

REGIONAL ECONOMIC DEVELOPMENT

IN THE CONTEXT OF THE

CHANGING NEW ZEALAND ECONOMY

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1. INTRODUCTION

My assignment in this Seminar, and my purpose therefore in this paper, is to give you some idea of the changes in the New Zealand economy which have been occurring, and are likely to continue in the future, and to relate these to the theme of regional economic development of the Nelson area. I shall deal with the topic under the following headings:

- Section 2      The Changing New Zealand Economy.
- 3              Requirements for National Economic Growth.
- 4              The Definition of Regional Economic Growth.
- 5              Broad Implications for the Nelson Region  
                    of the National Economic Trends.
- 6              A regional Development Policy.

## 2. THE CHANGING NEW ZEALAND ECONOMY

The following I believe are the major trends and changes occurring in the New Zealand economy, some of which bear on the question of Nelson regional development.

### 2.1 Marketing Difficulties for Some Traditional Exports

Export prices have fallen and market opportunities look gloomy for some of our traditional agricultural exports - especially for dairy products - at least for the next five or six years until the E.E.C. surplus question is cleared up. To a lesser extent for wool, for which prices have fallen, but for which, unlike dairy products, there is still the possibility of continuing to sell increased quantities albeit at the new lower prices. Meat prospects however still look reasonably good.

### 2.2 Emergence of New Types of Export Products

Happily the problems of some of our traditional exports are offset by the emergence of new exports - some like forestry products not entirely unexpected. Others like manufactured goods and processed horticultural products having received a great stimulus from the export tax concessions, from the devaluation of November 1967, and from the freer conditions for entry of our products to Australia under the Australia/New Zealand Trade Agreement.

The increase in exports of manufactured goods has surprised even the manufacturers themselves and naturally it has delighted the Government in its successful efforts to secure balance in our overseas accounts. I have suggested that devaluation had a big effect here, and as

well there was the relatively depressed home market during 1967/68. The worry is of course that by successive wage and cost increases the benefits of devaluation will be lost, and that the roaring ahead of the home market in an election year will suck into local consumption goods which last year would have been destined for export. However, there is evidence that the Government is exercising more restraint than is normal practice in an election year and that many manufacturers, having flexed their muscles in the export field, are determined to exploit their success and continue as exporters. This augurs well for New Zealand.

### 2.3 Declining Relative Importance of Traditional Agricultural Exports

Note that I said relative importance. Even with the development of new exports, agricultural products are still of massive absolute importance and will continue so.

### 2.4 Shift in New Zealand's Export Trade Pattern -

Away from Britain towards diversified markets and especially towards the Asian and Pacific region. This is a logical development for which there are many reasons, of which the most important is the movement towards self-sufficiency in food of the British economy and the British determination to enter the E.E.C.

### 2.5 Adoption of Tough Government Policies for Crisis Situations

I refer here to the adoption by the Government of classical economic remedies for the overseas payments crisis of 1967, viz. devaluation, tough fiscal and credit policies, even to the point of producing unemployment on a scale which

was really relatively minor but which for New Zealanders had been thought unthinkable since the war.

The important aspects of this adoption of older style policies are that they worked brilliantly, that the electorate seems to have accepted and understood the discipline needed in the difficult period behind us, and that even unemployment, provided it is at minimal level and reflects only the transition of people from job to job, is not now quite the bogey it was.

## 2.6 Recognition of the Futility of Import Control

The measures adopted to meet the 1967/68 crisis had a dramatic effect in lowering imports in New Zealand, demonstrating that import controls were not required for these purposes. Furthermore there is now an acceptance, even by many leading manufacturers, of something which economists have been advocating for years, viz, import controls have led to the protection of the wrong sort of industries, have stifled competition and should be replaced by moderate tariffs. Import substitution for its own sake is no longer regarded as of greater importance than ensuring that the right sort of economic and efficient import substitute industries receive encouragement from a tariff. Allied to this is, I think, the recognition at long last that we do not need industries to create employment, as our problem is really one of shortage of labour. We need industries to add in the most economic way to our real income per head.

## 2.7 The Problem of Slow Economic Growth

With all the success which has of late attended the Government's corrective policies for short term fluctuations in the economy occasioned by inflation and the sudden cyclic fall in export prices, the New Zealand economy is still guilty of very poor performance in terms of economic growth -

measured as gross national product per head. Because g.n.p. per capita has in recent years been growing very slowly (1%-2% p.a.), New Zealand, which ten years ago was second only to U.S.A. in living standards per head, is now well down in the league table, even though one has to accept with great caution international comparisons of this nature.

## 2.8 Recognition of the Need for Economic Planning

The slow growth problem is now being tackled by the method of a National Development Conference which, in a loose sort of way, is responsible for drawing up and debating a development plan for the next decade. This process of national indicative planning is an important development for New Zealand and it has, as I shall say later, great relevance I believe to regional development problems. Of critical importance to the whole process of discussion, consultation, negotiation, etc., between the various main sectors of the economy, has been the careful and complicated research which has gone into the production of a set of projections of the economy in 1980 and a set of consistent target growth rates for output from each sector, if a projected growth in g.n.p. of 4½ per cent per annum up to 1980 is to be achieved without strain.

The critical requirements to achieve this were discussed at the August session of the N.D.C. and will again be the subject of very intensive discussion in May. It is appropriate for us to look at these for a moment since in all cases there are important implications for the Nelson region.

### 3. REQUIREMENTS FOR FASTER NATIONAL ECONOMIC GROWTH

As determined by the National Development Conference last August, the following are the strategic requirements to secure a growth in g.n.p. of 4.5% per annum or 2.7% per capita per annum.

3.1 Increased Exports. Without these, economic growth is impossible in New Zealand, unless we are to continue to suffer perennial balance of payments crises. In spite of all our so-called import substitution of recent years, our dependence on imports is as great, or even greater, than ever.

Because of the difficulties mentioned before for some of our pastoral exports and because we need a greater volume of exports than even that resulting from the high target set for agriculture by the Agricultural Development Conference, the new export targets to 1980 are very high for Horticultural products, Forestry, Fishing, Mining, Manufacturing and Tourism. The growth rate for agriculture will still be as before but at the margin it is these newer sectors which will provide the extra exports which alone can make the difference of 1 or 2 per cent in our growth rates.

The required export growth rate will be much higher in the first five year period to 1972/73 than in the second, partly to repay debt and secure a reasonably sound long term position in the balance of payments and partly because of the need to offset the decline in the terms of trade occasioned by devaluation. For this reason the rate of growth of consumption will need to be lower in the first five year period than in the second so that resources can be freed for exports.

A further reason for restraint in consumption is found in the next strategic requirement for faster growth, viz:

### 3.2 Higher Investment

Faster growth in production, and therefore real income, depends on the putting aside each year of a greater amount of our product into new buildings, plant and equipment for productive purposes. At the August National Development Conference it was decided that the level of annual investment over the next decade would have to rise from 25% to 27% of g.n.p. immediately. This may not appear to be a great amount until it is realised that there are only two ways of achieving it.

- (i) Increased foreign borrowing on which there are definite limits so that the bulk of the increase will have to come from:
- (ii) Increased domestic savings (i.e. reduced consumption) by 8%-9%.

This is a very high lift in savings indeed and it is not going to be easy to achieve even with a rise in interest rates, and savings incentives, both of which I feel are bound to come.

One way of partially meeting the problem is of course to attack the other side of the equation and try to reduce the investment requirements per \$ of increased product. There are two ingredients to this to which we now turn. The first concerns the heavy emphasis in New Zealand on non-productive social investment (mainly housing) and the second the better allocation of capital within the productive sector.

### 3.3 Social and Productive Investment

By social investment is meant mainly housing, roads, amenities etc. The distinction between such investment and that which I have called productive (factory machinery, farm improvements etc.,) is rather arbitrary and indeed ought not to be made. It is not so much that houses and roads are not productive as that their productivity is difficult to measure accurately and that as a result expenditure in these directions tends to be less carefully scrutinised and more wasteful.

The fact remains that New Zealand has a higher proportion of its investment in social assets than most other countries, and not surprisingly therefore a lower rate of growth in g.n.p. than most.

In the future I am sure social investment, especially expenditure by local bodies, will be under much heavier restraint than in the past. Most of the finance required will have to be raised locally and more of it by taxes.

A most desirable development would be for government lending agencies to give the lead by liberalising their loans on old houses which are decaying in the hearts of our cities while we squander investment funds on new houses plus ancillary services on the peripheries of our already ballooning cities. There will also be more pressures to build upwards in the form of flats.

I should like to make it clear in saying this, that I personally support high levels of social investment and that I believe the excellent and aesthetically attractive way in which our population is housed is something of which New Zealanders ought to be very proud. What is important however is that we get the very best for every dollar spent and that we be made aware that if we spend our investment resources in this way we cannot also have more factories etc., to turn out the goods and services which we also demand insatiably.

### 3.4 Better Allocation of Productive Investment

The second way of reducing our investment requirements is to ensure that capital is allocated to the more productive sectors, firms and projects, and that wherever possible economies are secured in the use of capital by shift work, rationalisation of industry etc.

As far as the first point is concerned i.e. the productivity of capital, one factor which will contribute to this is the greater degree of competition from imports which will follow from the substitution of tariffs for import controls as a method of trade protection. The new industries which will be established in the future, and the ones which will expand will, in addition to exports, be those which can produce products which are reasonably competitive with imports in price, after allowing for a moderate tariff. Industries which have grown up under the shelter of import control and cannot satisfy this criterion, will eventually wither away unless they can so rationalise themselves as to be competitive. The better allocation of capital towards export industries and economic import substitutes will raise the real income generated per dollar of investment which is the same as saying that the investment requirements per dollar of output will be lowered.

### 3.5 Technological Training and the Adoption of New Technologies

Economic research relating to overseas economics and to New Zealand indicates that over and above the contribution made to economic growth by increased investment, a major contribution is made by technical change - new inventions, new methods of production, better management techniques etc. In New Zealand this has been particularly true of the agricultural industries and reflects the accent which in the past has been placed on agricultural education and research; the expenditure on extension services and the receptivity of New Zealand farmers to new technologies. We are likely to see the same approach developing in the future as far as manufacturing industries are concerned though care and selectivity will have to be adopted since in a small country like New Zealand we cannot hope to cover the whole field of technology except at enormous cost.

The new industries which are appropriate in New Zealand in the future are likely to be those which embrace complex technologies and which rely on technological and scientific skills rather than those which rely on cheap raw materials or on economies of scale from large markets, neither of which we have. But we do have a highly intelligent population, a good University education system, and a rapidly growing technical education system, and these will all be most important contributors to economic growth in the future, especially the latter, since one of the bottlenecks is going to be shortage of skilled technologists.

### 3.6 A Summing up on Growth Requirements

The points I have made so far can all be summed up by saying that in the next decade we are going to see some structural changes in New Zealand with added impetus given to exporting industries, agriculture, forestry, fishing, mining, manufacturing and tourism; to efficient import substitutes; and to the building industry (which is the major investment goods industry). That industries providing consumer goods, including some parts of manufacturing, will be under some restraint and that investment funds will be harder to come by unless for projects of high productivity and good payoff. Above all, the economy will be characterised by greater competitiveness, especially in relation to imports.

Before we turn to the relevance of these national developments for the Nelson region, I would like to say a word or two first about Regional Economic Growth in general.

#### 4. REGIONAL ECONOMIC GROWTH.

Here I want particularly to be sure we know what we mean when we talk about regional growth since I feel this is likely to be an area of confusion.

I defined, earlier, economic growth in the national context as maximising real income per head of population. This I consider should, broadly speaking, also be the goal for growth of a region. (Of course there are other qualifying aspects to this goal, both nationally and regionally, which ought to be considered. These include such things as the stability of income, the distribution of income between sections of the community, the number of hours worked per worker day, etc. But time does not permit discussing these here.)

However, one gets the impression that when people talk about regional economic growth they are in fact talking about the need to increase aggregate or total income, not per capita, or even worse that the goal is to maximise population and employment in the region.

The regional development goals will of course vary according to different people's viewpoints. Retailers and traders, Real Estate Agents, Transport Operators, Service Industries etc., will all of course prefer to see the maximum possible population in the region but from the community's point of view in general this may be far from desirable if it conflicts, as it well may do, with maximum real income per head.

Conflicts are bound to arise because of:

- (i) An inadequate natural resource or industrial base to absorb people without lower product per head (i.e. the problem of diminishing returns).
- (ii) The rising cost of providing civic services, roading drainage, water and power supply etc.
- (iii) The costs of air and water pollution and the general social diseconomies of more people just for people's sake, such as we find in the almost frightening urban sprawls of North America, Britain and Europe.

Of course to say that the aim should be the maximising of per capita income and not total income or population, begs the question as to what population should be aimed for. To the extent that regional income is generated in a large number of industries based on natural resources, as is the case in Nelson, then, because these industries operate under conditions of diminishing returns, per capita incomes could possibly be increased by encouraging emigration. But of course I am not suggesting that, but equally and more positively I am suggesting that Nelson should not necessarily encourage immigration into the area. The optimum population can only really be decided as the result of a detailed research investigation, but in lieu of this, the best population policy to aim for is one which retains in the area the bulk of the Nelson youth born here, because only in this way is a community's vitality and energy preserved and Nelson already has more than the average proportion of the aged and therefore presumably the conservative.

To repeat and conclude then, the development goal for Nelson ought to be Maximum real income per head for a population with at least no net emigration and possibly no net immigration.

We can now turn to the main point of this paper and discuss the broad implications for the Nelson region of the national economic trends described before.

5.           IMPLICATIONS OF NATIONAL ECONOMIC TRENDS  
                  FOR NELSON REGION

I shall deal seriatim with the main economic changes, trends and policies which I discussed earlier.

5.1       Exports. Nelson is well placed, it seems to me, to profit from the particular type of export accent described before. Horticulture and food processing is already important in the region and will become more so. In the manufacturing field Nelson is not likely to be placed at so much of a disadvantage as in the past, compared with say Auckland, because the accent will be not so much on the home market but on industries which have high export potential and which depend on technology and a well trained labour force, and these types of industries can be located anywhere. But they will have to be industries which can export or can compete effectively with more freely admitted imports. In this respect I now feel more than justified in my own opposition some years ago to the establishment of the cotton mill which, if it had been established, would now be one of the industries the fate of which you would be worrying about once import controls were lifted.

One industry in which Nelson is deeply involved is tourism. It seems doubtful to me that Nelson will benefit greatly from the growth of overseas tourism but on this question later speakers are more competent to judge than I. But local tourism is certain to continue its rapid growth. It is, after all, one form of expenditure which does not involve foreign exchange and likely therefore to remain relatively cheap (compared say with imported goods bearing costs of a tariff) and its relative cheapness will encourage its growth.

## 5.2 Investment and Savings

Higher interest rates and tighter capital availability will mean greater expense in local body operation and savings incentives and policies to restrain consumption will reinforce the developments mentioned above of less relative accent on industries making goods for home consumers' market compared with exports or investment.

## 5.3 Social Investment

Under conditions in which regions are forced by local taxes etc., to raise more of the finance for local authority purposes, areas such as Auckland are likely to become more expensive in which to live - they are already expensive enough. Regions such as Nelson are undoubtedly cheaper at present, at least this is my impression, though it would be well worth while sponsoring some research on this question of comparative cost of living between Nelson and other cities in New Zealand, and publicising the results as part of your promotion campaigns. But under the conditions prevailing in the next decade the relative advantage probably possessed by Nelson in this regard could improve even further.

The costs of housing and providing amenities for every extra 1000 workers is, I should imagine, much lower than in Auckland and if, as I have suggested, we need to economise on social capital then this fact should be made the subject of a properly organised research programme and the results pointed out to the Government as an argument for a programme of decentralisation of industry. As a further aid to attracting people, or more realistically to holding on to them, which incidentally meets the requirement of economising on social capital, could not the region develop arrangements to provide easier finance for older houses which, because they are cheap, would be attractive to younger people?

Consistent with my earlier discussion on the goals of regional development, the aim in highlighting Nelson as a low marginal social cost area is not so much to bring in

more people as to bring in more industries which ought to be attracted to the region for the same reasons.

#### 5.4 Better Allocation of Productive Investment.

On this score all I wish to say, by way of repetition, is that the growth industries of New Zealand and of Nelson will be those which, being based on some plentiful local resource, are efficient and economic. Most of Nelson's economic activity is of this sort already and the new Nelson industries such as forestry, minerals and (dare I say it) fishing, ought to be of the same nature if they are to conform (as they will be made to) to national criteria for allocation of investment and, as suggested earlier, future economic policy will be such that they will have to conform if they are going to survive.

The most important economic resource however is people, especially well educated and well trained people and this brings me to the application of the last growth prescription, viz, technology to the Nelson Region.

#### 5.5 Technology.

Nelson already has a reputation for first class educational establishments. In the long run this should be used as the basis on which to build further,, especially by strengthening as rapidly as possible the existing Technological Institute to the point where it is the leading institution of its kind in New Zealand.

The new industries of the next decade are likely to follow the skilled labour force rather than the big markets.

A reputation in the Nelson region for a sound, stable, reliable, and above all, well trained labour force, plus a reputation for education facilities in the region, turning out in an adaptable and flexible way the sort of technologically

trained labour force required by industrialists - these are the sort of things which, if publicised enough, can attract the right sort of growth industries.

There is some fragmentary evidence that in some established Nelson industries such as agriculture and horticulture, there are very wide differences in the performances of operators and that new farm technologies have not been adopted as rapidly as in other agricultural regions and that there may even be an emerging agricultural poverty problem. These suggestions need substantiation from research but if they are correct it indicates a need to strengthen the extension services or even to generate some special ones of your own, and possibly to develop your own special agencies to deal with the problem of farms that are too small to be economic.

6. A REGIONAL DEVELOPMENT POLICY

There was one final trend in the New Zealand economy in my earlier list which I have not discussed in connection with Nelson. This was the recognition of the need for national economic planning.

I would like to conclude this paper by suggesting that there might be a similar need at regional level and so I want to make a few suggestions on a regional development policy for Nelson.

The formulation of such a policy for the Nelson region, no less than for the nation, must be based on a programme of economic research which in nature is not much different from that which formed an integral part of the National Development Conference.

Such research must be aimed at

- (i) Formulating projections of the economic shape of the Nelson region at some future date, say 1980, in the absence of any changes in policies, i.e. if things just take their natural course.
- (ii) Comparing the historical and projected economic performance of the Nelson region in terms of income per head etc., with other regions and with the performance of New Zealand as a whole.
- (iii) Examining the changed picture of the future which emerges when alternative but specific development plans or policies are adopted.
- (iv) Establishing, by programming techniques, the most efficient and least costly way of achieving any one, or indeed a combination of preconceived, economic future goals for the Nelson region.
- (v) Based on this, devising a development plan which, while graced with that name, is really only a type of regional economic budget indicating what

is possible, feasible, and desirable, as a picture of the Nelson economy in 1980, and how it is hoped to get there.

- (vi) Economic research of this type on a regional economic model of the Nelson area is time consuming and not easy, but the research techniques, mainly involving mathematical programming of various types, are all now well developed and proven and indeed, in many ways, are not dissimilar from the techniques which were used in devising and exploring the development plan for New Zealand as a whole under the National Development Conference.

If then Nelson people and business men feel concerned about the need for a development policy, why not organise a mini N.D.C., with the N standing not for National but for Nelson.

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