have been made to pay workers in accordance with what they consume, whereas all experience and reason show that they should be paid in accordance with what they produce. As a result of the attention given to the cost of living in the Court, many workers have come to consider that their wages must depend upon the cost of living, and this idea has distracted attention from production. Since wages must come out of production, and since general rates can rise only as production increases, it would surely be wiser and more advantageous to the workers themselves to direct attention to the importance of maximizing production and removing all restrictions on output, in order that both wage-rates and standards of living might be improved.

13. *The Regulation of Industry.*—A further disadvantage arises out of the fixation of wage-rates under our system. A wage is a price, and if any price be fixed the conditions of sale must be defined. Hence, in fixing wages, the Court has been led, during many years, into defining more and more minutely the conditions under which labour shall be employed. This definition of conditions, embodied in binding awards, has imposed on industry a mass of detailed regulation which a visiting American described as "the most complete system of State regulation of industry ever known in the modern world." The effect of this regulation is to standardize and stereotype methods of production, to prevent experiment and change in organization, and to hinder development and progress. It has brought about, as Meredith wrote of industrial regulation in the eighteenth century, "cumulative repression of experiment and change, operating partly by direct repression of the new, and still more by steady support and encouragement of conservative prejudice." It is through such regulations that concrete application is given to many fallacious and futile ideas commonly held. Through them we get the demarcation of functions standardized and carried to a degree intolerable in a young and growing country where variety and diversity are the essence of progress. Through them we have limitation of the range of tasks to be performed by one man, the creation of jobs in order that employment may be found, men's wages for boys' work, skilled men's wages for unskilled work, and all the futility of making jobs regardless of their effects on cost of production, on prices, on the market for the products, and hence regardless of their reactions on the wages that can be paid.

It is this aspect of compulsory arbitration that needs most to be emphasized. The general level of wages, and the standard of living as well, depend almost entirely on the productivity of labour. To secure the maximum possible real wages it is first necessary that maximum productivity be secured. But much of our industry is suffering at present from the cumulative effects of thirty years of hampering and cost-increasing regulation. To secure greater productivity and greater efficiency, employers must be left much freer to organize production in their own way. In particular the greatest flexibility in the matter of arranging jobs is essential. Given the elasticity and variety which follows on freedom of organization, competition will secure that the most effective methods will be adopted. Without freedom and variety some measure of stagnation is inevitable. In the unsheltered export industries, and particularly in dairying, freedom from over-regulation has permitted a considerable expansion of output during recent years, despite low or falling prices. But in the industries working under the rigid regulations which awards impose there is less evidence of this. Between 1921 and 1926 the cost of materials used in factory production in New Zealand decreased slightly; the charge made for the processes of manufacture undertaken increased by 27 per cent. The conclusion to be drawn from these figures is not final, but it is suggestive.

14. *Conclusion.*—To sum up: It appears that the direct incidence of our arbitration system is practically confined to those industries which rely on the limited local market to absorb their product. Conditions in those industries must, therefore, conform with demand in their market. In the long-run this means that conditions in the sheltered industries must be determined by what the unsheltered exporting industries can afford to pay, which depends largely upon the prices they receive in their world markets. There is much evidence of a slow steady drift, accelerated during the past two years from the unsheltered to the sheltered industries, which is disturbing, in increasing measure, the normal balance of industry. Farming is not expanding as it should, the numbers seeking employment in the sheltered industries are greater than can be absorbed in production for the limited local market. The result is the unemployment of the last two years, which, despite the increased demand for labour created by heavy expenditure of borrowed money, has proved so intractable. The remedy lies in a restoration of economic balance.

Farmers at present cannot increase their demand for sheltered goods and services at ruling internal prices; their costs are too high when compared with the world prices they receive. It is only the farmers' demand which can expand the local market appreciably and cause labour-supply to be fully absorbed. Other costs have some bearing on the problem, but labour costs are beyond the present capacity of the local market and the local demand. To right the situation labour costs must be reduced. Two ways are open—by reducing wages, or by increasing production and so reducing labour cost per unit of output. The former method might involve a lowering of the standard of living for the workers, and hence is undesirable. The latter method would almost certainly mean an improvement in the workers' standard of living. But increased production at lower cost per unit of output appears impracticable in sheltered industries under the present regulated conditions. Much greater freedom and flexibility of organization is required, and much more emphasis needs to be placed on the fact that real wages can be drawn only from production. It is difficult to see how the industrial conditions essential to increasing production, fuller employment, and rising standards of living can be developed if the traditions built up under our arbitration system are maintained. Some drastic modifications of our present system are needed, and it is for this Conference to suggest those modifications. I would suggest that, however the details may be worked out in the light of general discussion in the Conference, modification should be recommended to proceed as far as possible in the direction of restoring voluntary conciliation and collective bargaining, which might enable employers and employees to