

## **Tax history and tax policy: New Zealand's 1958 "black" budget**

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## **Abstract**

Although taxation has a direct effect on the lives of New Zealanders, historical discussions of taxation history are conspicuous for their absence. One notable exception is Labour's "Black Budget" of 1958, which has become almost proverbial as an example of how not to tax. Despite this, relatively little detailed discussion is available.

Following Stanford's distinction between history as event and history as story, this article tells three stories of the 1958 budget: the political story, the taxpayer's story, and the historian's story. Each such story has a particular focus. A comparison of these stories produces a more rounded picture of the budget, and raises the question whether the budget is appropriately painted black. The 1958 budget illustrates how the events of history become the stories of history. Assessing these stories may assist in evaluating and promoting tax policy change.

## **Key words**

Taxation history, black budget, New Zealand, Taxation policy

### **NOTE NEW ZEALAND CURRENCY**

New Zealand adopted decimal currency from 1 July 1967. Previously, New Zealand's currency was as follows:

- One pound (£1) equaled 20 shillings (20s.)
- One shilling equaled 12 pence (12d.)
- Therefore one pound (£1) equaled 240d.

On adoption of decimal currency, section 5(4) of the Decimal Currency Act 1964 provided that:

- One pound (£1) equaled two dollars (\$)
- One shilling (1s.) equaled 10 cents (c)
- One penny (1d.) equaled  $\frac{5}{6}$  cent.

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## 1. Introduction

Prior to presenting his 2009 Budget in the wake of the 2008 Global Financial Crisis, New Zealand's National Party Finance Minister Bill English warned that, "It is not going to be the predicted 'black Budget', but it will be prudent (*Timaru Herald - News*, 2009, p. 1)." The *New Zealand Herald* concurred, noting that, "It may not be a black Budget but it is definitely a grey one (Fallow, 2009)," and suggested that the Opposition Labour Party was "already resurrecting the word "black" from Arnold Nordmeyer's infamous 1958 'Black Budget' as its label for English's first effort (Armstrong, 2009)."

Many New Zealanders would recognise this use of the term "black budget", which *The New Zealand Dictionary* defines as:

*A name given to a severely deflationary and hence unpopular budget, especially one which increases taxation on popular consumer items; specifically the name given to a 1930 budget,<sup>1</sup> and especially to Labour Finance Minister Nordmeyer's deflationary budget of 1958. (Orsman and Orsman, 1995, p. 21)*

Since Nordmeyer's 1958 budget is widely considered to have contributed to the demise of the second Labour government of 1957-60 (Lloyd Prichard and Tabb, 1961; Chapman et al., 1962; Sinclair, 1980; Goldsmith, 2008), no subsequent government would wish to have its budgets coloured black.

Government budgets are usually annual statements which tend to be forgotten once delivered. It is unusual for a budget to be recalled more than half a century after its delivery. Why, then do New Zealanders continue to hark back to the black budget of 1958? Why does *this* particular budget have the rare honour of being named<sup>2</sup> and singled out for perpetual popular opprobrium? And to what extent does the story match the events that occurred in 1958? This article addresses these questions by retelling the story, or rather stories, of the black budget.

The article proceeds as follows: Part 2 provides the background for this article and discusses the approach taken. Parts 3 to 5 consider the 1958 budget itself from three perspectives. Part 3 sets the budget in its political context, and outlines the broad features of the budget. Part 4 narrows the focus to individual taxpayers and considers how the budget actually affected them. Part 5 then considers how the story has developed since 1958, focussing particularly on its treatment in the popular history written by Sinclair (1969, 1980 1991), before Part 6 concludes.

## **2. Background and approach**

Taxation is perhaps the most intrusive and onerous contact between the state and most of its citizens (Adams, 1992), and consumes the energies of most accountants. Taxation is almost a prerequisite of human civilisation; the United States Supreme Court Justice Holmes once quipped that, “taxes are what we pay for civilized society.”<sup>3</sup> In a modern form taxation has been levied in New Zealand almost from the beginnings of European civilisation (Hooper and Kearins, 2003; Hooper, 1989, 1998; Goldsmith, 2008). If taxation indeed is, “An individual sacrifice for a collective goal” (Grappenhau, 1998, p. 1), the form, quantum, and uses of taxation should tell us something about a society.

Yet despite the ubiquity and salience of taxation, Marriott and Fowler (2007) comment that, “Historical research on taxation in New Zealand is limited (p. 88).” A review of popular histories of New Zealand confirms this; few make much mention of taxation (Olssen & Stenson, 1989; Belich, 2001; King, 2003; Brooking, 2004; Mein Smith, 2005). The latest edition of the *Oxford History of New Zealand* (Byrnes, 2009) continues this trend, focusing on topical social history almost to the exclusion of economic (or even political) concerns, and taxation is hardly mentioned. Perhaps surprisingly, even economic histories rarely address taxation directly; those that have been written, for example by Condliffe (1959), Lloyd Prichard (1970), Gould (1982), and Hawke (1985), tend to focus on the macro-economy, with little specific attention directed to taxation matters.

When taxation *is* mentioned, it tends to be in the context of social and political change. Thus the introduction of the Land and Income Tax in 1891 is mentioned in the context of the Liberals' land policy (Olssen and Stenson, 1989); increased taxation is cited as the debit side of Social Welfare in 1938 (Brooking, 2004), and the economic changes of the 1980s are discussed as evidence of a shift in a previously accepted taxation paradigm, providing evidence of significant social change (Sinclair, 1991). Taxation in history seems to be of interest only as it impacts on society, and is rarely considered in any depth on its own; specific taxation measures are even less frequently mentioned, let alone discussed.<sup>4</sup>

In this context, it is surprising that Arnold Nordmeyer's 1958 budget and its tax measures continue to resonate with New Zealanders half a century later. Like a good folk tale, this budget has a clear moral: to increase taxes, particularly indirect taxes, is politically fraught and potentially political suicide. Black budgets should be feared and are best avoided. Yet though folk tales may have a basis in past events, they may grow with the telling. So too with the *story* of the black budget: though rooted in historical events, popular notions of the 1958 budget may bear scant resemblance to the actual budget *event*.

Stanford (1986) distinguishes between these two aspects of history: history as events, and history as story. The former refers to the actual events themselves as they unfolded. Since these are in the past, they cannot be recreated, but only retold. Such retellings may more or less reflect the actual events themselves: a myth may be grounded in a past event but bear little resemblance to it, whereas a carefully researched history may more closely retell what occurred. Yet though it is impossible to get right back to the events, Evans (1997) notes that:

*The past does speak through the sources, and is recoverable through them. There is a qualitative difference between documents written in the past, by living people, for their own purposes, and interpretations advanced about the past by historians living at a later date.* (p. 126)

The same event may give rise to a range of stories, which differ depending on such factors as the type of source data used and the perspective of the storyteller. If

taxation is best studied “in the round” (Lamb, 2005, p. 7), taxation history will also benefit from the more rounded view provided by a range of perspectives. Whilst uncritical retellings of a story may lead to myth, careful reconstruction may lead us closer to the events of the past.

This article contributes to our understanding of a familiar event in the taxation history of New Zealand by retelling the events to which the “black budget” label is attached. It also highlights the distinction between events that gave rise to this history, and the story, or rather stories that are recalled of the event. This distinction between history as event and history as story is useful in encouraging a variety of perspectives when undertaking (historical) research, as well as encouraging a more critical approach to understandings of popular history.

### **3. The political story of the 1958 budget**

Governments do not deliver their budgets in a vacuum, but rather in a particular political, economic, and social context. Although budgets are usually an annual event, they reflect a much broader timeframe; while looking forward, they also reflect the past. The first budget of the second Labour Government (1957-60) highlights the wider context of 1958; particularly in a democracy, budgets are very much political as well as economic statements.

Founded in 1916 (Gustafson, 1980), the New Zealand Labour Party had first come to power at the 1935 election in the midst of the Great Depression of the 1930s, and rapidly introduced Keynesian style economic policies to stimulate demand, and social security measures to alleviate need (Sinclair, 1991). This culminated in the enactment of the Social Security Act in 1938 which introduced cradle to grave social provisioning (Thomson, 1998, Gustafson, 1986). Before social security could be fully implemented, New Zealand entered World War Two, and Labour ran a tight ship both economically and socially. This tightening actually predated World War Two; in 1938 the government had faced a foreign exchange crisis (Chapman, 1992, p. 364), and was criticised by the British bankers for responding too slowly to this emerging situation – a criticism Nordmeyer did not forget.<sup>5</sup>

Following the cessation of hostilities in 1945, Labour only slowly reduced the high levels of wartime taxation, and continued the wartime command economy as a peacetime managed economy (Hawke, 1985). Labour lost office at the 1949 elections to the National Party which promised to defend private enterprise and abolish socialist restrictions and controls (Sinclair, 1991). During its 13 year-long first term in office Labour had loosened spending, then tightened it in the context of war, and only slowly opened the economy after the end of the war. Labour would repeat this pattern in its second term (Chapman, 1992).

By the time of Labour's defeat in 1949, the policy differences between the two parties had diminished: National, which had objected to social security in 1938, embraced it by 1949.<sup>6</sup> Similarly, Labour was divesting itself of references to socialism and the nationalisation of the means of production.<sup>7</sup> Given a two-party first-past-the-post electoral system, Miller (2003) notes that "in the vital area of economic policy the differences between the two main parties were more imagined than real (p. 241)." Certainly Labour found its natural constituency among the working classes and National among farmers, the self-employed and higher income earners (Chapman, 1992), but the general policy of both parties favoured a mixed economy, with a focus on the "family welfare state" (Chapman et al., 1962, p. 281).

National enjoyed three terms in office in the 1950s. Its tough treatment of the Waterfront strikers secured its re-election at the snap election of 1951. It loosened import controls, removed wartime rationing and wartime taxation, and was again returned to office in 1954, though with its majority halved. National thought it would again win the 1957 election, but an issue arose concerning the introduction of the Pay-as-You-Earn (PAYE) system of income, namely the provision for exempting all incomes other than salary or wages from Social Security charge for the year 1957-58 (Brown, 1958).

Labour had proposed the introduction of PAYE in its 1954 manifesto, but National actually moved the legislation in 1956, with the first PAYE deductions due from 1 April 1958. In the year a PAYE system is introduced an income taxpayer could be subject to two years' tax in the one year: the prior year's tax payable in a lump sum the following February as in the past, as well as the current year's tax deducted at

source. To prevent this, the National government announced that it would remit a full year's taxation, whilst Labour initially promised a rebate of tax, before it followed suit and also offered the remission of tax for the year ended 31 March 1958.<sup>8</sup> This remission would benefit all taxpayers.

In contrast, National's promise of a remission of the 1957 social security charge was of no benefit to employees. This charge had always been deducted at source from employment earnings, but was paid annually in arrears by the self-employed. In its 1957 Budget National announced that it would extinguish the Social Security Charge on income other than salary and wages for the 1958 year, just as it would remit the income tax for all taxpayers for that year (*New Zealand Parliamentary Debates (NZPD)*, vol. 312 (25 July 1957), p. 1187), so that all taxpayers would only pay one year's social security charge in a calendar year. Labour's Nash objected to this:

*One [group] pays no social security charge for the first year, but the other does. If the first man gets the remission for one year now, he will pay less by one year than the wage and salary earner. (NZPD, vol. 312 (30 July 1957), p. 1241)*

Labour's criticisms of the social security charge remission were effective. Labour promised to reverse this remission if elected, and immediately did so once in power.<sup>9</sup>

Even with the remission of the 1958 income tax, taxpayers faced a reduction in take-home pay once PAYE was introduced, since income tax would be deducted from each pay-packet, rather than being paid in one lump sum over a year later. To mitigate this, National had promised a rebate of 25 percent of the tax payable, up to a maximum of £75 (Hirschfeld, 1970). Labour responded with a higher bid, promising a £100 rebate, which it then enacted upon coming to power. Whereas National's 1956 rebate had reduced a taxpayer's liability by 20 percent up to a maximum of £75, Labour's promised £100 rebate eliminated the whole of the taxation payable in February 1958 up to a maximum of £100. The appeal to the electorate was clear; during the 1957 election campaign, Labour Party President Moohan had placed an advertisement which baldly asked, "Do you want £100 or not?" (Sinclair, 1976, p. 301). Hirschfeld (1970) notes that:



*The introduction of P.A.Y.E. was obviously seen by both parties as a vehicle for taxation concessions. Originally the bids to the public were low but when National upped the bid in 1957, Labour followed suit. The net result was the biggest cash offer ever made to the public by both parties ... a policy which 'offered to every individual in the community some financial reward in return for a vote'. (p. 232)*

The introduction of PAYE brought taxation policy to the fore in the 1958 election, but Labour also campaigned on a platform of increased social welfare provisioning, stating in its 1957 Manifesto that:

*It is the view of the Labour Party, responsible as it was for the introduction of Social Security in New Zealand, that in proportion as the national income increases, so should grow the share of that income which belongs to the Social Security Beneficiaries, be they sick, invalid, widowed or aged.” (Hirschfeld, 1970, App. V:14).*

Given the prosperity of the 1950s, such promises did not seem unrealistic. Having capitalised on the apparent unfairness of National's pledge to remit the Social Security Levy on non-employees, Labour waged an effective campaign. Then, within months of the 1958 election Labour's Finance spokesman Nordmeyer suffered a heart attack, and was unable to contribute to the campaign (Logan, 2008; Hirschfeld, App. III:3). On the night before the election, Walter Nash, Labour's leader, promised not to raise taxes (Logan, 2008). Nordmeyer claimed not to know about this broadcast until it was raised in the House after the delivery of the 1958 Budget (Hirschfeld, 1970).<sup>10</sup>

Labour was elected to office with a majority of two seats in November 1957. After selecting a speaker, it had a precarious hold on power (Logan, 2008; Hirschfeld, 1970). Nordmeyer recalled that:

*The night before the election, I dreamt that we had 39 seats and the Government, the National Government had 41 and I said to Mr Holyoake, we*

*have got you exactly where we want you. In fact the position was reversed. He had us exactly where he wanted us.* (Hirschfeld, 1970, App. III: 15)

### **Labour in office**

Having promised much on the campaign trail, once in office “the second Labour government turned to carve the duck only to find the bird removed (Chapman et al., 1962, p. 32).” Prior to the election, National had overseen a significant increase in importation and a serious reverse in the terms of trade resulting from a collapse in export prices of primary products (Brown, 2007; Gould, 1982). Immediately on taking office, Labour was apprised of this situation. Rather than ignore the signs and hope for the best, as National had done in 1954 (Chapman, 1992) and would again in 1960 (Gould, 1982),<sup>11</sup> Prime Minister Walter Nash announced the crisis to the nation on New Year’s Day 1958, and blamed the National government (Hirschfeld, 1970). In contrast to the relaxation of controls that had characterised the previous National administration (Bricknell, 2001), Labour immediately re-imposed import controls in an attempt to avoid borrowing and to preserve needed foreign reserves to maintain industrial capacity. The heaviest import cuts were thus on consumer goods, luxuries, and those goods that could be manufactured within New Zealand. Although the country anticipated some restrictions and a tight budget (Commentator, 1958a), and this move received editorial support (Hirschfeld, 1970, it was hardly designed to enhance Labour’s popularity.

### **The budget measures**

The 1958 Budget was delivered on 26 June. Finance Minister Nordmeyer commenced his budget speech in a minor key:

*Since the last budget 11 months ago, the returns from our exports have fallen unexpectedly and considerably. This fall will, for so long as it continues, retard the phenomenal progress achieved in so many productive fields since the war ended some 13 years ago.* (NZPD, vol. 316 (26 June 1958), p. 276)

Nordmeyer continued by noting that the aim of the Budget was “to ensure that any reduction in living standards arising from lower overseas prices for our exports is spread fairly throughout the community (ibid.)” He continued by discussing the

financial affairs of the nation. The government had already borrowed £20 million in London, and anticipated more overseas borrowing. Following the advice of Treasury almost to the letter (McKinnon, 2003), he increased trading bank reserve ratios and tightened hire purchase agreement requirements. Yet at the same time he confirmed the government's intention "to reduce interest rates in New Zealand progressively in order to lessen the burden of interest payment to the taxpayer, the ratepayer and the private borrower (*NZPD*, vol. 316 (26 June 1958), p. 281)." Thus some parts of Labour's policy were inflationary, while other parts were deflationary.

This policy confusion is again evident in the Budget's revenue and expenditure measures that directly affected a taxpayer. Several measures promised in the election campaign were far from "black"; rather, they increased disposable income. In particular,

- The Family Benefit, paid in respect of all dependent children irrespective of parental income levels, was increased by 50 percent from 10 shillings to 15 shillings per child per week from 1 October 1958. In addition, the Family Benefit could be capitalised. A recipient could opt to receive the Benefit in advance, up to a maximum of £1,000 per family, as a deposit for a house.
- Age and other related social security benefits were increased.
- Already prior to the Budget, Labour had introduced 3 percent housing loans for those on incomes of less than £1,000.
- An increase in universal superannuation from £156 per annum to £208 per annum and the abolition of the means test were foreshadowed.

Offsetting these benefits were the tax measures which came to characterise the Budget:

- The rate of income tax was restored to the basic rates scale enacted in 1954. Although this did not involve any specific change in the rates scale, it did the remove the 25% rebate of income tax (up to a maximum of £75) which had been enacted by the previous National Government and incorporated in the first PAYE tables that had taken effect from 1 April 1958.

- The Personal Exemption was reduced from £375 to £300. Concurrently, the “exemption for a dependent wife” was increased by the same amount. This measure thus only affected single but not married taxpayers.
- Dividends were subjected to income tax in the hands of the recipient. Previously these had been exempt, although they affected the rate of tax payable by the individual taxpayer. To prevent avoidance of this tax, an Excess Retention Tax was introduced to discourage companies from retaining “an excessive proportion of annual profit instead of making a reasonable distribution to shareholders (*NZPD*, Vol. 316 (26 June 1958), p. 286).”
- Rates of Estate and Gift Duty were also increased.

The amendments to the income tax affected all earners, whereas the changes to the taxation of dividends and to estate and gift duties would mainly affect higher income earners.

Although changes to direct taxes significantly affected a large number of taxpayers, the changes to indirect tax are perhaps most often recalled. These affected four types of expenditure:

- Sales tax on motor vehicles other than motor cycles was increased 100 percent, from 20 percent to 40 percent.
- Customs duties on motor spirits increased by 1 shilling to 2s. 3¼ d. per gallon (4.5 litres), a 76 percent increase.
- The excise duties on tobacco products were increased on cigars by 100 percent to 12s. per pound; on cigarettes by over 100 percent to £3 10s. per thousand, and on manufactured tobacco by 95 percent to 22s. 9d. per pound.
- Alcohol faced similar increases: beer duty doubling to 6s. per gallon and duty on spirits doubling to 120s. per gallon.

### **Reactions to the budget**

Popular reaction to the budget was negative; the *Christchurch Press*'s headline emphasised the tax increases: “Heavier taxes on incomes, petrol, beer, spirits and

tobacco (27 June 1958, p. 11),” though the accompanying article commenced with a summary of both taxation *and* welfare measures:

*Higher personal taxes, increased duty on petrol and tobacco products, extended social security benefits and the method of financing the guaranteed price for butterfat were the main features of the budget presented in the House of Representatives this evening by the Minister of Finance (Mr Nordmeyer).*

On the same page a headline announced, “Income Tax Increased By 33½ Per Cent.” That day’s Editorial in the *Press* confirmed this negative verdict under two headings: “Mr Nordmeyer Plays Put and Take,” and “A Blunt Instrument.” The former concluded, “A Budget notable as much for inconsistency of policy and principle as for savage taxation may well cost the country dear.” The *Press*’s attitude was reflected in other daily newspapers; Logan (2008) comments that, “Little sympathy or understanding, let alone commendation, was shown by the press when the budget was delivered (p. 318).”

The union response, too, was negative. Despite the unions being a mainstay of Labour support, neither Nash nor Nordmeyer had good rapport with the unions (Sinclair, 1976). Federation of Labour leader F. P. Walsh, who coined the “black Budget” label, damned “the Reverend Nordmeyer’s budget” as being “an attack on the worker’s standard of living (Sinclair, 1976, p. 311).” So did other unionists, though one prominent unionist did think it “a good budget – it had increased the price of beer, cigarettes and spirits, but it had increased the family benefit (Logan, 2008, p. 319).”

The *Accountants’ Journal*, while noting that this had been “an exceptionally severe budget” acknowledged the difficulties facing the government, and that it “had attempted to alleviate the position of the family man and the pensioner; and in addition has announced a continuation of the Government programme at a high level (Commentator, 1958b, p. 23).” Elsewhere it noted that, “It was a foregone conclusion that a responsible Budget this year would also have to be an unpopular one (Danks, 1958, p. 7),” before laying the blame for the “economic straight jacket the country faced” not at the government’s feet so much as “in our rigid, high cost, Welfare State (p. 9).”

In Parliament, the Leader of the Opposition seized the initiative. Holyoake highlighted the glum faces on the Government benches, commencing the ensuing debate, “Sir, out of a very full and kind heart I offer my sincere sympathy to the members of the Government. They are a very gloomy looking lot tonight” (*NZPD*, vol. 316 (26 June 1958), p. 289). Before long Holyoake would forever stain the 1958 budget black, borrowing the phrase “black budget” first used by Federation of Labour leader Walsh. Indeed, Holyoake told his caucus that the 1960 election was “as good as won” after the 1958 budget (Gustafson, 2007, p. 110), a sentiment shared by many Labour Members, one of whom reflected that, “By the time the budget debate had concluded it was obvious that we would not survive the next election in 1960 (Freer, 2004, p. 103).” Labour was soundly defeated at the 1960 elections, losing 7 seats.

In the reaction to the budget, sight was lost of the reason for the fiscal austerity. Instead, the 1958 budget provided an object lesson in how not to increase taxes. National Leader Holyoake learnt this lesson well; until his resignation as Prime Minister in 1972, Holyoake “plugged away at the ‘Black budget’ theme (Gould, 1982, p. 89)”, and:

*regularly and forcibly reminded [Finance Minister] Harry Lake and others of Nordmeyer's political fate after his so-called ‘black budget’.*” This attitude had an important inhibiting influence on the willingness of the Government to make radical change in the tax structure or stabilisation policy of the early 1960s. (Gustafson, 2007, p. 315)

### **Apparent implications**

In some ways the negative memories of the 1958 Budget are surprising. New Zealand taxpayers had experienced massive increases in tax rates before, notably during World Wars One and Two when both direct and indirect taxes increased substantially. Further, subsequent governments continued this pattern in subsequent budgets, with National’s Finance Minister Rob Muldoon frequently adjusting indirect taxes every half year from 1967 onwards. In a Budget debate eleven years later Nordmeyer could contrast Muldoon’s 1969 budget with his “black budget”, and point out that his 1958 budget was delivered in a much more serious recession than then obtained; yet the

measures were similar (Gustafson, 2000).<sup>12</sup> Why then has the 1958 Budget, rather than other similar budgets before or since, been remembered and vilified? Taking a longer term perspective, several reasons may be offered.

First, the budget represented an about-face on the part of the Labour Party. Labour had campaigned on the assumption that the prosperous post-war conditions of the 1950s would continue. Largely unaware of the looming foreign exchange crisis,<sup>13</sup> its manifesto offered tax reductions (the £100 rebate), and increased Social Security spending. Confronted with the crisis upon coming to office, it implemented the economic restraint advocated by Treasury, whilst simultaneously implementing all its expansionary measures to keep faith with the electorate. What the electorate saw was policy confusion: a giving with the one hand to fulfil election pledges, and a taking away with the other as a response to the crisis. If there was a serious crisis, the tax cuts and benefit increases should have been put on hold until conditions improved; in the event these policies were rather inappropriate. Reflecting on the 1958 budget, 'Commentator' (1958b) noted:

*In some respects this is an exceptionally severe budget ... On the other hand, the Budget has attempted to alleviate the position of the family man and the pensioner; and in addition has announced a continuation of the Government works programme at a high level. Thus the Budget contains a mixture of disinflationary and inflationary measures, the effect of which cannot be forecast accurately. (p. 23)*

Alternatively, Labour might have worked on the risky assumption that the crisis would be short-lived and ploughed ahead with its policies without the tight constraints. However, Nordmeyer's memories of the similar 1939 crisis and the British government's reprimand predisposed him against this possibility. Instead, Labour lost out both ways: National could argue that the crisis was a result not of its own election year overspending, but rather the fear of voters that Labour would tighten the ship, as indeed it did. Then when the economic crisis proved to be short-lived, National could argue that Labour had over-reacted, and had followed the expert advice of Treasury rather than handling taxation as a matter properly within the purview of Parliament, as National typically did (McKinnon, 2003). Further, Labour

had already fulfilled all its election pledges; as Chapman (1992) puts it, once economic conditions improved, “voters were left with nothing to look forward to” (p. 380). If timing is everything in politics, Labour misjudged the time; its leaders failed to convince the electorate and party that it had “handled well a serious and complex economic crisis which was not of its own making (Gustafson, 1976, p. 157).”

This policy confusion and apparent knee-jerk reactionism provided ready ammunition for an Opposition capably led by National’s new leader Keith Holyoake, particularly given Labour’s slim majority. At a time of de facto policy convergence, National could point to increased taxes and controls as de jure evidence that “Socialist governments are altogether too expensive (*NZPD*, Vol. 316 (26 June 1958), p. 289),” and to the broken promise not to increase taxes as evidence of untrustworthiness. Holyoake would remind workers of the Black Budget at every occasion. Indeed, the change in economic direction Labour was “competently attacked” by Holyoake, who argued that:

*In 1957 the people of New Zealand were subjected to the worst political confidence trick ever practised in this country and the major factor in the anger in the hearts of the people today is not just heavy taxation – it is the sense of having been fooled and deceived.”* (Lloyd Prichard and Tabb, 1961, p. 32)

The electorate did not need to be reminded; the rank and file deserted the Labour Party in droves (Gustafson, 1976), and the 1960 election was lost by Labour rather than won by National (Lloyd Prichard and Tabb, 1961, Gustafson, 1976). Chapman (1962) aptly concludes that, “Disappointed expectation responded in 1960 (p. 296).” If the Labour party’s subsequent election defeat can be characterised as a type of peaceful tax revolt, the political history of the 1958 budget confirms Hooper’s (1989, 1998) generalisation that such revolts are likely to occur during times of prosperity. Although taxpayers may accept increased taxes in times of crisis, they are unlikely to accept them or even smaller increases are unlikely in times of prosperity.

Seen from a broader political perspective, the 1958 budget may indeed be painted as a *black* budget. It was black for taxpayers who faced increases in both direct and



indirect taxes. It was black for the Labour Party which lost the support not only of the electorate as a whole, but more particularly of its core constituency: workers, party members, and the labour movement. From this perspective, the 1958 budget provides a cautionary tale: increase taxes slowly, if at all. National learnt the lesson well, subsequently borrowing in the face of economic constraint, substituting (hidden) price increases for (visible) tax increases, allowing inflation to increase the tax take, and avoiding unpopular indirect taxes.

#### **4. The taxpayer's story**

Political histories tell the story of a society or a nation; however they often say little of how the individual within that society fared. Yet the ultimate cost of taxation is borne by individuals and not by nations, and it is individual voters who determine the fate of governments. The 1958 Budget may have increased taxation rates, but this does not necessarily mean that every individual taxpayer faced tax increases. Indeed this is unlikely, given the range of exemptions and rebates, not to mention a progressive rates scale.

Few writers provide anything more than a brief impression of the effect of the 1958 Budget on a New Zealand taxpayer. Given that collective memories are fallible, and given the social nature of taxation, determining the effect of the budget on a taxpayer may provide a different story of the 1958 budget.

##### **Direct taxes**

Few historians discuss taxation changes at the level of the individual taxpayer. In the rare instances where they do, such discussions tend to be generalised and at times misleading. Thus in speaking of the 1958 Budget, Sinclair (1976) suggests that, "Income tax was raised very substantially indeed, especially on unmarried people and childless couples, whose personal exemptions were reduced (p. 310);" however only the exemption for a single taxpayer was reduced, while the total exemption for childless couples and families remained unchanged. Likewise, Goldsmith (2008) notes that, "The much vaunted £100 rebate was also cancelled for the rest of the year (p. 230)." In fact this rebate applied to the 1957 tax year; what was cancelled in the 1958 budget was the 1959 tax year rebate of 25 percent to a maximum of £75.

Chapman et al. (1962) do provide a rare indication of the effect of the changes to income tax, noting that, “A single man earning £1,000 had his tax increased from £78 to £130, while the tax for a married man with one child earning the same amount increased from £37 to £49 (pp. 48-9).” This calculation has continued to be quoted as evidence of the severity of the direct tax increase (Hirschfeld, 1970, Jones, 2005), and suggests increases of 85 percent and 32 percent respectively. Yet these figures are almost as meaningless as the quite misleading Christchurch *Press* headline that proclaimed, “Income Tax Increased by 33½ percent (27 June 1958, p. 11).”<sup>14</sup>

In the first place, a recalculation does not confirm Chapman’s figures. An annual income of £1,000 equals £19 4s. 7d. per week. PAYE deductions on this amount are given in Table 1. The variance largely relates to the social security levy of 7.5%, which would amount to £75 per annum. With the introduction of PAYE, this levy was no longer paid separately. However, the omission of this levy does not account for the whole of the variance, while exaggerating the effect on an employee. The PAYE percentage increases were in fact 43 percent for singles and 14 percent for married persons with one child, rather than 85 and 32 percent.

**Table 1: PAYE deductions on £1,000 income**

	<b>1 Apr. 1958 to 30 Sept. 1958</b>	<b>1 Oct. 1958 to 31 Mar. 1959</b>
<b>Single</b> (“S” tax code)	Weekly: £2 18s. 7d. Annual: £152	£3 15s. 1d. £195
Per Chapman et al:	£78	£130
<i>Variance</i>	£74	£65
<b>Married one child</b> (“M1” tax code)	Weekly: £2 5s. 8d. Annual: £119	£2 12s. 2d. £136
Per Chapman et al.	£37	£49
<i>Variance</i>	£82	£87

Secondly, the income tax changes were only one of the Budget measures. Indirect taxes and social security were also significantly altered, and it is only by calculating the effect of all these measures on a taxpayer that the actual effect of the budget on a particular taxpayer can be determined. For example, even if the tax for a married man

with one child increased by £12, this was offset by an additional £13 per annum received in Family Benefit, though increases in indirect taxes would also need to be considered. Thirdly, any example given should be representative; yet Chapman et al. give no indication as how representative an income of £1,000 actually was. Nor do they indicate whether all income levels were affected the same way.

Rather than using the rounded £1,000 income level, the *New Zealand Official Yearbook (NZOYB)*<sup>15</sup> provides a more meaningful surrogate for an employee's income. This series includes all ages, both sexes and all occupations within industry, and reflects data collected bi-annually by the Department of Statistics. Taking the average of the April and October 1958 figure yields a 1958 weekly wage of £14 9s. 7d or an annual wage of £754, a quarter lower than the rounded £1,000 income used by Chapman. Certainly this series is not perfect; the inclusion of full-time female employees may reduce the average wage, given that female award rates were generally set at around two-thirds of the male rate.<sup>16</sup> However, this understatement is minimised by the relatively low percentage of women employed fulltime in the 1950s (Pool et al., 2007; Department of Statistics, 1965). It is further offset by the inclusion of higher income clerical and administrative staff, as well as overtime and bonus earnings.

The actual tax payable on this weekly earning was affected by various exemptions which in measure depended on marital status and numbers of children. Some of these were altered in the 1958 Budget, and are summarised in Table 2.

**Table 2: Allowances and rebates**

	<b>To 30 September 1958</b>	<b>From 1 October 1958</b>
General exemption	£375 p.a.	£300 p.a.
Married person exemption	£125 p.a.	£200 p.a.
Child exemption	£75 p.a. per child	£75 p.a. per child
Insurance exemption <sup>17</sup>	£25 p.a.	£25 p.a.
Social Security exemption <sup>18</sup>	First £2 of income per week	First £2 of income per week
Rebate	25% of the tax to maximum of £75	None

As far as families are concerned, Chapman based his calculation on a family with one child, yet the average family size at the time was around 2.5 children.<sup>19</sup> Pool et al (2007) note that, “Post-World War Two social policy ... was directed to a family wage that enabled a man (for it was very gender specific) to maintain adequately a wife and three children (p. 201).” This suggests that a three-child rather than a one-child family provides a more meaningful standard of comparison.

How then did the Budget affect an average employee’s pay packet? Single taxpayers were affected by a reduction in the general exemption from £375 to £300, and all taxpayers were affected by the repeal of the rebate. The first PAYE tables introduced under the National administration had allowed for a 25 percent rebate of the tax payable to a maximum of £75, and this rebate was now repealed.

Table 3 shows the effect of the 1958 Budget on a weekly wage of £14 9s. 7d (£754 per annum), given three domestic situations: single, married, and married with three children.

**Table 3: Effect of income tax and family benefit changes**

	Single		Married		Married 3 children	
	Pre-budget	Post-budget	Pre-budget	Post-budget	Pre-budget	Post-budget
Tax code	S	S	M	M	M3	M3
Gross income	£14 9s. 7d.	£14 9s. 7d	£14 9s. 7d	£14 9s. 7d	£14 9s. 7d	£14 9s. 7d
PAYE	£1 16s. 0d.	£2 7s. 1d	£1 9s. 9d.	£1 13s. 4d.	£0 19s. 9d.	£1 0s. 1d.
Net income	£12 13s.7d.	£12 2s. 6d.	£12 19s. 0d.	£12 16s. 3d.	£13 9s. 10d.	£13 9s. 6d.
Change in net income		(11s. 1d.)		(2s. 9d.)		(4d.)
Change in net income (%)		(4.4%)		(1.1%)		(0.1%)
Change in PAYE		30.8%		12.0%		1.7%
Family Benefit					£1 10s. 0d.	£2 5s. 0d.
Net income plus Family Benefit					(10s. 3d.)	(£1 4s. 11d.)
Increase (decrease) in net income		(11s. 1d.)		(2s. 9d.)		14s. 8d.

Rather than the 85 and 32 percent increases in taxation suggested by Chapman et al., a representative single taxpayer faced a still substantial 40 percent tax increase in

PAYE deductions, but a family's PAYE deductions increased by only 1 percent. If the family benefit measures in the budget are also taken into account, the family actually saw a significant increase in disposable income. A family also may have benefited from the lower 3 percent interest rate on state advances loans, and the possibility of capitalising the family benefit to purchase a house. The budget thus accentuated the trend of New Zealand tax policy, shared by both political parties, of favouring families. This policy was mentioned by the 1951 Taxation Committee which had noted that "social security and the welfare programme have become part of the national economy, and that the country is committed to a continuation of the programme (Gibbs, 1951, para. 195)," and was summarised a decade later by the Ross Committee (1967):

*It is probably universally accepted, and it is certainly accepted in New Zealand, that a direct income tax system should be so designed as to have regard for a taxpayer's family status so that, generally speaking, an unmarried man on a certain level of income pays more income tax than a married man on the same income. This principle is applied further so that a taxpayer with other dependents, for example, children, pays less tax than another taxpayer on the same income who has no or fewer dependents. In most cases the dependants for whom tax recognition is given are a wife (or dependent husband) and children. (para. 244)*

As far as direct tax is concerned, the budget was far from "black" for families. Not surprisingly, then, Chapman et al. (1962) comment that what was decisive in Labour's 1960 defeat was:

*the hostility to the 1958 Budget among the young and old rather than the middle-aged, among the single and childless rather than those with their families about them, among confirmed Labour supporters rather than those drawn into or kept by Labour by the 1957 offers of 3 per cent loans and capitalisation of the family benefit. (p. 292, cf. Chapman, 1992, pp. 353-4).*

## Indirect taxes

If the changes to income tax were substantial, those to indirect taxes were memorable. Sinclair (1991) notes that, “Income tax was raised very substantially. Duties on beer, spirits, tobacco and cars were doubled. The tax on petrol was nearly doubled (p. 292).” Nearly two decades later Goldsmith (2008) focused on the indirect taxes and noted that “taxes on cigarettes and beer were doubled, or more than doubled; petrol tax and the sales tax on cars were also increased (p. 230).” But the question remains as to just how much the *prices* of these goods actually increased. A 100 percent increase in a tax will, after all, always result in less than a 100 percent price increase.

How much did the budget affect prices? In the case of motor vehicles it is difficult to make a general assessment, as the duty only applied to imported components, and differed depending on whether imperial preference applied.<sup>20</sup> However, the Press suggested that the price of a new car or truck would rise from £100 to nearly £500 depending on the model, and indicated that the £1,090 price of an ordinary family-sized Standard Vanguard car included sales tax of £145 before the increase; with a doubling of the sales tax the price would thus increase by around 13 percent. Second hand car prices were also expected to increase, except for cars with higher fuel consumption.<sup>21</sup> The main effect of this increase would be on those hoping to purchase their first car; those who already owned a car would feel the increase less given the increased value of their trade-in.<sup>22</sup>

The increase in customs duties on motor spirits by 1 shilling to 2s. 3¾ d. per gallon represented a 76 percent increase in duty, and saw the price of petrol rise to 4s. 2d. per gallon, a 32 percent rise.<sup>23</sup> Motorists had recently experienced significant petrol price volatility due to the Suez Crisis of 1956; the price of a gallon had increased by 12 percent from 2s. 10¾d. in November 1955 to 3s. 3d. in November 1956. However the Budget increase was double this. The change also represented a break from the previous policy whereby all this duty was applied to roading; instead this extra shilling of duty was to be paid into the Consolidated Fund (*NZOYB*, 1960, p. 362). Assuming a family travelled 100 miles per week in a vehicle averaging 20 miles per gallon, the additional direct annual cost would amount to £12 10s., or about 5s. per week. Of course, if a family had no car, the increase would only be felt as a flow-on effect on other prices.

The doubling of the excise on tobacco products resulted in the duty on a packet of 10 cigarettes increasing by 4.4 pence, and the average price of a packet increasing from 1s. to 1s. 5d. Assuming a taxpayer (or family) smoked a packet a day, this meant an annual increase of £7 12s., or 2s. 11d. per week.

Finally, the doubling of beer duty increased the duty on a pint of beer by 4.5 pence; the effect at the bar would depend on the type of beer. Assuming a taxpayer (or family) drank a pint of beer a day, the extra annual cost might come to around 7 pounds per annum, or 2s. 7d. per week.

Table 4 summarises these effects of the 1958 Budget for an employee on the average wage, making no adjustment for family circumstances to the quantities of beer, cigarettes or petrol consumed. Whether consumption of ten cigarettes and a pint of beer a day is realistic is an open question. However Table 4 provides an indication of the increase in costs for those who did consume this amount.

**Table 4: Effect of direct and indirect taxes on a taxpayer**

	Single	Married	Married with 3 children
<b>Gross weekly wage</b>	<b>£14 9s. 7d.</b>	<b>£14 9s. 7d.</b>	<b>£14 9s. 7d.</b>
Tax increase	11s. 1d.	2s. 9d.	4d.
Increase in Family Benefit	-	-	15s. 0d.
Net decrease (increase) in disposable income	11s. 1d.	2s. 9d.	(14s. 8d.)
Increase in indirect taxes -			
Petrol	5s. 0d.	5s. 0d.	5s. 0d.
Cigarettes	2s. 9d.	2s. 9d.	2s. 9d.
Alcohol	2s. 7d.	2s. 7d.	2s. 7d.
Net weekly increase/(decrease) in taxes and costs	21s. 5d.	13s. 1d.	(4s. 4d.)
Percentage increase/(decrease)	7.4%	4.5%	(1.5%)

Assuming the above use of vehicle, tobacco and alcohol, average employees did suffer a loss of earnings due to the 1958 Budget, unless they had children. In that case, the increase in direct taxation was minimal, and the fifty percent increase in Family Benefit would likely offset the higher income tax and duties. The net effect

was that the budget affected singles and couples without children, but not the average family on an average wage.

## **PAYE**

Besides the budget measures themselves, a further matter should be considered, namely the effect of the introduction of PAYE on an employee's earnings. Several writers had objected to the introduction of PAYE on the grounds that it disguised the true effect of income tax, effectively converting it from a direct tax into an indirect tax (Cornelius, 1950; Gibbs, 1951; Casey, 1953). In practice though, PAYE actually made the effect of any tax changes more immediate and more direct. Rather than taxpayers not feeling any budget tax increase until calculating and paying their terminal tax in the February of the following year, they now noticed it in their weekly pay-packet as soon as the increase took effect.

Table 5 shows the average weekly take home pay for an employee from 1954 to 1960, based on the *NZOYB* data series, being the average of the April and October figures in each calendar year. Between 1953 and 1958, average gross wages had kept pace with inflation, and using the *NZOYB* figures makes allowance for inflation. A worker's weekly net pay fell for the first time from 1 April 1958 due to the deduction of PAYE, and their pay fell again from 1 October once the 1958 budget measures took effect. Prior to 1958 a taxpayer had seen an increase in disposable income each year, and this was accentuated by the 1957 £100 rebate which eliminated any terminal tax liability that otherwise would have been payable in February 1958.



**Table 5: Effect of PAYE on an employee's take-home pay**

	Year ended 31 Mar 1954	Year ended 31 Mar 1955	Year ended 31 Mar 1956	Year ended 31 Mar 1957	Year ended 31 Mar 1958	Six months to 30 Sep 1958	Six months from 1 Oct 1958	Year ended 31 Mar 1959	Year ended 31 Mar 1960
<b>Gross annual income (£)</b>	577	636	675	698	738	753	753	772	824
Weekly income	£11 1s. 11d.	£12 4s. 7d.	£12 19s. 7d.	£13 8s. 6d.	£14 3s. 10d.	£14 9s. 7d.	£14 9s. 7d.	£14 16s. 11d.	£15 16s. 11d.
<b>Single person ("S" tax code)</b>									
Less:									
Social Security Levy	16s. 8d.	18s. 4d.	19s. 6d.	£1 0s. 2d.	£1 1s. 3d.	£1 16s. 0d.	£2 7s. 1d.	£2 3s. 0d.	£2 4s. 0d.
PAYE									
Weekly take home pay	£10 5s. 3d.	£11 6s. 3d.	£12 0s. 1d.	£12 8s. 4d.	£13 2s. 7d.	£12 13s. 7d.	£12 2s. 6d.	£12 13s. 11d.	£13 12s. 11d.
Previous year's income tax (Feb)	£46 9s. 0d.	£50 0s. 0d.	£48 15s. 0d.	£42 9s. 0d.	nil (rebate)	nil (remission)			
<b>Married person ("M" tax code)</b>									
Less:									
Social Security Levy	16s. 8d.	18s. 4d.	19s. 6d.	£1 0s. 2d.	£1 1s. 3d.	£1 9s. 9d.	£1 13s. 4d.	£1 11s. 10d.	£1 15s. 0d.
PAYE									
Weekly take home pay	£10 5s. 3d.	£11 6s. 3d.	£12 0s. 1d.	£12 8s. 4d.	£13 2s. 7d.	£12 19s. 10d.	£12 16s. 3d.	£13 5s. 1d.	£14 1s. 11d.
Previous year's income tax (Feb)	£14 10s. 5d.	£11 11s. 0d.	£16 13s. 7d.	£24 9s. 5d.	nil (rebate)	nil (remission)			
<b>Married with three children ("M3" tax code)</b>									
Less:									
Social Security Levy	16s. 8d.	18s. 4d.	19s. 6d.	£1 0s. 2d.	£1 1s. 3d.	19s. 9d.	£1 0s. 1d.	£1 1s. 1d.	£1 3s. 8d.
PAYE									
Weekly take home pay	£10 5s. 3d.	£11 6s. 3d.	£12 0s. 1d.	£12 8s. 4d.	£13 2s. 7d.	£13 9s. 10d.	£13 9s. 6d.	£13 15s. 10d.	£14 13s. 3d.
Previous year's income tax (Feb)	0	0	0	0	nil (rebate)	nil (remission)			

PAYE had been introduced by the outgoing National government, but only took effect from 1 April 1958, after Labour had taken office. Any government faced a potential backlash against this measure, a backlash that could only be compounded by the direct tax increases of the 1958 budget. Indeed, the removal of the rebates and remissions promised during the 1957 election campaign ostensibly to mitigate the effects of the introduction of PAYE on workers would have made the actual effect of PAYE seem worse than otherwise.

### Summary

Considered on an annual basis, the budget would have looked black to some taxpayers, particularly for singles and those on higher incomes who were adversely affected by the income tax increases. For the first time in many years, they actually saw their take-home pay fall following the introduction of PAYE. However, many family taxpayers would have been better off, though they may not have noticed, since the increased family benefit was paid separately from the (reduced) wage. Given a progressive tax system with a range of exemptions, there is no simple answer as to how black the budget might have seemed to an individual taxpayer. Despite a common collective memory of the black budget, each taxpayer's experience of the

budget was unique, and in many cases would have belied the generally negative recollection.

## **5. The historian's tale**

Political history provides information about the background and context of an event and the overall reaction to it. The impact of a measure on an individual taxpayer humanises an event, and may provide some insight into, or call into question why, an event is remembered the way it is. In telling the story of an event historians may adopt either or both approaches. Yet different historians may tell different stories, as each brings their own interests, preferences, and backgrounds to bear. With the passage of time, historians, like societies, may even change the story they tell. New Zealand historian Keith Sinclair's discussion of the 1958 budget provides a case in point.

Keith Sinclair has been called “the first and leading historian in many genres of New Zealand writing (Houlahan, 1998, p. 496).” His widely read *A History of New Zealand* went through four editions between 1959 and 1991. A review of the successive editions of this work indicates a shift in Sinclair's interpretation of the 1958 Budget.

The first edition, published in 1959, made no mention of the budget that had been delivered barely a year earlier. In the second edition published in 1969, Sinclair (1969) devoted one paragraph to the second Labour government of 1957-60, simply noting that:

*It inherited a major balance of overseas payments crisis. There is no doubt that the stringent import controls and the 'black budget' of 1958, which increased taxation, were largely responsible for its defeat in 1960. Since then, as harsher measures have followed, that budget looks less dark than it did. (p. 293)*

Although Sinclair labelled the budget black, he suggested that it was hardly severe compared to its successors.

Sinclair's tone changes in the third edition eleven years later. There, Sinclair virtually identifies the writer of the budget with the budget itself. Having noted that Labour had inherited a major balance of payments crisis, he then describes the budget not so much as a response to this crisis, but rather as a reflection of its author:

*The Minister of Finance was Arnold Nordmeyer, a very able and intelligent administrator who was much respected but inspired little affection. He was a Presbyterian minister and in manner somewhat austere. He and the Cabinet were prepared to impose heroic sacrifices upon the nation. Rigorous import controls were introduced. Then came the famous 'black budget' of 1958. Income tax was raised very substantially. Duties on beer, spirits, tobacco and cars were doubled. The tax on petrol was nearly doubled. It was a puritan's budget, and cynics noted that neither Nash nor Nordmeyer smoked, drank alcohol, or owned a car. It contrasted very greatly with Labour's promises at election time. (Sinclair, 1980, p. 293)*

Sinclair concludes that "the budget was honest, but, as it turned out, an over-reaction to the crisis, for the terms of trade began to improve almost at once (p. 294)."

Rather than being a mere response to a crisis, Sinclair recasts the budget as a manifestation of puritan zeal, as a wowser's budget. The unpopularity of the budget is related to the person who presented it, rather than the context which gave it rise, and there is little indication of the effect of the budget on an individual New Zealander. This portrayal of the 1958 budget perhaps tells us as much about the historian as about the history: Sinclair, a Labour party member, was no fan of Nordmeyer. It would seem that for him the 1958 Budget reflected "everything Sinclair most disliked: Puritanism, Christianity, Britishness and elitism (Stenhouse, 2004, p. 60; cf. Stenhouse, 2009)."

Sinclair's summary of the budget endures. More recently, Goldsmith (2008) reflects this later Sinclair:

*The "Black Budget" ... shocked the nation by introducing sharp increases in indirect taxes. There was a whiff of Presbyterianism in the air as 'sinful'*

*expenditure took the hardest blows: taxes on cigarettes and beer were doubled, or more than doubled; petrol tax and the sales tax on cars were also increased. (p. 230)*

Goldsmith, like the later Sinclair, casts the budget as ideologically- or even religiously-driven, rather than as an attempt to address an external economic crisis. The budget seems to be damned by association; assessed not in terms of the political or economic crisis, and evaluated not in terms of how it actually affected taxpayers, but rather condemned because of its “Presbyterianism” or “Puritanism”, whatever that might mean.

## **6. Conclusion**

Just how black, then, was Nordmeyer’s 1958 budget? From a broad economic and political perspective, the verdict is mixed. It could be argued that it was the right move at a difficult time. Certainly it enacted the expert advice from Treasury; Nash and Nordmeyer could not know that the crisis to which the budget responded would pass quickly. However, by putting a brake on post-war growth and spending, it was likely to be unpopular. Given Labour’s tenuous hold on power, its legacy of tight controls during World War Two, and its apparent duplicity to the electorate and betrayal of the workers, the budget left the government vulnerable to attack from its own constituency and by the National Opposition. National’s Holyoake was up to the task, relentlessly reminding the New Zealand public of Labour’s black budget.

From the perspective of a taxpayer, it is less clear that the budget was black. Tax increases are never popular, but these measures were offset for a significant part of the electorate by enhanced social welfare spending for families. Reactions to taxation measures may be more a reflection of people’s perceptions of those measures than of the measures themselves. Certainly, the budget did compound the effects of the introduction of PAYE and reduced the take-home pay of workers, while increasing the costs of certain petty luxuries. Even if workers were better off after the budget, they might not feel it, particularly when the crisis that necessitated the tax increases proved to be short-lived. In raising taxes in a time of prosperity, Nordmeyer risked, and faced, the wrath of the electorate.

Looking to the past, the political and personal stories of the 1958 budget suggest several contrasting stories that could be told. One story might recall the tax increases as a prudent response to an unforeseen crisis and that families were better off because of the budget. But this is not the popular story; instead it is Sinclair's story of a "puritan" budget that is more commonly told. That story certainly reflects aspects of the events of 1958, but not all. Fifty years on, the black budget metaphor has a life of its own, largely independent of the events which originally gave it rise, and is perpetuated by media usage of the term, and by short entries in the published history. The black budget highlights the ambiguity of history: history as story may elucidate past events, but only ever in part. Sinclair's telling of the budget demonstrates that it will also always reflect the background, knowledge, and preferences of the historian.

Turning to the present and future, the 1958 budget may assist in evaluating present policy practice and proposals. Hooper aptly comments that there are some recurring themes in tax history, certain "common features and effects of introducing major tax innovations (1998, p. 1)." Investigation into apparently failed tax measures and their effects on subsequent tax policy may assist in drawing up better policy. It may also inform administrations in how (not to) introduce taxation policy changes.

The stories of the black budget raise a number of questions for further research. In a general sense it highlights not only the paucity of research in New Zealand taxation history, but particularly the lack of accurate data on the effect of tax measures at the level of the individual taxpayer or family, and the frequent inaccuracy of this data when it is given. Accurate discussions of the effect of taxation measures on individuals and families may provide useful data for understanding our past and for informing future policy.

Secondly, the question arises as to why some tax changes are accepted, while the 1958 budget was not. Neither the massive taxation increases of the First Labour government (1935-49) before and during World War Two, nor the radical reforms introduced by the Fourth Labour Government (1984-90) in its first term resulted in a loss of office. How was 1958 different? This article suggests a number of reasons, but a dedicated comparative study would be interesting and informative.<sup>24</sup>

Whether the title is justified or not, the 1958 budget is commonly referred to as black. At a time when significant changes to the taxation system are being discussed and implemented (such as by Tax Working Group, (2010)), the events of the past may be informative, and the story of a failed tax change may be instructive. History is advanced by retelling and comparing these stories of the past. Since taxation is not paid by a society as a whole, but by individual taxpayers, generalisations of the effects of any tax measure are likely to be misleading. A more rounded (re-)telling involving a range of authors and a focus not only on general policy but also on the actual effect of that policy on the taxpayers affected by that policy, is likely to provide a better understanding of the past. The broader perspective obtained may, it is hoped, contribute not only to better understanding, but better policy.

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## Footnotes

- <sup>1</sup> Gustafson (1976) notes that, “In 1930 J. G. Coates had called Ward’s budget ‘the black budget’ – but that was long forgotten (p. 309).” See also *NZPD*, Vol. 229 (1931), p. 88.
- <sup>2</sup> McKinnon (2003) refers to the Australian “horror budget” of 1951 (p. 215). More recently, National Finance Minister Ruth Richardson referred to her 1991 budget as “the mother of all budgets”. In the United States “Black Budget” is used to refer to highly classified defense spending; see, for example, “Policing the Pentagon’s ‘Black’ Budget,” *US News and World Report*: (24 December 1990), p. 12.
- <sup>3</sup> *Compania de Tabacos v. Collector*, 275 U.S. 87 (1927), p. 100.
- <sup>4</sup> Certainly more specific aspects of New Zealand taxation history are addressed in several monographs, for example Hooper and Kearins, 2003; Marriott and Fowler, 2007; Vosslamber, 2009.
- <sup>5</sup> Sinclair (1976) comments, “Nash had been told in London in 1939 that he had introduced import restrictions too late. His enemies were not slow to remind him of what he could never, in any case, forget, the parallel with 1938-9. This time, fighting the battles of 1939 in 1958, he reacted quickly; over-reacted (p. 312).” Hawke (1985) highlights the significance of the 1938 crisis in his comment that, “In the economy, 1935-38 were years mostly of continuation of earlier policies in more favourable circumstances. It was the response of the Labour government to an exchange crisis in 1938, rather than its election in 1935, which marks a significant change in economic management in New Zealand (p. 161).”
- <sup>6</sup> In 1948 National’s Holyoake stated that, “The only point of Social Security that National opposed was the socialisation of the medical service.” *NZPD*, Vol. 282 (15 September 1948), p. 2301.
- <sup>7</sup> Gustafson (1992) comments: “... from the first election in 1919, socialism was defined in terms of humanitarian liberalism and Fabian collectivism rather than scientific Marxism. The 1951 Labour party conference rather belatedly

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recognised this and deleted reference to the NZLP's aims to the passing and administering of laws 'to socialise the means of production, distribution and exchange'." Hirschfeld (1970) notes: "At the first conference of the Labour Party following this (1935) election the stated object of the party – the socialisation of the means of production, distribution and exchange – was changed; with the new objective being the far vaguer 'to secure by constitutional means the adoption of the party's platform and objective' (p. 1)."

<sup>8</sup> Hirschfeld (1970) suggests that "it was not until 1957 that Labour made it clear that this [£100] rebate would be in addition to the remission of the previous year's income. Previously it had been understood that the rebate would take the place of the remission (p. 27)." This comports with Nash's concern that a full remission would most benefit those on higher incomes (p. 231). Sinclair (1976) discusses the campaign in some detail, and highlights that the policy differences between the parties were complex, difficult to explain, and indeed misunderstood by the electorate (pp. 296-303)

<sup>9</sup> Land and Income Tax Amendment Act 1958, s. 5.

<sup>10</sup> In an interview with Hirschfeld (1970), Nordmeyer comments concerning Labour's loss in 1960, that, "my feeling for some time has been that it wasn't because we increased taxes in 1958, it was because we increased taxes when we had said we wouldn't", and then refers to "[Mr Nash's] final broadcast which I did not hear and which I didn't know about until after the 1958 budget had been announced." (App. III:16).

<sup>11</sup> Such crises were far from new: Sinclair (1976) notes that, "There had been balance of payments problems in each election year since 1946. That meant that the government had permitted an importing spree in election years ... 1957 was no exception (p. 305)."

<sup>12</sup> Gustafson (2000) comments, "It was a very telling attack on National and in an untypically generous gesture when Nordmeyer concluded Muldoon crossed the floor and shook Nordmeyer's hand (p. 96)."

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- <sup>13</sup> Federation of Labour leader F. P. Walsh had warned of an impending crisis prior to the election (Chapman, 1992, p. 379).
- <sup>14</sup> A similar case of over-generalisation is evident in Brooking's (2004) comment on the introduction of social security in New Zealand in 1938: "Income tax literally doubled overnight to around 15 cents in the dollar, but the majority accepted this tax quite happily in return for greater economic security" (p. 121).
- <sup>15</sup> *NZOYB* 1963, p. 993: Weekly wage payout per person (including overtime, bonus earnings etc.) full time employees.
- <sup>16</sup> In 1951 the Court of Arbitration had confirmed the appropriateness of female wage rates set at about two-thirds of the male rate (Department of Labour and Employment, 1952, p. 13). In 1958 the Government Service Equal Pay Act 1960 was still two years away, and equal pay in the private sector was enacted in the Equal Pay Act 1972, over a decade later. In 1957, both the National and Labour Parties had made equal pay one of their platform issues in the forthcoming General Election.
- <sup>17</sup> The Income Tax Assessment Act 1957, which introduced the PAYE system, had extended the £25 insurance exemption to all taxpayers irrespective of whether they had paid such premiums or not.
- <sup>18</sup> Refer *NZPD*, vol. 314 (8 October 1957), pp. 2886-95.
- <sup>19</sup> The 1961 Census report noted that, "In 1961 the average married man with a family had 2.5 dependent children" (Department of Statistics, 1965, p. 44). The *NZOYB* (1962) confirms that the average number of children per family in respect of whom the Family Benefit was paid was 2.39 in 1958-59, increasing to 2.45 in 1960 (p. 187).
- <sup>20</sup> Imperial preference involved "a scale of tariffs that favoured British imports and, to a lesser extent, those from countries in the British Empire, (Cook, 2010)", also Sinclair, 1991, pp. 260-1.
- <sup>21</sup> The *Press*, 28 June 1958, p. 16: "Car Prices: Effect of New Sales Tax"

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<sup>22</sup> Import restrictions, and the need for foreign currency to purchase a car created an abnormal market for both new and used cars in New Zealand; see McChrystal, (2003).

<sup>23</sup> Unless otherwise stated, prices are taken from *NZOYB*, 1957 (pp. 964-6) and 1959 (pp. 986-8).

<sup>24</sup> The essays in Part 1 of Krever and White's (2007) discussion of GST provide some insight in this regard.