

Reserve Bank of New Zealand: Bulletin, Vol. 69, No. 3

The policy origins of the Reserve Bank of New Zealand

Labour won more than 70 per cent of the seats in the 1935 election, and the government of Michael Joseph Savage had every intention of realising its own concept of a central bank.

The importance it placed on this issue was underlined by the fact that the Reserve Bank Amendment Act 1936 headed Labour's legislative programme for the year.

Although called an 'amendment', this legislation actually introduced a number of fundamental shifts in the Reserve Bank's basis of establishment, function and operation.

It nationalised the organisation completely, *provided more scope for the Bank to extend credit to government and government agencies, and added a power that allowed the Reserve Bank to vary the reserve requirements on banks* – something that became the principal tool for active monetary management in the post-war period. The amendment also brought the operation of the Bank under more overt political control.

As Sutch put it:

(William Ball Sutch - New Zealand economist, historian, writer, public servant, public intellectual)

"The Reserve Bank now has the power to underwrite Government loans, to extend long-term loans to the Government and to advance to the Government moneys on overdraft for the purchase and marketing of any New Zealand product. The Bank is directed to control all foreign exchange funds resulting from New Zealand's exports and also the transfer of overseas funds to and from New Zealand. Power is also given to prevent, if necessary, the automatic convertibility of Reserve Bank notes into sterling. The Government would therefore, if the occasion arose, be able to stop a flight of capital or ration imports."

Greasley and Oxley have also argued, by counter-factual exercise, that the policies Labour adopted for the Reserve Bank in 1936 may have helped bolster a startling acceleration of recovery in GDP, more so than if these policies had not been adopted. This was, they suggest, a 'striking testimony' to the 'force of the new [economic] regime' as well as the 'decisive' importance of the Reserve Bank within it.

[Greasley, David and Les Oxley (2002), 'Regime shift and fast recovery on the periphery: New Zealand in the 1930s', *Economic History Review*, 55 (4).]