

Practically the whole of the product of other industries—say, from 54 to 60 per cent. of the national income—finds its market within the Dominion itself. But within the home market conditions differ somewhat for various products. A large group of industries, including all internal transport, distributive services, building, the provision of heat, light, and power, repair work, newspaper publications, &c., might be classed as “neighbourhood” industries. Their product is of such a nature that it can be neither imported nor exported, but must necessarily be produced near where it is to be consumed. To these may be added other industries whose products are protected against overseas competition owing to the high costs of transporting bulky goods. Such industries are estimated to produce from 46 to 53 per cent. of our income. They are termed sheltered, for they have no overseas competition to meet, and they are in a position to make prices in the local market conform to their costs of production.

There remains a relatively small group of secondary industries producing goods for the local market, but subject there to some competition from similar imported goods. A fairly generous estimate makes the value of their net product about £11,000,000, or from 7 to 8 per cent. of the national income. These receive some protection from tariffs and from overseas transport costs paid by imports, and are therefore termed “partially sheltered.”

The figures given herein for the national income, and for the proportionate shares produced by the various industrial groups, are estimates, and are admittedly somewhat rough. But they are unlikely to be as much as 20 per cent. in error in any case. It is therefore broadly true that, taking middle figures, somewhere about 43 per cent. of our national income is produced by unsheltered industries, about 50 per cent. by completely sheltered industries, and about 7 per cent. by partially sheltered industries. No probable error in these estimates would vitiate the conclusion to be drawn from these proportions. Further, there is strong evidence that these rough proportions are remarkably constant. They appear to have changed but little in the past, and there is no reason to anticipate appreciable changes in the near future.

5. *Expanding and Limited Markets.*—The significance of this grouping lies in the dependence of industries on market conditions, and in the importance of market conditions to the industries concerned. The unsheltered industries, selling the greater part of their product overseas, have a market which is for all practical purposes unlimited. It can absorb any quantity they are likely to produce, but these industries must accept the world prices ruling in their world markets. Practically the whole of the remaining industries of the Dominion are limited to the local market, for they do not export. They cannot therefore expand unless local demand for their products increases. The exporting industries, on the other hand, can expand greatly without any increase in local demand. As they expand or contract, their demand for locally produced goods increases or diminishes, and the sheltered industries expand or contract in response to these changes in demand.

The big exporting industries therefore constitute the chief variable factor in the demand for the products of the sheltered industries. There is ample evidence to show that this has been the case during recent years, and there is no reason for believing that conditions are likely to change greatly. During the war period of rising prices, 1914 to 1920, the effects of monetary inflation overseas were passed on to New Zealand mainly through increasing prices for exports. Higher prices brought prosperity to farmers, and their demand for sheltered goods and services in the local market increased. Thus higher prices and prosperity were passed on to other industries. After 1920 world prices fell heavily. Again the effect was felt first in the unsheltered industries. Farmers, receiving much less for their produce, had to curtail their expenditure; their demand for local goods was severely contracted, and so their depression was passed on to other industries. Similar changes have occurred since. The high export prices of 1925 increased the purchasing-power and the demand of farmers for local goods and services, and their prosperity was thus passed on to the sheltered groups. The fall in export prices, of about 20 per cent., which occurred about the end of 1925, contracted farmers' purchasing-power, decreasing their demand, and so brought some depression to other industries and to the community in general.

6. *Dependence on Primary Industries.*—It is this fact that the sheltered industries are limited to the local market, and are dependent for expansion or contraction on the variable demand of the export industries, that makes the latter the basic, key industries of the Dominion, upon which the prosperity of the whole depends. Experience has shown clearly that when the exporting industries are prosperous prosperity is likely to follow throughout the country; but when those industries are depressed depression is likely to be diffused and general.

As has already been said, this state of affairs is unlikely to change much or quickly. It might be changed somewhat either by big changes in local demand, or by such improvements in efficiency in the partially sheltered industries as would enable them to drive competing imports off the local market and to export their products in volume. These, however, are remote possibilities, and it may reasonably be concluded, therefore, that the measure of prosperity and expansion for New Zealand as a whole has been determined and will be determined by conditions in the unsheltered exporting industries.

If these conclusions are accepted—and it is difficult to see how they can be rejected—attention must be directed to conditions in the exporting industries, whose prosperity or depression determines the prosperity or depression of the community in general. These industries enjoyed considerable prosperity during the war, and up to 1920, but since then, except for a brief period of abnormally high prices in 1924 and 1925, they have been depressed. From 1920 export prices, which determine farmers' incomes, fell heavily, and on average they have remained ever since substantially below the Dominion's internal prices, which largely determine farmers' costs. If the cost of living (all-groups index) be taken as indicating the internal price-level, the purchasing-power obtained from the sale of a fixed quantity of exports has averaged, during the years 1921–27, 12 per cent. below its pre-war