

level. For 1927 the cost of living was 61 per cent. above the 1914 base, export prices were 37 per cent. above that base, and the purchasing-power of exports, measured by these indexes, was 15 per cent. less than in 1914. The result of this fall in purchasing-power, due to the disparity between internal and overseas prices, has been a contraction of farmers' demand for sheltered products, and in consequence sheltered industries have suffered contraction of their limited local markets, and have suffered depression in turn.

7. Costs and Prices.—The remedy for this depression is to be found in such expansion of the local market as will enable the products of the sheltered industries to be absorbed in full measure. But the local market is likely to expand only with an increased demand from the unsheltered exporting group. Higher prices have been secured for exported produce during the present season, and these will increase the farmers' demand to some extent. But they may not be permanent, and it is unlikely that they will be sufficient. The real and permanent remedy for the depression of recent years lies in a lower level of internal prices, which are kept up mainly by the high prices of sheltered products.

The following official index numbers, equated to a 1914 base, indicate the disparity of prices :—

						Index of 1914.	Index of 1927.
Export prices	..	..	..	..	..	100	137
Import prices	..	..	..	..	..	100	139
Wholesale prices	..	..	..	..	..	100	140
Animal products	..	..	..	..	..	100	112
Cost of living	..	..	..	..	..	100	161
Three sheltered groups (textile, wood products, and coal)	..	..	..	..	..	100	185
Agricultural wages	..	..	..	..	..	100	147
Wages (excluding agriculture)	..	..	..	..	..	100	163

Because internal prices are relatively so much higher than export prices, the purchasing-power of exporting producers is contracted, and the margin between their produce prices and their costs is unduly narrow. This narrow or negative margin of profit has made farming unattractive, as is indicated by the failure of the area of occupied land to expand, by the decline of 13,500, or nearly 10 per cent., in the numbers engaged on farms between the years 1923 and 1927, and by the scarcity of capital for farming purposes. The sheltered industries of the towns have been since the war much more attractive. Consequently both labour and capital has been diverted to those sheltered industries. But their market is limited to the local demand, and, as the farmers' purchasing-power has declined, the local market has been unable to absorb their full output at prevailing prices, production has been restricted, and they have been unable to absorb the labour supply available. This is the chief cause of the unemployment which has proved so intractable during the past two years.

8. Lower Costs needed.—Relief can come only with expansion of the farmers' demand for sheltered goods and services. But since farmers' incomes depend mainly on the prices received for their exports, the farmers' demand is unlikely to expand much until sheltered prices fall. As they fall—and in the long-run they must conform with what the export industries can afford to pay—sheltered industries may become relatively less attractive, and unsheltered industries relatively more attractive. The lack of industrial balance which is the principal cause of present difficulties may then be righted, and both labour and capital be diverted in greater measure to the land, where, in producing for export, it will increase the demand for sheltered local products. Under these circumstances economic balance might be restored, and our normal progress and expansion be resumed.

But whatever way the problem be approached, attention is drawn back to the chief obstructing factor, the high level of internal prices and farm costs. Analysis of the causes of these high prices and costs shows them to be complex. They are mainly legacies of the war and post-war period, when new standards of values were adopted which have not been yet deflated in conformity with world values. They affect both prime and overhead costs. Overhead costs, both in town and country, have been swollen by over-capitalization in boom times, by high taxation and rates, by the rise in interest charges, &c. Prime costs are kept high in many of the sheltered industries by the prevailing high level of labour costs, and in the export industries by the fact that many sheltered costs are passed on for them to bear. Some of these costs are subject to ordinary economic pressure and will, if left alone, adjust themselves to more economic levels. In this way much over-capitalization has been written off, interest payments have been remitted, and nominal capital values have been brought closer to real values. But other costs are protected against this economic pressure. Thus taxation is high owing to the high expenditure of the State and local authorities, and many labour costs are kept high owing to the existing system of State regulation of wages and labour conditions.

9. Labour Costs.—Labour costs constitute a large and important porportion of total costs. Many investigations have shown that national wage-bills are at least half of the total national incomes in various countries. For Australia, Sutcliffe estimates that incomes of wage-earners may be as much as 62 per cent. of the total national income. They are likely to be appreciably over half the total income in New Zealand, and therefore constitute the largest factor in average costs of production. It appears, too, that high labour costs in the sheltered industries are passed on, with other costs, to be borne by unsheltered industries and consumers (excluding workers under award conditions, whose standards of living are protected). Index numbers show that in 1927 agricultural and pastoral wages were 47 per cent. above the 1914 level; other wages, mainly award rates, were 63 per cent. above that level; while wholesale export and import prices had risen only from 37 to 40 per cent. above the same base period. Official figures, too, estimate that the net value of total production per head is slightly lower than before the war; the charge on production made by taxation and rates is now about 50 per