

some measure of control should continue through the difficult reconstruction period until such time as trade and industry attain normal conditions. The Board proposes to discuss the question as to what extent the Government control of industry should become part of our permanent economic policy, and what are the lessons to be learned through our experience of Government control of trade and industry during the war.

Governmental control of industry during the war period can be appropriately considered under three distinct heads—(a) Administrative control, (b) rationing, (c) price regulation.

(a.) ADMINISTRATIVE CONTROL.

All belligerent countries during the war were driven to some measure of administrative control in order to provide as speedily as possible for the munitionment of the fighting forces—that is, to provide munitions for the armies in the field, food and clothing for the fighting forces and the civilian population behind the lines, and the needed transport to effect the above purposes. With these objects in view administrative control took various forms. For example, in Great Britain the Government established national factories, controlled privately owned factories, and made special monetary concessions to enable private factories to extend their operations. The underlying motive of these extensions of State activity was the urgent necessity to force the productive factors of industry—capital, directive ability, and labour—forthwith into the production of those things on which the national safety depended, without waiting for the operation of the law of supply and demand which would ultimately have provided these requisities, but perhaps not with the necessary speed, and in this case time was the essence of the contract.

In the case of New Zealand the Government's main interference was in—

- (a.) Acting as intermediary for the Imperial Government in the purchase of our main products, such functions being undertaken by the Imperial Supplies Department;
- (b.) Its encouragement of wheat-production, and its control of the sale and distribution of wheat among the various mills;
- (c.) And, less directly, in its various prohibitions of export with a view to controlling the destination of various products and of preventing the home market from being denuded of supplies, as in the case of the establishment of the Butter Equalization Fund and the regulations imposing restrictions on the export of timber.

The necessity of acting as intermediary for the Imperial Government will cease when the Imperial Government is no longer the main purchaser of our primary products, and this trade should then revert to normal conditions through the channels that existed in pre-war days, or through new channels inaugurated by the initiative of the industries concerned.

The control of wheat-growing and gristing is on a different footing, and it is a question of policy as to whether direct Governmental control should continue in its present form—guaranteeing a price in advance to growers and controlling the distribution and profit in manufacturing, a scheme which eliminates every element of speculation, exploitation, and profiteering— or whether it would be safe to rely for our main food product on the unimpeded operation of the law of supply and demand.

The Board is of opinion that, as the present scheme has worked satisfactorily, and at no cost to the Government, it should be continued at least during the period of reconstruction.

(b.) RATIONING.

In the sense used in this paragraph “rationing” includes all forms of Governmental interference with the distribution of goods, whether between different industries, between different firms in the same industry, or between different consumers, and whether the procedure adopted is an embargo upon certain uses, as was done, for example, in the case of petrol and coal, or a system of priority permits, as was done in the case of shipping-space.

Whether rationing is to find a place as part of our permanent peace policy is intimately bound up with the question of price-control. Ordinarily, if prices are determined by the law of supply and demand, everybody buys for every purpose as much of a thing as he can afford—that is, as much as he wants at the price—and this process exhausts the whole supply. Prices which are determined in free competition on the open market tend to secure an equilibrium between production and consumption. If competition is free the price fluctuates, being sometimes higher, sometimes lower, than the equilibrium price. When the swing of the pendulum sends the price so high that consumption is checked, those producers who have not got rid of their product cut the price, as they fear the danger of having their product left on their hands. When the price becomes lower than the equilibrium price, consumers will try to obtain more than there is to be had, and bid against each other for the supply. The distribution of the commodity between different industries, between different firms in the same industry, or between different consumers is automatically regulated by the price. But if prices are not regulated by the law of supply and demand, but are limited by a price-fixing authority in such a way that at the legalized price the quantity of the commodity demanded exceeds the quantity offered for sale, then rationing is essential. Different considerations apply where the price of the commodity is determined under monopoly control, but where there is no monopoly, if the price-fixing authority forbids sellers to charge prices as high as the free play of the market would bring about, it necessarily follows that at the price actually fixed there is not enough of the commodity to go round among those people who want to buy it—that is, there is a shortage. When there is a shortage of a commodity under such circumstances—i.e., a price fixed lower than the market price—if nothing further is done distribution will be the sport of accident or the result of favouritism, or importunity, or preference through being earliest on the scene; or the price regulation will be evaded by surreptitious means, hard to detect, and the law brought into disrepute. Distribution by these means would result in