

Auckland, New Zealand  
April 28, 1967

Dear Homer:

Mr. Mowbray, General Manager of the National Bank of New Zealand, summed up his comments with "We in New Zealand have only two assets, rain and sunshine." For the first forty-eight hours of our stay we saw only the first.

Located at the southern end of North Island, Wellington is a port city on Cook Strait which separates the two main islands (we didn't have time to visit the South Island, with its snow-covered Alps and majestic fjords). The almost constant wind and frequent rain which characterize that city were in full force when our propeller-driven plane completed its four-hour flight from Sydney and came down on a runway, too short for jets, almost in the center of town with its two-story control tower surrounded by private homes.

Another characteristic was also apparent. An over-worked Australian gag goes, "I spent the week end in New Zealand." "How was it?" "I don't know, it was closed." Never really jumping, on the day of our arrival New Zealand was "closed" for ANZAC Day and, as a consequence, there were no porters to help with our six bags from plane to cab (interrupted

by a detailed examination of the soles of our packed shoes, because we had truthfully said "yes" when asked if we had been on a farm or ranch in the past three weeks).

For the moment we were uncertain whether it was worth while to visit that windy, wet town of 256,000 people. But, after a night's rest, in a stout raincoat, with one hand on hat, I set forth to make five bank calls and was warmed by the very pleasant men who head these banks.

New Zealanders are said (by the Australians) to be more reserved. Our personal experiences -- and we have had many in the last three days -- indicate that the New Zealanders are much friendlier and, indeed, as helpful as any people we have ever met. This includes the bankers.

Wellington is only about half as large as Auckland but is the capital city and each of the local banks has its head office there. \* Three months ago the bankers were primarily concerned with the possibility of devaluation, but today that threat is deemed to be quite remote and they have returned to the continuing underlying problems of their country.

New Zealand is a primary producer. Its main product is wool and its second dairy products. The export of these is the principal source

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\* There are one, two or three "local" banks, depending on who defines "local." The Bank of New Zealand, owned 100 per cent by the government, is local but not private. The National Bank of New Zealand is private, but last year 100 per cent of its stock was acquired by Lloyd's Bank (in London). The Australia and New Zealand Bank has been here the longest but its stock is more heavily owned in England and Australia. The branch of the Bank of New South Wales can't claim to be local -- but is very aggressive.

of the foreign exchange needed to buy manufactured products from abroad. But the prices of its wool and butter fluctuate widely and they are down at the moment.

A cross between the Merino and Lincoln sheep (with some other blood thrown in), the New Zealand Corriedale is an excellent producer of wool and a good quality of meat as well. The country's beautiful green pastures (which carry about three sheep to the acre) produce a great quantity of wool. This was in great demand during the war and a Wool Commission was created by statute to market the nation's crop at that time. Some of the large proceeds were withheld, and these funds (which at a later date could not be distributed because some of the original producers could not be found) became the Commission's original capital.

Now each year this Commission sets a price floor at which it will buy all tendered wool. If, as in 1958, the world price falls below that level, the Commission buys great quantities. After the 1958 purchase, wool prices rose steadily and the Commission acquired much more capital. This year the world price for coarser grades has fallen below the Commission's floor price, and again the Commission has acquired a great deal of wool (about 30 to 40 per cent of the output), some 300,000 bales at a cost of 50 to 60 million dollars. This may or may not work out well for the growers, but it has a very unfortunate impact on the country's balance of payments because it provides the growers with purchasing power with which they can

buy imported goods, but, since the Commission is unwilling to sell the wool on the world market at present prices, the crop is not exported and, hence, it produces no foreign exchange.

There is a similar problem with butter. There is a government-sponsored "Dairy Board" which serves as the sole purchaser and marketing organization for butter, cheese, and other dairy products, except whole milk. Here also there is a "guaranteed" price, presently 335 pounds sterling per ton, but as the world market (in London) is 300 pounds sterling, this product, too, is being held off the market and stored in New Zealand. Here, again, money is going into the hands of farmers for expenditure (for imports as well as domestic goods) without the necessary foreign exchange being brought into the country.

Devaluation would not cure this situation for more than a brief time. Wages would go up and the farmers would demand higher wool and butter prices; thus, the only gain would be temporary, and the discouragement of foreign investment (which would result from devaluation) would make it a poor bargain.

Attracting necessary foreign investment is already a troublesome problem. The Governor of the Reserve Bank thinks the country needs an inflow of about 5 million pounds each year.\* They are not getting it,

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\* The New Zealand pound is on a parity with the English pound, but later this year (July) the country will adopt a decimal coinage with the dollar worth ten shillings (\$1.40 U.S.) -- "The dearest dollar and the weakest currency in the world."

however, for the balance of payments problem of England and the United States (with the consequent "voluntary program" and the Interest Equalization Tax in our case) has cut down this important source of foreign exchange. In fact, last year, although New Zealand had a trade surplus, there was such an outflow of capital (excluding reinvestment of local earnings) that the balance of payments resulted in a net deficit.

So what to do?

The government apparently understands the problem and has made a great to-do about cutting back its expenses (which, as in every democracy, only means cutting back from where it might have gone, not actually cutting back below where it had been) and, as of February, it took off the subsidy on butter which had kept the local retail price down to two shillings a pound (about 28¢) as against a free-market price of two shillings six pence (35¢) where it now sells. It also removed the subsidy on flour and bread, which thereupon doubled in price. The government has also cut down on construction -- a government permit must be obtained before building any structure costing over 30,000 pounds. It also has imposed import controls. Except for certain necessities (chemicals, petroleum, etc., which may amount to about one-third of total imports), it is necessary to obtain a government license to import goods, and the amount of licenses to be granted after this coming July will be cut another 20 per cent.

These measures may help, but, when I asked a very important man in the government what he would do if he were the Chief of State, he

said he would eliminate all subsidies and all floor prices (as on wool and butter) and point out to the people that, just as they have to buy imports at world prices, so must they sell their exports at world prices. They could not expect the government to maintain artificially high prices for goods that have to be sold abroad.

But the government will not do just that. In fact, this morning's paper reports that New Zealand is considering pulling out of the "Kennedy Round" of trade talks, now nearing its end, because it cannot get adequately favorable terms. There is some feeling that it might do better by negotiating individual deals with each country separately. This may be illusory. North and South America and continental Europe produce plenty of butter and butter substitutes. England has been a great purchaser, but, if it enters the Common Market, then Dutch butter will be available without trade barriers. It is said that New Zealand can produce it at lower cost than other countries, but, if New Zealand is not willing to meet world prices, it is not going to sell its butter.

But all is not black. Production is increasing and, for the past three years, growth has averaged between 8 and 9 per cent in real terms. Consumer prices have been rising only about 2 to 2-1/2 per cent per year (which Governor Wilson of the Reserve Bank considers "a very good record").

Prices may rise a bit more this year, in part because of the removal of the domestic subsidies on flour, bread and butter, and in part because of substantial wage demands. Here, as in Australia, although labor unions are quite strong, wages are not negotiated between employers and unions. If either the Employers Federation or the Federation of Labor asks for a "general wage order," a hearing is held and a federal judge sets the basic or "award" wage. Last year labor asked for an 8 or 9 per cent increase, but the judge (who had recently been appointed) held the increase to a mere 2-1/2 per cent. This surprised everyone and infuriated labor which will make a strenuous effort for a greater increase this year.

A banker is tempted to explain New Zealand's problems as being the direct result of a "welfare state." It is true that, even prior to this century, New Zealand's Parliament enacted labor relations laws to protect unions and establish minimum wages; it subdivided large properties, financed the acquisition of small tracts by individual farmers, and passed the first old-age pension act (at least the first in any English-speaking country). These earlier laws were expanded and much other social legislation was enacted during the depression, and extensive health and medical plans were undertaken so that today "the State has become the foster father of all the nation's people and a partner of many of its farmers and businessmen."<sup>\*</sup> If they have gone too far in that direction, they are not very likely to change -- short of some

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\* See LIFE's World Library, "Australia and New Zealand" (1966) page 79.

catastrophic experience. \*

Perhaps the crux of the problem is that on these friendly, pastoral islands life is so pleasant, so productive and so remote that the people have lived and continue to want to live well fed, simply, and unconcerned about foreign problems. But they can't. They would expect the United States to help them if their independence were ever threatened, and they have troops fighting alongside ours in Vietnam and others training now in Malacca.

Much more significant, they want automobiles which must be purchased abroad (although B. M. C., Ford and G. M. now have assembly plants here); they want gasoline which (despite a very small amount produced here and a new exploratory lease recently granted by the government to Esso and others) has to be purchased abroad. \*\* They want television, radios, electric razors and towels (those in our hotel bathroom are from Fieldcrest), etc., all of which have to be purchased abroad. If they didn't want these things,

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\* I asked a cab driver if he thought there was too much government ownership and regulation. "Indeed there is. Our cabs are private enterprise. We have to hustle to make a profit, but the buses are operated by the government at a great loss which has to be made up in higher taxes on us working men. The government is weak. It lets people raise prices. Custard is up 25 per cent in the last two months, and my wife says everything else is, too. The government should fix prices and not let that happen." Like far too many of us, without realizing it, he wants freedom for himself but controls on others!

\*\* They are, however, building a steel mill to process iron ore sands from the western shore of North Island.



they could produce whatever products they wanted and sell them back and forth within the islands at any price which they (or the government) wanted. But the hard lesson that they (and all of the rest of us) must learn is that, if you want to buy any goods or services outside your nation, then you must sell outside your nation -- and sell at the price which outsiders are willing to pay. New Zealanders, so comfortable at home, have not yet faced up to that hard lesson.

Is it worth while to come to New Zealand as a tourist? Yes, indeed!

First, you can see a variety of the whole world's scenery.

In a 1,500 mile trip from south to north, you can visit Antarctic glaciers, Norwegian fjords, Swiss Alps, English sheep-covered parks, the dun hills of California, the vineyards of Italy, the farmlands of central United States, and on up to the sub-tropical climate and Polynesian culture of the extreme North.

Not being a lyricist,<sup>\*</sup> I cannot describe the country except to say that every direction in which you look is like a beautifully composed and colored painting. In the immediate foreground there is a neat fence.<sup>\*\*</sup> Just beyond, hundreds of large white sheep graze on almost blue-green pasture that looks as if it had been recently cut. Behind this, the gentle

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\* When I said to Mrs. Freeman that the distant sheep looked like "maggots on a mound of moss," she observed that I was quite unlikely to win the poetry prize with that imagery.

\*\* Good sheep-tight fence with six or seven strands of smooth wire with five to seven substantial stays between posts.

hills rise to a cloud-covered mountain in the background. By the cottage on the left is a hedge of hydrangeas, bigger than we have ever seen before, and to the right in the valley a cluster of poplars whose autumn gold reflects the sunshine. Everywhere that you look you see sheep<sup>\*</sup> -- sometimes you see them grazing in the same field with cattle (as an avid reader of "Westerns," I thought someone had to be shot when that occurred).

This country is far more mountainous and far more beautiful than Australia (which is surprisingly flat), with the result that it has many fast-flowing rivers that provide substantial hydroelectric power. Another source of power which intrigued us was the volcanic faults in the Wairakei Valley where steam roars out of the ground and sweeps across the highway. Engineers have now drilled deep in the source and developed power to drive turbines to generate electricity.

Second, the country is unspoiled by tourists.

We were told that New Zealand has more automobiles in relation to its population than any country other than the United States. If so, they are kept in the garage. Driving from Wellington to Wairakei, we sought in vain for another car going in the same direction in order that we might follow its lights, for the road is one constant series of curves. The next morning,

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\* Fast shearing of sheep (each grower wants his shorn at the same time) is so important that Godfrey Bowen, who established the world's record by shearing 463 in one day, is a national hero.

driving from Wairakei to Waitomo, on one stretch of about sixty miles of gravel road we did not pass a car. \*

If we were retired and in good health, I would love to take a month or two to drive leisurely through both islands.

Third, the people are very pleasant.

This is an English-speaking country (it is much easier for an American to understand and be understood here than in Australia) with a very pleasant, helpful people. The Australians had said that we would find the New Zealanders quite reserved. On the contrary, they have proved to be much more helpful and warmhearted. Our unfortunately inadequate rental car had among its defects the inability to start. Thus, each time the engine died we had to spend at least half an hour in feverish effort, in pushing and in prayer. Each time everyone within hearing distance of the Cortina's whining starter dropped his own work to come and help -- actively, either by getting in the seat and sharing the frustration or by getting out and pushing.

In addition to these European New Zealanders, there is an earlier race, perhaps descendants of the Polynesian, Kupe, who came here by canoe over one thousand years ago and returned with sufficiently precise sailing instructions (by sun and stars) for hundreds of his people to follow him some 400 years later, in 1350. These are the Maoris, who, in 1840, agreed to cede the government to the British Crown. These pleasant,

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\* This was all right with me, for, though I understand the concept of driving on the left, in moments of crisis I swing back to the right and invariably move the turn indicator when I want to shift gears!

golden-skinned people declined from about a quarter million down to only 40,000, but have now increased to about 170,000. They are no longer a race apart, but are becoming fully assimilated and are engaged in all activities and professions.\*

Fourth, you would see some unusual bird and animal life.

I gather that New Zealand was cut off from other land masses at a very early date. Until the Polynesians came, there was no mammal here but the bat. The great bird, the moa, now extinct, stood twelve feet tall. (I walked right into a replica of one on the stairway of the Central Bank and got quite a shock.) The odd-looking, flightless kiwi, with its long beak, has given New Zealanders their nickname. Tramping through the jungle-like growth, it is a comfort to know that New Zealand has no snakes -- indeed, the only reptile is the iguanalike tuatara, said to be the world's most archaic.

We went considerably out of our way through magnificent forests to visit the Waitomo Glowworm Grotto where, in a boat, we moved silently through vaulted caves to see the millions of tiny lights of the "glowworms,"\*\* a larva which clings to the ceiling in a sort of hammock and drops 15 to 20 "fishing lines" a foot or more in length which, with a stickiness, catch and, with acid nodules, paralyze any mosquito or fly that becomes ensnared. The larva then pulls up the line into its mouth and digests the fly. Having no excretory organs, the larva consumes the fly by a chemical process which

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\* Virtually all place, county and town names are Maori. We drove from Lake Taupo to Wairakei, to Atiamuri, to Mangakino on to Te Kuiti and Waitomo.

\*\* Arachnocampa Luminosa -- in case you wondered.

creates a substance called "luciferin" that gives off a steady, cold light.

There are also many natural wonders, like the geysers and mud pools of Wairakei reminiscent of an undeveloped Yellowstone Park.

Fifth, if you have time, you can fish for trout that almost snap at the end of your fly rod.

They are magnificent in size and great in number.

Sixth, accommodations are quite satisfactory.

There is nothing here to compare with Sydney's Wentworth Hotel, but the inns which we visited (owned and operated by the government -- natch!) provide courteous service, free of guile, and are clean and comfortable. The food is plentiful, but, in a land which produces great quantities of fruit and vegetables, there are few of these served (presumably because they would be too expensive for the small prices charged). In New Zealand, the world's greatest producer of lamb, there is little of it offered on the menu (presumably because the local tourists are fed up with it at home). Hotels cater to the local citizens. Of course, they should, for there are as yet few foreign visitors. \* In time they will be more sophisticated and offer the foreigner a better selection, at the higher prices that he is willing to pay, but the present arrangement is inexpensive, and, after the first day, you learn to stop at roadside stands to buy fruit and vegetables to be eaten en route. As a result, you can tour this part of the world quite inexpensively and, at the same time, comfortably.

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\* An estimated 20,000 Americans last year.

Would this be a good country in which to settle down?

That is a different question. It might be for an older couple of modest means, for the country offers great security and moderate living costs.\*

The country is hardly moving forward fast enough to attract an ambitious United States city man, but it might prove a great place for a farmer with some capital who liked the quiet, outdoor life. He could literally pick his climate. Here in Auckland, the lowest average temperature is in July at 54<sup>o</sup>, the highest in February at 67<sup>o</sup> (for the North it is warmer, for the South cooler). He would virtually be assured of adequate rainfall and would live in constant beauty. But he would do well to develop crops new to this country (not rely on sheep and dairy cows) and would have to be willing to put up with the all-pervasive government.

Furthermore, he might have a hard time getting in. New Zealand has a population of only about 2-1/2 million (about the same as Sydney) or about 24 people to the square mile. The country could support 20 million but is not expected to reach even 5 million until the end of the century. There is no program for immigration and the present quotas are small. Some English and some Dutch come each year but few Americans.\*\*

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\* I had to have a tooth filled in Wellington and went to a dental surgeon recommended by one of the banks. I expected a bill of at least ten or fifteen dollars. It was 5 shillings, that is, 70 cents.

\*\* Quite a few American Marines stayed here after the end of World War II, but they married New Zealand girls and have been absorbed into the life more as New Zealanders than as Americans. The United States Vice Consul here in Auckland could only think of five Americans in this city of over 500,000.

In my few days here I have seen no exciting business opportunities. The manufacture of pulp and paper is a substantial activity. In the depression the government (as its equivalent of our W. P. A.) put men to work planting trees, having decided that California Monterey pine would do well here. It has grown as much in the intervening thirty years as it does in fifty years in the States and is perhaps the third most important crop, but I don't know whether pulp or paper can be exported economically. I believe that the government would be helpful, in the sense that Prime Minister Holyoake would certainly want to encourage a new industry (although unemployment is no problem). Labor may be a bit cheaper than in Australia, but, unless the activity offered great promise, the taxation and regulations might prove discouraging.

This would be the case in the banking business. The interest-rate spread is reasonable -- 3 per cent on true savings, 4-1/2 per cent on investment accounts of one year. The prime lending rate is 5-1/2 per cent, but the government limits the maximum average rate to 6 per cent. There is considerable demand, and loans run 60 to 65 per cent of deposits, higher at this time of year when corporate income tax payments increase demand. But liquidity requirements change every week. On demand deposits reserve requirements vary from one to 30 per cent. Last year they reached 23.3 per cent, presently they are one per cent. To meet these reserves, the banks have to borrow from the Central Bank at a 7 per cent rate (as against their maximum average loan rate of 6 per cent).


The real trouble experienced by the banks is a steady decline in their share of the private sector financing, as "fringe banking," finance companies and inter-company lending take over a larger share of what they think of as their rightful market. As is true in so many places, the country's monetary authorities restrict only the banks, thus diverting the profitable opportunities to other types of financial institutions.

I doubt that many American banks will move into New Zealand, and I doubt that many American business corporations will either, except to avail themselves of the consumer market.

On the other hand, if one had to be an expatriate, it would be hard to find a more pleasant place to live. Furthermore, despite the short-range problems of this country, if, as seems likely, the world's population continues to increase and adequate food becomes the concern of the "have" as well as the "have-not" nations, New Zealand, able to produce tremendous quantities of food at low cost, must some day come into its own.

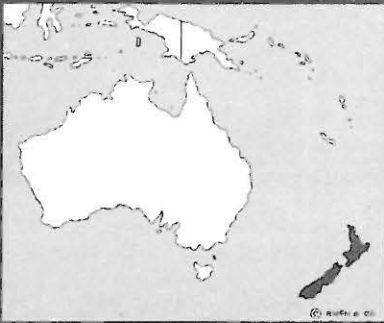
I hope so, for, after even so short a visit, I feel real affection for this beautiful country.

Sincerely,

A handwritten signature in cursive script, appearing to be "J. L. ...", written in black ink. The signature is positioned below the word "Sincerely," and is partially crossed out by a diagonal line.



# NEW ZEALAND



**Capital:** Wellington  
**Population (1965):** 2,640,100  
**Density:** 25 per square mile  
**Distribution:** Urban: 64 percent  
                   Rural: 36 percent  
**Area:** 103,736 square miles  
**Elevation:** Highest point: 12,349 feet  
                   Lowest point: Sea level

**Principal language:** English  
**Principal religion:** Protestantism  
**Political divisions:** 121 counties, 143 boroughs  
**Currency unit:** 1 New Zealand Pound = 20 Shillings  
**National holiday:** February 6, New Zealand Day  
**National anthem:** God Save the Queen

## NEW ZEALAND ECONOMY

