

chaos and public contempt for the law, and in order to avoid these evils some system of rationing must be introduced.

A system of rationing to be effective and fair must provide for—

- (a.) The rationing of material among different forms of industry ;
- (b.) The rationing of material that is allowed to a particular industry among the businesses and firms engaged in that industry, so that none of them is treated unfairly relatively to the rest ; and
- (c.) The rationing of the finished product among ultimate consumers, so that all may be placed on an equal footing.

The difficulties of working out such a scheme in detail would be extraordinarily great, and the war experience of New Zealand would furnish a most inadequate guide. The third part of the scheme—namely, the rationing of the ultimate consumers—provided the necessity for rationing was supported by strong public opinion, need not present insuperable difficulties, as the war experience in Great Britain proved, where rationing of staple articles of food was carried out much more satisfactorily than was anticipated.

But on what principle would the State ration material among competing firms in the same industry ? If the principle usually adopted during the war were applied—i.e., taking as a basis the comparative consumption of material rationed during a given year, as was done in the case of wheat supplied to the various flour-mills for gristing—it would mean stagnation in the industry and loss of efficiency, as no firm would be able to increase its output, and hence the incentive to increased effort would be lost and the industry frozen into rigid immobility.

The difficulties would be enormously greater in rationing material among different industries. During the war Government action in Great Britain, for example, aimed at securing material for those industries which it regarded as of the greatest national importance, and the rationing authority prohibited the use of material in certain industries and allotted the material to industries which it regarded as essential for perfecting the country's war effort. The rationing authority had thus a definite standard to work by—namely, what industries were most important to war efficiency. Everything was subordinated to this relatively simple end. Food, munitions, and the support of the armed forces took precedence over everything else. Even then difficulties arose : for example, the allocation of steel between shipping and munitions plants, and between naval and mercantile construction. But in peace-time there is no relatively simple aim to guide the rationing authority, as the problem would be how to supply the ever-changing needs of the civilian population. Obviously, in peace-time the supply is directed to satisfy the total demand of the population for necessities, comforts, and luxuries, and those things are produced which are most demanded and which will yield the greatest sum of satisfaction. How can any Government Department decide what those things are ? Even if it could come to a just decision to-day, by to-morrow the demand would probably change. It is not easy to see how this obstacle to a permanent policy of rationing material among the various industries of the country can be satisfactorily overcome.

Serious and perplexing as the problems presented above are, nevertheless they must be faced and answered if prices are to be controlled by authority in such a way that the demand at the fixed price is in excess of the supply, for the alternative is wild confusion. If, however, prices are not to be controlled in this sense rationing is unnecessary. The choice, therefore, between adopting and rejecting rationing as a permanent peace policy depends upon whether or not it is desirable to fix prices at a lower level than the free play of the market would establish, as the price-fixing authority must either fix the same price as would be established by the free play of the market or it must fix a different price. In the former case its work would be superfluous, and in the latter case its price would be wrong unless it could show that the market is not free and open, and that therefore the true market price cannot be established without its intervention. The Board is not concerned at present with the results that would follow if the fixed price was higher than the market price, except to point out that in this event the price-fixing authority would need to devise a scheme for dealing with the surplus. What we are concerned with are the results that follow if a price is fixed lower than the market price—or, in other words, at a level that induces demand to exceed supply.

(c.) PRICE-REGULATION.

The main object of price-fixing during the war was the prevention of "exploitation and profiteering." The persons restrained by the regulations were not in general monopolists. Their opportunity to make large profits was not created by restrictive action on their part—that is, there was no rigging of the markets ; commodities were not withheld from sale with the object of creating an artificial scarcity ; sellers did not even exercise foresight by laying in stocks. The opportunity came mainly by chance. Traders happened to possess at a particular time during the war stocks of goods for which there was a sudden demand, or a sudden shortage of supply brought about by the changing conditions of the war. Had no restrictive action been taken by the State these people would have been in the position to make enormous profits. Even when maximum prices were fixed they sometimes made larger profits than usual. Nevertheless the limitation of price meant that at the legal price the demand was in excess of the supply. Is price-control of this character desirable as a permanent peace policy ?

Prices are divisible into two main classes—(a) Competitive prices, (b) monopoly prices.

Competitive Prices.

Under conditions of competitive trade, when abnormal profits are being made in any industry or business, more capital and enterprise tends to flow into that industry or business. The output is thereby increased and on account of the increased output prices fall and profits are reduced to