

VII. REMEDIES AND PALLIATIVES.

There remains to be considered what remedies or palliatives can be found.

(1) It is impossible to suggest any panacea which will completely eliminate unemployment. Under capitalism it is impracticable, if not impossible, that unemployment will ever be completely removed. Since a reserve of labour is, under modern conditions, essential to the employer and to the economic system, the general principle should be recognized that the wages of workers should be a first charge upon industry, and that therefore the moral responsibility is on the employer to stabilize conditions wherever possible. This principle is recognized by some employers in the United States and by certain Government services in New Zealand, who guarantee a definite minimum of work to their employees, certain penalties being imposed (in the former case) in the event of non-fulfilment. The stabilizing of conditions of employment, and the adoption of a policy of the sort referred to, would be rendered more easy by agreements or combination among employers than is possible under unregulated competition. Such agreements might be incorporated in arbitration awards.

(2) It is important to draw attention to what we believe to be a false scent before discussing methods other than the above by which the problem may be alleviated.

Increasing the tariff is urged in some quarters as a remedy for unemployment. "Let us," it is said, "exclude foreign goods by imposing or raising a tariff, thus creating a greater demand for locally manufactured goods and so increasing the demand for labour." A plea for the protection of infant industries until such time as they can withstand foreign competition can be justified in economic theory provided the industry is one for which the resources of the country are economically suited. The practical danger, of course, lies in the fact that by the granting of a tariff some inducement to make the industry efficient in the face of foreign competition is taken away, and in any case, no matter how prosperous the industry may become, some plausible reason can usually be found for the continuance of the tariff, with the result that in point of fact such tariffs are rarely removed. But the strong argument against a general high-tariff policy is that tariffs tend to divert the economic resources of a country into less productive channels and to prevent the country from reaping to the full the advantages of international trade. The total national dividend available for distribution is thereby diminished and the country as a whole suffers. While a tariff may temporarily reduce unemployment in a given trade, it cannot be regarded as a permanent panacea.

A tariff may in some instances benefit the industry in favour of which it is first imposed, but this is usually achieved at an economic cost more serious than the evils it attempts to remedy. Frequently this cost is indirect, and so tends to be overlooked. Thus, while a tariff may benefit the timber industry or industries producing farm requisites, it does so at the expense of the building trades and of the farmer. In consequence, a benefit in one direction and a diminution of unemployment may be offset by losses and unemployment elsewhere. It is conceivable, in pure theory, that an all-wise and all-powerful tyrant might so manipulate the tariff as appreciably to reduce the volume of unemployment; but, whatever the arguments may be on other grounds, tariff-manipulation is too costly and too indeterminate in its incidence and effects to provide a satisfactory basis for regulating employment under modern conditions.

In times of general depression, when manufacturers abroad are attempting to spread their overhead costs over as large an output as possible, a high tariff is ineffective as a means of preventing dumping; while a varying tariff designed especially against dumping raises serious technical difficulties and is likely to do as much harm as good by the uncertainty which it entails. Moreover, high tariffs bring special dangers with regard to unemployment. They tend to the artificial creation and stimulation of industries for which the country is not well fitted and these are, on the whole, the industries likely to be most affected in times of depression. Further, the knowledge on the part of manufacturers that if the industry upon which they are embarking proves unsuccessful they have a reasonable chance of securing a tariff to protect it, also leads to the establishment of industries of a precarious nature, which again are affected more seriously than others when bad times come. For these reasons a policy of high tariffs may directly increase unemployment. It is significant, too, that in countries possessing high tariff walls, the problem of unemployment is just as acute, other things being equal, as in countries where the tariff is low or non-existent. (For a general treatment of the problem of protection in relation to unemployment, see Pigou, "Unemployment.")

(3) The most serious type of unemployment affecting New Zealand is that associated with the trade cycle. Control of the trade cycle rests outside this country, and whenever trade cycles occur outside they are bound to react in some measure on New Zealand. Moreover, conditions in New Zealand are especially favourable to such cycles. It has been pointed out how dependent we are on our export trade, and therefore how sensitively conditions react in New Zealand to the movement of general prices and purchasing-power abroad. Nevertheless, certain conditions within the country exaggerate the effects of the cycle as it is transmitted into the country, and these conditions are capable of some measure of control. Chief among these we note—

(a) Banking practice in New Zealand seems to be governed by rule-of-thumb methods, and there is little evidence of the enlightened attempts at credit-control which characterize central banking policy in other countries: notably the policy of the Federal Reserve Board in the United States.

It is now generally recognized that financial and monetary policies are important factors in trade cycles; in fact, expansion of credit in some form is an essential condition of a trade boom, and the curtailment of credit often begins the depression. It is therefore suggested that credit be controlled so as neither to permit the boom nor induce the slump. In England a large measure of control can and to a large extent is exercised by the Bank of England by virtue of its special relation with other banks. In New Zealand control would be more difficult, for in times of good trade each bank naturally desires to secure as much of the business as possible and there is no controlling authority. But much could be done if bankers appreciated the evil effects which follow the extension of credit