Moyle, Minister of Agriculture, 'Farm debt: institutional approach to debt management', 9 Dec. 1985.

⁹³ AALR W5427 87 Box 970 Record 61/1/40/5 Part 1, Rural Bank discounting scheme, 1986–7, Treasury Memorandum to Minister of Finance, 'Rural Debt: Farm assistance package: SOE Framework, 5 Nov. 1985'.

⁹⁴ ABJZ W4644 869 Box 184 Record 47/1/0 Part 1, Rural lending under section 331/54 – policy and general – rural debt restructuring package, 1986–7, Graham Scott for Secretary to the Treasury to the Minister of

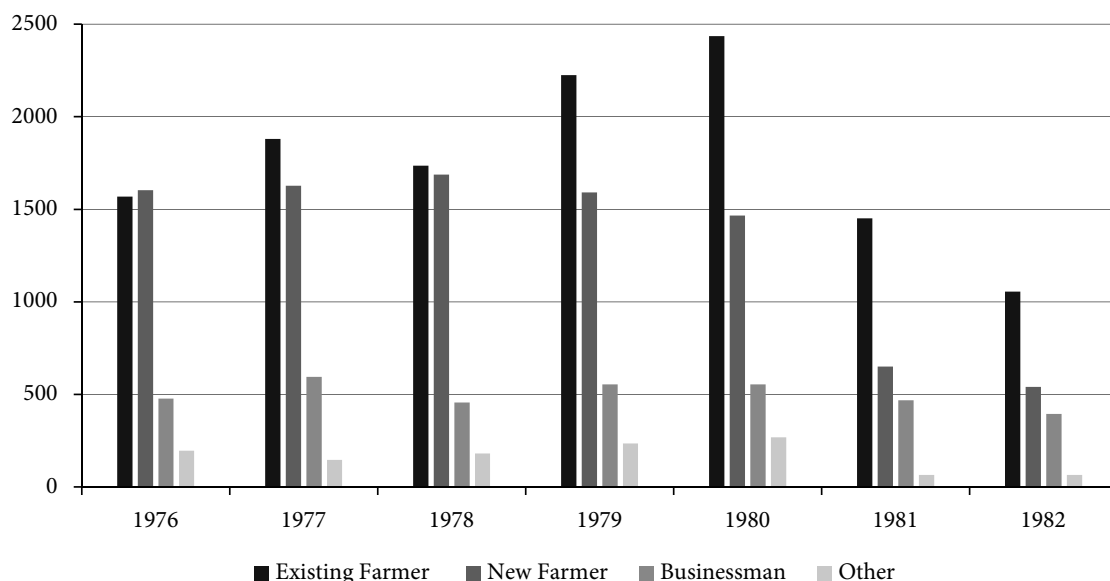


FIGURE 3: The rise and fall of the rural property market: numbers of farm purchases by categories of buyers, 1976–1982

Source: AAFR W5796 873 Box 1 Record T83/2/1/3 Part 1 Farming Finance Needs – Case Study Material 1986–90.

principal fell, and equity rose. A sleight-of-hand left viable debtors with big repayments but a larger stake in the farm asset.

This is where the over-pricing of land re-enters the picture. Loose spending by the Third Labour Government (1972–75) and Second National Government (1975–84) contributed to inflation that fed higher input costs.⁹⁵ The inflation rate was one and a half times higher than rates experienced by other OECD countries, averaging 15 per cent during the early 1980s.⁹⁶ Understandably, some farmers and urban investors speculated in land (Figure 3).⁹⁷ Prices responded to current demand and supply but also on expectations for future increases. Peter McKinlay from the Treasury was scathing in his evaluation of RBFC and other soft lenders, because they did not inspect farms but ‘lent simply on the basis of a valuation report and an expectation that farm land would probably continue to rise in price’.⁹⁸ The land bubble was more than a product of the normal state of imperfect information since it emerged from a deliberate policy-driven avoidance of risk information and a corresponding recognition by speculators that soft lenders allowed ‘golden opportunities’. Nearly 20 per cent of all rural land

Finance, ‘Government lending to the farming sector: restructuring proposals’, 23 May 1986.

⁹⁵ Bassett, *State in New Zealand*, pp. 324–36, 352–75.

⁹⁶ Appendix Table B/25, Key Macro Economic Indicators, ‘Report by the Government of New Zealand,’ *Trade Policy Review: New Zealand* (General Agreement on Tariffs and Trade, 1990), p. 128.

⁹⁷ AALR W5496 873 Box 1 Record T83/2/1/5 Part 1, Farming finance needs – rural debt, current issues and proposals, 1986–8, McKinlay, ‘File Note: Rural debt restructuring’, 27 Nov. 1987.

⁹⁸ AALR W5496 873 Box 1 Record T83/2/1/2 Part 1, Farming finance needs – equity instruments warehouse, 1986–90, McKinlay to T. Berthold, 12 May 1986.

purchases in 1981–82 were by non-farmers attracted to rising prices, cheap credit, and tax free capital gains. Large numbers of well-established farmers succumbed to the temptation.⁹⁹

When commodity markets sagged, demand for land cooled. The phasing out of SMP added to land price deflation. Private-sector lenders in 1985 had expected land prices to fall by as much as 50 per cent from peak values.¹⁰⁰ This came to pass in some cases.¹⁰¹ The reversal and anticipation of its prolongation, coupled with a fixed mortgage debt, left some farmers without the necessary equity/collateral to borrow operating funds. The Treasury's scheme patched this up. With increased equity, loans could be arranged. Furthermore, in working out the debt discounting arrangement, the RBFC would have to judge whether particular farms were viable. The Cabinet endorsed the plan.¹⁰² For the government, there was a bonus. The scheme assisted with the commercialization of the RBFC, forcing it to raise interest rates to market levels, write off bad debts, prepare a realistic balance sheet, and acquire experience of genuine banking conduct. To make the grade as a free-standing private-sector institution or as a subsidiary of one, RBFC had to show that its personnel could tackle the imperfect information problem. To a willing buyer, RBFC's value resided in its capacity to profit from prudential lending to farmers and that depended, as with all financial institutions, on human capital.

Farm finance often involved multiple creditors. There were borrowers indebted solely to the RBFC, those indebted to the RBFC as well as private-sector lenders, and those indebted solely to the private-sector lenders. The first group of debtors could be induced to attend a debt conference at a local RBFC office since the discount arrangement for viable farmers was going to leave many with equity. Private-sector lenders could force a sale if it suited their interests; however, in a creditor pecking order if they ranked behind the RBFC they had good cause to forego drastic action. Farmers indebted only to private-sector lenders were at a disadvantage for they had no access to a discount scheme to leverage all creditors toward adjustments. Ministers and officials thought private-sector lenders would develop their own schemes once the public noticed the RBFC one. By distributing information, the government intended to make it awkward for private-sector lenders to foreclose on viable farmers.

In March 1986, Douglas announced the establishment of a mixed membership working party on farm finance problems with special attention to farm debts incurred with private-sector lenders. The team included officials from MAF, the RBFC, Treasury, and Federated Farmers.¹⁰³ Federation officials navigated the awkward realities of a membership segmented by wealth, region, type of farming, and depth of involvement in speculation. Looking back on the Muldoon era, Member of Parliament, Labour Cabinet Minister, and historian

⁹⁹ AALR W5796 873 Box 71 T83/13 Part 1, Agriculture – Land Prices, 1978–90, Valuation Department, 'Number and classification of freehold open market sales of rural land', 6 Aug. 1982. On tax advantages, see in same file Ian R. Silver, 'Effect of taxation on property values' [1982], p. 19.

¹⁰⁰ AAFD W4646 7581 Box 90 Record 103/1 Part 5, Economic Policy – General, 1985–8, 'Memorandum for Cabinet Policy Committee from Minister of Agriculture and Minister of Finance, farm debt: institutional approach to farm debt', 9 Dec. 1985.

¹⁰¹ Ibid. Turnbull, Douglas Papers, 88–353–182, Parliamentary Papers, Subject Files E–F, Media coverage on devaluation, Newztel Log: Radio NZ 'Rural report', 27 Sept. 1984.

¹⁰² AAFD W4646 7581 Box 110 Record 241/1 Part 1, Agriculture – general, 1979–86 Minutes of the Cabinet Policy Committee, 10 Dec. 1985.

¹⁰³ AALR 873 W5427/Record 61/1/40/5 Part 1, Rural bank discounting scheme, 1986–7, Joint press statement of Minister of Agriculture and Minister of Finance, 24 Mar. 1986.

Michael Bassett proposed that 'farmers were never united in support of ... price subsidies. Self-reliance was always close to the surface'.¹⁰⁴ Contemporaries close to the ground saw a more complicated reality.

When the Member of Parliament and pastoralist Jim Sutton attended Federation meetings in early 1986, he encountered members who wanted outright grants. He met local leaders who would not discuss debt restructuring openly but 'would cooperate in closed seminar type meetings' with senior ministers.¹⁰⁵ The Treasury official Peter McKinlay doubted that the rural mind-set had changed. Many were clinging to the hope that government support might return.¹⁰⁶ He based his appraisal on conversations with Federation officials, RBFC executives, other lenders, MAF personnel, and MPs. He had attended a number of Federation meetings from which he drew the conclusion that many farmers hoped that a change in government would restore their subsidies.¹⁰⁷ Cultural reorientation to true farm independence, he thought, would be difficult and during the transition the Federation would struggle to keep any semblance of a unified front.¹⁰⁸ He was dead on. In early 1987, the Federation recommended a return to concessions to put new farmers on the land rather than allow market activity to advance 'amalgamation of properties' and 'foreign ownership'.¹⁰⁹ In public, the executive's support for an end to subsidies was conditional on other industries having their protection revoked and there were a few retreats to calls for concessions.¹¹⁰ In private though, Federation officers worked with the government throughout debt restructuring, but even some of them wanted a return to the policy of concessionary loans for settling 'young farmers'.

The mixed membership working party on farm debt reviewed ways of saving viable farms when the mortgage was held by a private lender. Proposals were supposed to mesh with the government's market-oriented strategy, be commercially sound, involve no subsidy, and reach voluntary agreements free from pressure. Potential solutions included equity-sharing partnerships between creditors and debtors, resumption of the property by the creditors with the farmer staying on as the manager, and new mortgages with easier terms. No single measure generated enthusiasm, but the group had found assorted restructuring arrangements that could be circulated among farmers to assist them in their dealings with private-sector lenders.¹¹¹

There were details to be settled with the RBFC debt discounting scheme. How would a farm's viability be determined? Could the RBFC be counted upon to deny discounting to farmers with

¹⁰⁴ Bassett, *State in New Zealand*, p. 353.

¹⁰⁵ AALR W5796 873 Box 1 Record T83/2/1/3 Part 1, Farming finance needs – case study material, 1986–90. On Sutton's support for the reforms see Wallace, *When the farm gates opened*, pp. 56–7.

¹⁰⁶ AALR W5796 873 Box 1 Record T83/2/1/5, Farming finance needs – rural debts, current issues and proposals 1986–8, McKinlay to Ron Hamilton, 19 June 1987.

¹⁰⁷ Ibid.

¹⁰⁸ AALR W5427 873 Box 972 Record 61/1/40/7 Part 3, Rural Banking and Finance Corporation, valuation of assets and liabilities, 1988, McKinlay and Associates to Secretary to the Treasury, 'Rural debt monitoring

report', June 1988.

¹⁰⁹ Turnbull Library, Douglas Papers, 88-353-182, Parliamentary Papers, Subject Files E–F, Tim Dodd, Federated Farmers to Roger Douglas, 4 May 1987.

¹¹⁰ AALR W5796 873 Box 2 Record T83/4 Part 8, Government assistance to agriculture – questions and correspondence, 1986–8, Alastair J. Bruce, Executive Officer, Dominion Meat and Wool Section, Federated Farmers, to Roger Douglas, 18 Aug. 1987.

¹¹¹ AALR 873 W5427/970 Box 970 Record 61/1/40/5 Part 1, Rural Bank: discounting scheme 1986–7, McKinlay to T. Berthold, 10 Apr. 1986.

no prospect of making a go of it? Could it process applications promptly?¹¹² Ministers rightly suspected hostility toward them in RBFC offices. Sceptical Treasury officials and ministers questioned the 'Bank's capacity to manage the sort of debt restructuring exercise which [was] likely to flow out of the current investigation of rural sector financial problems'.¹¹³ There were reservations, but defenders believed the RBFC would serve capably once employees realized they had to adopt a commercial mentality. So, they were told to convene debt conferences, use their local knowledge, act like bankers, and call on outside help if they did not understand valuation practices.¹¹⁴

A publicity campaign about the RBFC scheme was intended to make the private sector carry 'its proper share of the burden of restructuring'.¹¹⁵ To nudge creditors along, the government disseminated the working party's remedies: equity sharing, leaseback, principal or interest deferrals, indexed mortgage, and a restructured mortgage that could be on-sold to a third party. To assist lenders with the imperfect information problem relative to farm viability, 'it is envisioned that a circular would be prepared by the Society of Accountants in consultation with MAF, the RBFC, and Federated Farmers'.¹¹⁶ Brochures explaining these solutions had to be printed immediately because farmers were planning for the next season (June 1986) and needed operating loans.¹¹⁷ Some debt conferences held by private-sector lenders failed because of a lack of faith in the farmers' records and the absence of a neutral convenor who could ensure that no blame was apportioned.¹¹⁸ These assorted efforts brought thousands to conference tables. Outcomes affecting households hinged on whether creditors judged a farm viable enough for restructuring, although the RBFC was suspected of leniency.

As a modest step to assist farmers and make private-sector lenders bear some costs, the government raised the value of tools, equipment, and cash that a producer could retain despite a forced sale.¹¹⁹ Expectations that creditors would have to take losses and act constructively were predicated on legal and business realities. Financial institutions were reluctant to foreclose because of court costs, acquisition of a non-paying asset, and the expense of farm maintenance.¹²⁰ A sudden appearance of numerous mortgagee sales could depress land prices

¹¹² Turnbull, Douglas Papers 87-121-144, Rural Package, McKinlay, 'Rural Package: briefing note for meeting in the Office of the Deputy Prime Minister, 26 Aug. 1986'.

¹¹³ AAFD W4646 7581 Box 75 Record 55/65 Part 2, Government Departments – Rural Banking and Finance, 1983–9, R. S. Deane, Chairman, State Services Commission to Acting Minister of State Services, 12 June 1986.

¹¹⁴ Ibid.

¹¹⁵ AAFD W4646 7581 Box 75 Record 55/65 Part 2, Government Departments – Rural Banking and Finance, 1983–9, Geoffrey Palmer, Memorandum for Cabinet Policy Committee, 'Rural policy measures: summary paper', 12 June 1986.

¹¹⁶ AALR W5796 873 Box 1 Record T83/2/1/5, Farming finance needs – rural debt, current issues, and proposals, 1986–8, McKinlay, 'More news from the rural

sector', n. d. (but Jan. or early Feb. 1987).

¹¹⁷ Turnbull, Douglas Papers, 90-342-6, Further Papers, *A guide to the 1986 rural policy measures*, 2 July 1986.

¹¹⁸ AALR W5796 873 Box 2 Record T83/4 Part 8, Government assistance to agriculture – questions and correspondence, 1986–8, Brian Chamberlain, President, Federated Farmers, to Moyle, Minister of Agriculture, 16 Dec. 1987.

¹¹⁹ AAFD W4646 7581 Box 110 Record 241/1 Part 1, G. C. Scott, Chair, Officials Coordinating Committee, to Minister of Finance, 'Rural package: decision paper, 18 June 1986'.

¹²⁰ AALR W5796 873 Box 1 Record T83/2/1/5, Farming finance needs – rural debt, current issues, and proposals, 1986–8, McKinlay, 'More news from the rural sector', n. d. (but Jan. or early Feb. 1987).



FIGURE 4: A large crowd of farmers assembled in Civic Square, Wellington, New Zealand, to protest Government policies. Photographed by an *Evening Post* staff photographer 30 April 1986. Ref: EP/1986/2002/18–F. National Library, Alexander Turnbull Library, Wellington, New Zealand.

further. Private-sector creditors accepted that the costs of a forced sale were so great that it was worth throwing something into the mix – farm vehicles and personal belongings – to procure a voluntary sale.¹²¹

There were protests, demonstrations and acts of defiance, although direct action fell short of a call by National MP Doug Kidd in March 1986 for farmers to revolt and make the country ungovernable.¹²² A demonstration in Wellington of perhaps 5000 in late April 1986 was a tame affair (Figure 4).¹²³ In June 1986, a handful of demonstrators banged at Prime Minister David Lange's limousine after he had opened an agricultural research station. The incident was probably incited by his taunt that he 'would come back when farmers elected a representative who belonged to the twentieth century'.¹²⁴ In mid-1986, mortgage sales started to be 'resisted in many areas by social pressure'.¹²⁵ By late 1987, a 'Provincial Support Group', inspired by

¹²¹ Turnbull, Douglas Papers, 87-121-144, Agriculture, Clippings, *Southland Times*, 8 Nov. 1985.

¹²² Turnbull, Douglas Papers, 87-121-144, Agriculture, clippings, *Christchurch Press*, 12 Mar. 1986.

¹²³ Turnbull, Douglas Papers, 87-121-144, Farm Package, clippings, *Evening Post*, 29 Apr. 1986.

¹²⁴ Wallace, *When the farm gates opened*, pp. 97–9.

¹²⁵ AAFD W4646 7581 Box 75 Record 55/65 Part 2, Government Departments – Rural Banking and Finance, 1983–9, Geoffrey Palmer, Memorandum for Cabinet Policy Committee, 'Rural policy measures: summary paper', 12 June 1986.

such pressure in the Manawatu District, campaigned to shame potential buyers. It arranged to obstruct traffic with farm equipment in Palmerston North.¹²⁶ However, as noted, banks had business motives for avoiding forced sales, and worked for voluntary exits. Neal Wallace, who collected profiles of farmers' survival and adaptation, entitled a chapter 'It could have been ugly'.¹²⁷ It was not. By contrast, in 1981 when Muldoon had allowed a tour by South Africa's Springbok rugby team, there was widespread civil unrest. Not so in 1986–87. No 'Poujadisme' developed from the farm crisis.

Throughout 1986 and 1987, Federation branches and individual farmers wrote to Cabinet ministers. Some producers let emotions rise; they were 'bewildered and angry'.¹²⁸ Usually the writers petitioned respectfully to act against protection for manufacturers, the high dollar, high interest rates, and current labour relations.¹²⁹ A missive from a remote pastoral branch, made a rare prickly remark when it urged the government 'to back off the farming industry'.¹³⁰ The Bay of Plenty branch resented the implication that, in order to manage the 'high dollar' and other market activities, producers 'must also become expert financiers'.¹³¹ But the acquisition of financial acumen, then at a low level, was a government goal. A newly introduced Goods and Services Tax (1985), defining farms as businesses and requiring record keeping, contributed to an emphasis on farm management.¹³²

Social distinctions, disparities in wealth, and product-based divisions precluded farmer unity. On a trek around the country to meet members, the Federation's executive found 'a range of viewpoints' among the roughly 12,000 farmers whom they addressed over a four-week period.¹³³ One group, sheep station operators in hill country farthest from ports, were in the worst shape; dairy farmers saw a glimmer of better times; vineyards were increasing.¹³⁴ Some producers were not unhappy to see subsidized marginal farms leave their sector, reducing supply. The fall in income was brief; the farm debt crisis was not as severe as forecast. The government, Federation, and financial institutions reacted creatively. From the outset of

¹²⁶ AALR W5796 873 Box 1 Record T83/2/1/5, Farming finance needs – rural debt, current issues, and proposals, 1986–8, McKinlay to John Chetwin, 'Discussion with Rob McLagan', 19 Oct. 1987. Wallace, *When the farm gates opened*, pp. 106–7.

¹²⁷ *Ibid.*, p. 89.

¹²⁸ Turnbull, Douglas Papers, 88-353-182, Parliamentary Papers, Subject Files E–F, A. G. Harvie, Chairman, Te Karaka Branch, to Douglas, 13 Mar. 1986.

¹²⁹ Turnbull, Douglas Papers, 88-353-182, Parliamentary Papers, Subject Files E–F, D. Wright, Secretary, Women's Division of the Federated Farmers, to Douglas, 11 Feb. 1986; I. A. Noble, Provincial Secretary, Federated Farmers, Bay of Plenty Province, to Moyle, Minister of Agriculture, 21 Feb. 1986.

¹³⁰ Turnbull, Douglas Papers, 88-353-182, Parliamentary Papers, Subject Files E–F, Harvie to Douglas, 13 Mar. 1986.

¹³¹ Turnbull, Douglas Papers, 88-353-182, Parliamentary Papers, Subject Files E–F, R. A. Anderson, Provincial Secretary, Federated Farmers of New Zealand, Bay

of Plenty Province, to Moyle, Minister of Agriculture, 5 Mar. 1986.

¹³² Turnbull, Douglas Papers, 86-003-142, Labour Party, Electorate Secretary, 'How will GST affect me: farmers', *GST: The key to lower income tax* (Mar. 1985), p. 19; J. C. Lockhart, 'Results of a survey of planning and financial management on three farm types in New Zealand', *Papers presented at the fourteenth annual conference*, pp. 185–93.

¹³³ Turnbull, Douglas Papers, 88-353-182, Parliamentary Papers, Subject Files E–F, Peter Elworthy to Prime Minister David Lange, 2 Dec. 1985.

¹³⁴ AALR W5427 873 Box 1744 Record 70/5/85 Part 2, IMF Article 4 Consultations with New Zealand, 1985, 'Agriculture sector response to devaluation and other policy changes', p. 2; AALR W5427 873 Box 1746 Record 70/5/89 Part 1, IMF Article 4 Consultations with New Zealand, 1989, 'Minutes of meeting on general economic strategy and structural reforms', 4 Apr. 1989, p. 2; Turnbull, Douglas Papers, 87-121-144, Farm Package, clippings, *Evening Post*, 29 Apr. 1986.

trouble, the Federation's President Peter Elworthy endorsed Labour's restructuring.¹³⁵ As he told Douglas in early 1986, 'any scheme which detracts from the private sector motivation ... would not be productive'. Douglas recognized the value of personal contact. 'It would help', he directed an aide, 'if I could talk to Elworthy directly. Could we discuss?'¹³⁶

Shortly afterward, at a meeting of the Federation council attended by the Deputy Prime Minister Geoffrey Palmer, Elworthy stated that 'we are here to communicate not militantly, but responsibly and sincerely and with total credibility our view that the Government and public don't realise how tough it is out there'. Elworthy's mediation contributed to relative calm. Palmer expressed the Government's gratitude for farmers continuing 'this country's civilised traditions' and gratitude for resisting 'pressures to do otherwise'.¹³⁷ The Cabinet recognized that the Federation's more entrepreneurial members were allies in restructuring. Ministers also reached out to the wider rural community to explain government policy. Geoffrey Palmer, Roger Douglas, and the Minister of Agriculture Colin Moyle all addressed farmers' meetings in 1985–86.¹³⁸ In November 1985, Douglas put his head in the lion's den and answered questions from farmers in North Otago. These farmers respected him 'for coming down here and fronting up'.¹³⁹ During their struggle to help neighbours keep their firms, activist farmers thought Douglas lacked empathy. However, strands of respect, conceivably formed through small-country intimacy, wound through meetings between farmers and ministers. Years later, a 'Provincial Support Group' stalwart changed his mind after he studied some economics. Douglas was now 'a brilliant fellow', 'a phenomenal man', 'a genius'.¹⁴⁰ It had had to be done.

VI

In early 1987, the crisis was winding down (Figure 5): 'there is continuing difficulty in all the groups [farmers, agents, and merchants] though the worst outcomes expected last year had not happened'.¹⁴¹ Financial and emotional adjustments lingered, as did many farmers' unfamiliarity with applying for social welfare, seeking stress counselling, and negotiating with creditors. Fortunately, rural communities had a range of voluntary organizations: churches, citizens' advice bureaux, service clubs, the Rural Communities Trust, and the Women's Division of Federated Farmers supplemented the efforts of social workers from the Department

¹³⁵ Wallace, *When the farm gates opened*, p. 32.

¹³⁶ Turnbull, Douglas Papers, 88-353-182, Parliamentary Papers, Subject Files E–F, Peter Elworthy to Douglas, 27 Jan. 1986. See Douglas' marginal note.

¹³⁷ Turnbull, Douglas Papers, 87-121-144, Farm Package, 'Farmers' meeting with deputy Prime Minister, 8 Mar. 1986', verbatim transcript.

¹³⁸ Turnbull, Douglas Papers, 88-353-182, Parliamentary Papers, Subject Files E–F. The file on Federated Farmers has items on his visits to rural meetings to discuss policy affecting agriculture. See also 87-121-144, Agriculture, 'Address to 550 Farmer and Local Citizens, Lumsden, 13 Nov. 1985'; Jim Cameron, Executive

Secretary, Federated Farmers, Palmerston North, to Douglas, 10 Mar. 1986.

¹³⁹ Hocken Library, Rodger Papers, 87/41, Finance, 'Finance Minister Douglas answers North Otago farmers', 15 Nov. 1985.

¹⁴⁰ Wallace, *When the farm gates opened*, p. 108.

¹⁴¹ AALR W5796 873 Box 1 Record T83/2/1/5 Farming Finance Needs – Rural debt, current issues, and proposals, 1986–8, Helen Sutch, 'Note for File: Balclutha Visit 19 and 20 Feb.', 24 Feb. 1987. Turnbull Library, Eph-A-FARM-1990s-01, brochure on Rural Communities Trust and its grants since 1982.

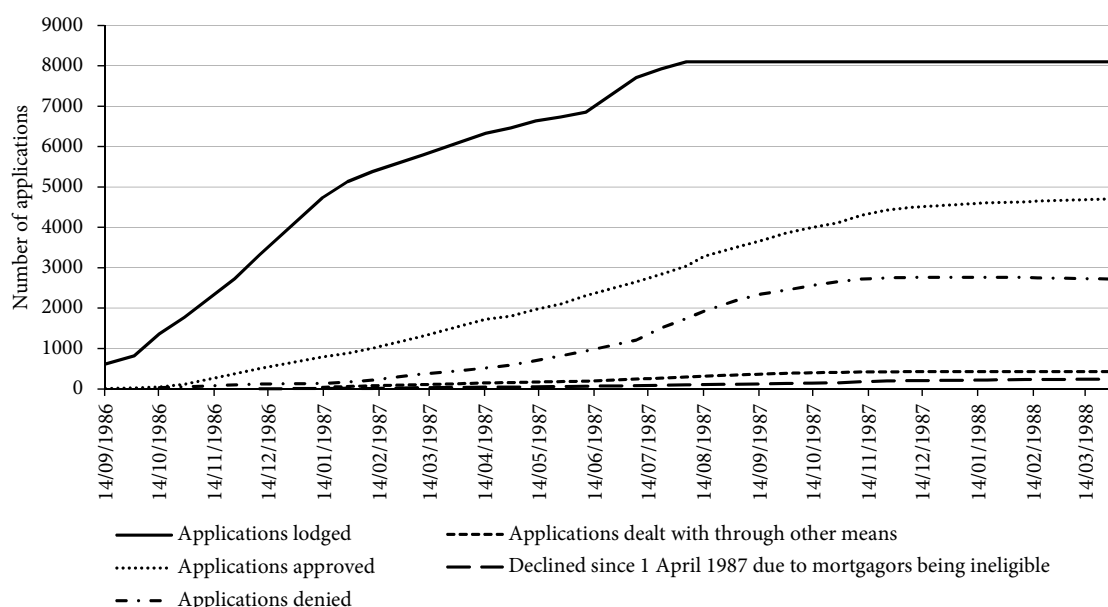


FIGURE 5: Total applications and outcomes for rural debt discounting scheme

Source: AALR W5427 873 Box 970 Record 61/1/40/5 Part 1, Rural Bank Discounting Scheme 1986–7; Part 2, Rural Bank Discounting Scheme 1986–7; Part 3, Rural Bank Discounting Scheme 1986–7, ‘Rural Policy Measures Report’ [Monthly].

of Social Welfare.¹⁴² A late initiative combined government and Federation resources. To ‘facilitate the restructuring and rehabilitation of farmers and their families’, in September 1988 Prime Minister Lange and Peter Elworthy announced the launch of the New Zealand Rural Support Trust. An independent body financed in part with government grants, it hired coordinators who directed farmers to existing government programmes.¹⁴³ Coordinators developed relationships with creditors, banks, accountants, lawyers, Federated Farmers, and MAF.¹⁴⁴ They combined local knowledge with empathy, providing ‘solutions’ that extended from assisting with business plans to helping ‘to exit with dignity’.¹⁴⁵

The ministers in charge of restructuring stressed the limited prospects for improvements in the country’s balance of payments unless rural producers ceased being protected at the farm gate from the falling terms of trade. Despite firmness, they did not turn their backs on privation. As noted, farmers had access to the same social welfare benefits as other citizens. The government emphasized equality because its economic initiatives marked an end to preferential treatment, an end to public support for supposedly independent farmers. The

¹⁴² Turnbull, Douglas Papers, 90-342-6, Further Papers, *A guide to the 1986 rural policy measures* (2 July 1986), p. 14.

¹⁴³ ACCQ W5415 515 Box 51 Record 51/3/5/1 Part 1, Rural debt management package, 1988, MAF Tech Memorandum: announcement 22 Sept. 1988. AAXA

W4750 Box 60, Policy and assistance/Assistance Rural Trust, 1994–5, Papers of Hon. John Falloon, Minister of Agriculture, Falloon to Wyatt Creech MP, 14 July 1994.

¹⁴⁴ Wallace, *When the farm gates opened*, p. 59.

¹⁴⁵ *Ibid.*, pp. 60–2.

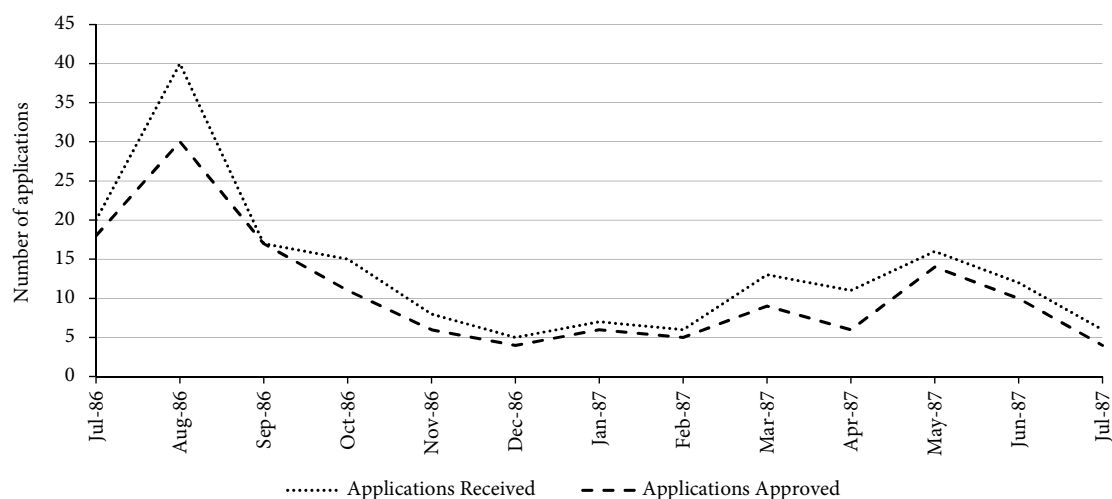


FIGURE 6: Number of new start mobility grants

Source: See Figure 5.

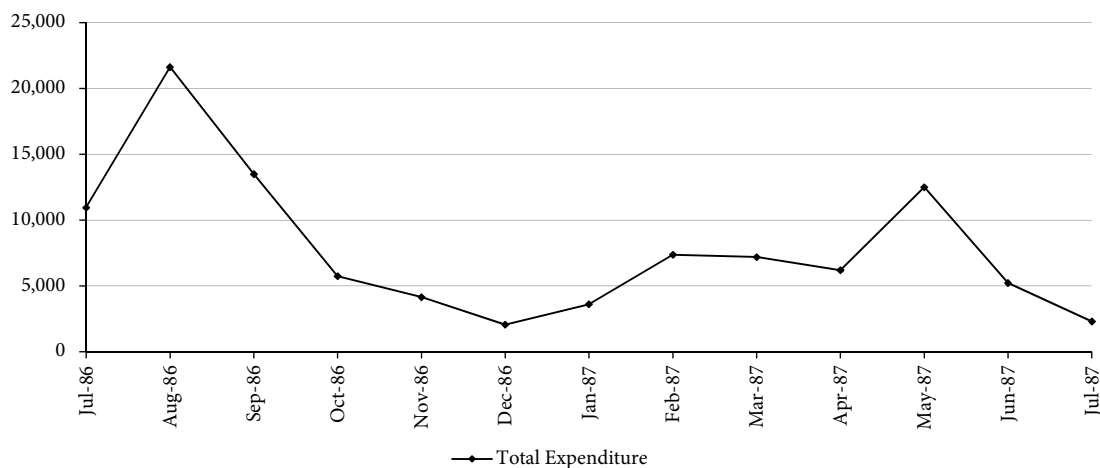


FIGURE 7: Total government expenditure on new start mobility grants, NZ dollars

Source: See Figure 5.

government would render that settler myth honest. Families who left their farms and sought employment elsewhere could apply for a New Start Mobility Grant administered by the RBFC (Figures 6 and 7). The scheme facilitated the exit of farmers with little to no equity; they could start a new life with a cash grant *if* they agreed to leave their properties.¹⁴⁶ They could

¹⁴⁶ AALR W5796 873 Box 71 Record T83/12/1 Part 4, Agriculture – evaluation of South Island drought package. Report Prepared for MAF by Brown Copeland & Co Ltd: ‘The 1988/89 South Island Drought and the assistance package provided by Government’.

take their car and personal possessions.¹⁴⁷ Labour wanted farming rationalized after years of subsidized over-expansion.

Following Labour's re-election in August 1987, Lange shuffled his Cabinet and transferred the RBFC from Agriculture to State Owned Enterprises, explaining that he wanted the bank 'to expeditiously precipitate the exiting of a number of farmers'. In this operation the bank should be 'seen to be more independent of traditional Government influences'.¹⁴⁸ That was 'political-speak' for shielding hard-nosed banker decisions from political meddling at MAF. At that moment, RBFC estimated that 2000 to 3000 clients would have to quit farming. It is unknown how many farmers left with 'encouragement' from private creditors who wanted them off the property.

Departures to start a new life with scant resources were materially and emotionally hard on families. Leave-takings upset neighbours and communities. The government's principles of restructuring meant that it did not want to be seen practising rural partiality and therefore would not spend to keep individuals on the land. However, there was limited assistance. MAF hired counsellors to help farmers draft farm budgets for creditor conferences (Figure 8), ran pilot projects for social assistance, and distributed aid to drought-stricken farmers in the South Island under an Adverse Events Family Income Support scheme.¹⁴⁹

As for farmers' own adjustments, there was activity with no conspicuous pattern. Terms like farmer and agriculture simplify a kaleidoscope of assets, and economic and social choices. Some producers acquired the property of a distressed neighbour; some who had shunned production subsidies undertook investment in the late 1980s 'in order to modernise existing facilities rather than expand capacity'.¹⁵⁰ Corporatization and family trusts, arrangements that separated property ownership from managing operations, enabled some families to stay on the land.¹⁵¹ In 1988–89, the profitability of the dairy sector was becoming notable.¹⁵²

Farm families with little equity or capital demonstrated resourcefulness and stamina to hang on: they reduced outings, employed fewer labourers, cut back on fertilizer and maintenance, and delayed capital expenditure.¹⁵³ Farmers and their wives pursued off-farm employment and sold mobile assets.¹⁵⁴ In April 1987, the Thames Agricultural Advisory Committee surveyed nearly

¹⁴⁷ Ibid.

¹⁴⁸ Turnbull, Douglas Papers, 90-287-9, Further Papers, Subject Files R-S, RBFC, Moyle to Lange, 20 Aug. 1987; Lange to Moyle, 28 Aug. 1987.

¹⁴⁹ AAFH W4160 Box 27 Record 100/3/9 Part 1, Social Impact Unit – SOE – rural package, I. J. Ritchie for the Director-General, Ministry of Agriculture, 23 May 1986.

¹⁵⁰ AALR W5427 873 Box 1746 Record 70/5/89 Part 1, IMF Article 4 Consultations with New Zealand, 1989, 'Minutes of Meeting No. 1', 3 Apr. 1989, p. 8.

¹⁵¹ Turnbull, Douglas Papers, 90-342-6, Further Papers, *New Zealand agricultural industry into the 1990s and beyond*, pp. 36–7; Land Corporation, *Equity investment opportunities in New Zealand agriculture* (June 1989).

¹⁵² AALR W5427 873 Box 1746 Record 70/5/89 Part 1, IMF Article 4 Consultations with New Zealand, 1989; IMF, European Department with consultation with other departments, Approved by P. de Fontenay and Thomas Leddy, 1989 *Staff Report on Interim Article IV consultation discussions*, p. 11.

¹⁵³ AALR W5427 873 Box 972 Record 61/1/40/7 Part 3, Rural Banking and Finance Corporation valuation of assets and liabilities, 1988, McKinlay and Associates to Secretary to the Treasury, 'Rural debt monitoring report', June 1988.

¹⁵⁴ Ibid.; AALR W5427 873 Box 1746 Record 70/5/89 Part 1, IMF Article 4 Consultations with New Zealand, 1989, 'Minutes of Meeting on general economic strategy and structural reforms', 4 Apr. 1989, p. 2.

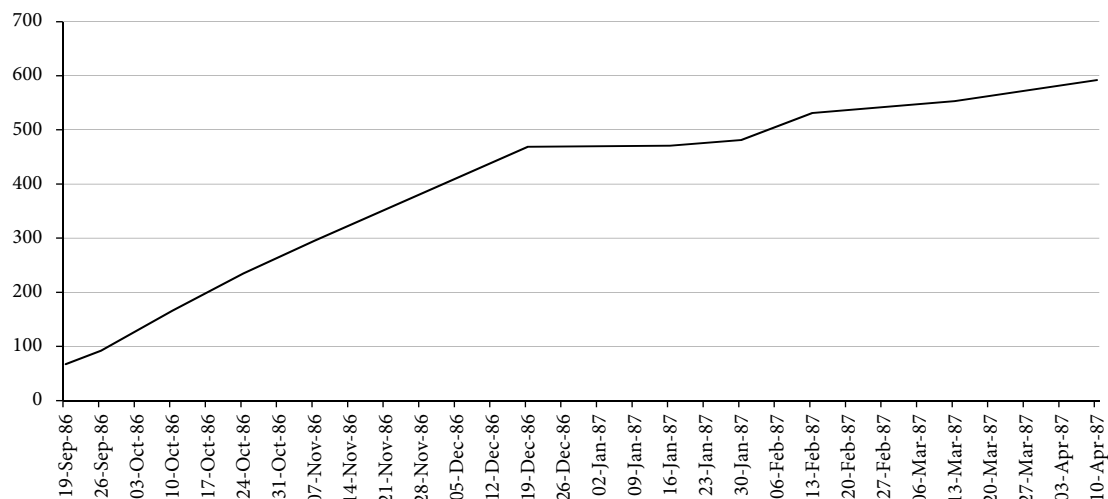


FIGURE 8: Running total of budgets completed by MAF advisors for creditor conferences

Source: See Figure 5

400 farmers and discovered that a quarter worked off the farm.¹⁵⁵ A MAF observer reported in early 1987 that the crisis was wearing down assets: 'seasonal expenditure in all cases is screwed down to below desired maintenance levels'.¹⁵⁶ Probably because of such retrenchment, 'the real value added per employee increased by 40 per cent' over the crisis period.¹⁵⁷ Some families were determined to save private enterprises revered as intrinsic to family, community, and country. Many children would not follow parents on the land, although not all who left regretted that decision.¹⁵⁸ One quantifiable sign of extreme stress, the suicide rate, which had fallen among farmers since the Great Depression, did not rise during this crisis.¹⁵⁹ Community volunteers may well have made a difference.¹⁶⁰

The decrease in assistance to farmers had bipartisan standing. In 1991, to the dismay of some in National's rural base, the new Minister of Agriculture John Falloon declared that people should not 'hold out hope for some of the poor managers and very low equity people who simply will find only hardship and misery unless they make the hard decision to leave agriculture'.¹⁶¹ Using an OECD measure, the Effective Rate of Assistance (ERA), including aid

¹⁵⁵ AALR W5796 873 Box 2 Record T83/4 Part 8, Government assistance to agriculture – questions and correspondence, 1986–8, Thames District Agricultural Advisory Committee, 'Rural lifestyle questionnaire', pp. 2–34.

¹⁵⁶ ABJZ W4644 869 Box 184 Record 47/1/0 Part 1, Rural lending under section 331/54 – policy and general – Rural debt restructuring package, 1986–7, P. S. Little to McKinlay, 5 Mar. 1987.

¹⁵⁷ AALR W5427 873 Box 1746 Record 70/5/89 Part 1, IMF Article 4 Consultations with New Zealand 1989;

IMF, European Department with consultation with other departments, Approved by P. de Fontenay and Thomas Leddy, 1989 *Staff Report on Interim Article IV consultation discussions*, p. 11.

¹⁵⁸ Wallace, *When the farm gates opened*, pp. 77–80, 109–14, 115–17.

¹⁵⁹ John C. Weaver, *Sorrows of the century: Interpreting suicide in New Zealand, 1900–2000* (2013), pp. 38–9, 108–9, 112, 119, 264, 282.

¹⁶⁰ Wallace, *When the farm gates opened*, pp. 64–5.

¹⁶¹ ACCQ W5415 515 Box 51 Record 51/3/5/1 Part 1,

to industries that serviced farming, MAF calculated that from 1984 to 1991 the ERA for pastoral agriculture had decreased from 52 per cent to -2 per cent.¹⁶² Labour managed the crisis to keep viable farms operating, while reducing unviable farms and establishing an appropriately tense relationship between lenders and borrowers.

VII

A problem that Labour encountered early in its administration remained. How can subsidy-free jurisdictions persuade subsidy-practising ones 'to reduce their high levels of assistance which distort international trade?'¹⁶³ Despite barriers to markets and cyclical challenges, rural production flourished. Advocates of a managed economy who predicated irreparable damage from liberalization were mistaken. When the RBFC discount scheme ended in 1989, there were 47,598 loan accounts, 5249 (11.0 per cent) in arrears.¹⁶⁴ It is impossible to offer a sound calculation of the number of farmers who left, perhaps somewhere at the low end of a range between the 1750 at 'severe risk' and 6590 'at risk' in 1985.¹⁶⁵ Rumours likely exaggerated. When a Wellington reporter set out in 1986 to 'search for the destitute farmer,' he was given a list of names but found it extravagant. A few cases arose from 'overspending and domestic problems'.¹⁶⁶ These were timeless causes for leaving the farm.

By the mid-1990s, the farm sector was on a recovery path. Dairy farm capitalization and intensification promoted efficiency, bringing an export surge running from roughly 2000 to 2010.¹⁶⁷ The wine industry experienced amazing growth. It is impossible to claim with confidence that a turn-around in New Zealand's rural fortunes was due to structural reforms since world economic conditions, improving in the 1990s and early 2000s, surely helped. Yet, by eradicating supports, New Zealand governments jolted farmers toward business-like responsibility and redirected resources from a long-established reliance on meat and wool toward dairy, wine, and experiments with other produce. There was also consolidation.¹⁶⁸ The country's rural producers had not escaped from cyclical hazards, but many were making a transition toward entrepreneurship.

Note 161 *continued*

Rural debt management package, 1988, MAF Tech Memorandum: announcement, 22 Sept. 1988. AAXA W4750 Box 60, Policy and assistance/Assistance Rural Trust, 1994-5, Papers of Hon. John Falloon, Minister of Agriculture, Falloon to Alec Neill MP, 17 June 1992; the quote is from Falloon to R. A. Upton, 21 Jan. 1992. Also see Neztel Log: Ex-RNZ 'Rural Report,' 13 Dec. 1991.

¹⁶² AAXA W4750 Box 60 Policy and assistance/Assistance Rural Trust 1994-5, Papers of Hon. John Falloon, Minister of Agriculture, Falloon to Merv Rusk, Hobson Electorate, New Zealand National Party, 14 July 1992.

¹⁶³ AAFD W4646 7581 Box 52 Record 11/7/43 Part 3, Cabinet Committee on policy, 4 Apr. 1986.

¹⁶⁴ Turnbull, Douglas Papers, 90-287-9, Further Papers, Subject Files R-S, RBFC, 'Terms of reference for a study of options for the future ownership of the

Rural Banking and Finance Corporation', Nov. 1987; 87-121-144, Agriculture, McKinlay, 'More news from the rural sector', n.d. [Feb. 1987].

¹⁶⁵ Farm statistics are unreliable. Stéphanie Multet-Marquis and John Fairweather, *New Zealand farm structural change and intensification* (Lincoln University: Agribusiness and Economic Research Unit, Mar. 2008), pp. 3-5.

¹⁶⁶ Turnbull, Douglas Papers, 87-121-144, Agriculture, clipping, *Dominion*, 13 Nov. 1986.

¹⁶⁷ Multet-Marquis and Fairweather, *New Zealand farm structural change and intensification*, pp. 9-12.

¹⁶⁸ Statistics New Zealand, *Tables on Agriculture* (www.stats.govt.nz/tools/nz-dot-stat), accessed 22 Jan. 2018; Multet-Marquis and Fairweather, *New Zealand farm structural change and intensification*, pp. 9-12.