

volume of unemployment. In this way the problems of post-war unemployment may be expected, so to speak, to solve itself. This, however, will only happen if the facts of the economic position are realized by those who control wage policy."—"Wage Policy and Unemployment," *Economic Journal*, September, 1927.)

It is my belief that the depression and unemployment situation in New Zealand is temporary, and will right itself. Reasons for this view are sketched in the accompanying Memorandum on Unemployment; but attention should be drawn, in addition, to the opinion of Professor Pigou that an early improvement may be expected in Great Britain, our main market. Recent optimistic reports from Great Britain substantiate Professor Pigou's opinion. Recovery will be facilitated by the improvements in productive efficiency expected by Mr. Prime; but for these improvements stability and industrial peace are essential. The present attack on the Court is regarded by the workers as a class attack, and if successful in its objective will unavoidably result in industrial friction. The atmosphere thus created is likely to prevent progressive development by the employers and retard recovery, even if actual stoppages do not occur.

5. The Price Disparity in New Zealand.

In the preceding section we have assumed that an appreciable disparity between "sheltered" and "unsheltered" prices actually exists. There remains to investigate this problem more closely.

In the table which follows, index numbers of prices of (1) consumer's goods, (2) producer's materials *excluding* materials for building construction, (3) these two series combined, (4) imports, and (5) exports are compared, official figures being recalculated to the base: 1914 = 100.

Building-materials are excluded because of the special circumstances affecting this index owing to the operation of the law of diminishing returns in the timber industry. It is argued (1) that owing to the increased cost involved as it becomes necessary to penetrate further into the forests in search of timber, an important special factor affecting cost is introduced which is not related to the Arbitration Court; (2) that if the Arbitration Court is a factor of importance in the price disparity, it will reveal itself in the remaining series.(1)

The year 1914 is selected as base to facilitate comparison with other series.

TABLE 1.—WHOLESALE PRICES IN NEW ZEALAND.

Comparison of Weighted Wholesale Index Numbers of Wholesale Prices of (1) Consumer's Goods; (2) Producer's Goods excluding Building-material; (3) These Two Series combined; (4) Imported Goods, (5) Exported Goods.

(Official Index Numbers: Base Average 1909-13 are recalculated. Base 1914 = 100.)

Year.	Consumer's Goods (1).	Producer's Goods (2).	Columns (1) and (2) combined.	Imports.	Exports.
1914	100	100	100	100	100
1915	116	114	115	102	119
1916	119	120	119	117	138
1917	131	139	135	143	157
1918	154	156	155	185	162
1919	165	170	167	194	167
1920	186	207	195	238	164
1921	176	186	181	208	152
1922	154	155	154	175	114
1923	152	145	149	157	140
1924	153	152	152	154	159
1925	152	151	152	153	170
1926	143	147	146	146	138
1927	141	138	140	139	134

(After "New Zealand Official Year-book," 1928, p. 781, and Monthly Abstract of Statistics, January, 1928. The weights used are based on the information supplied in the Official Year-book.)

A comparison of the figures for the various series in 1927 is highly interesting, and should be rather disturbing to those who lay so much stress on the price disparity. A reduction in general wholesale prices of slightly over 4 per cent. would equate the movement of wholesale prices in general to export prices in comparison with their levels in 1914. In 1926 the same result would be achieved from a fall in general wholesale prices of about $5\frac{1}{2}$ per cent.; while in 1925, general wholesale prices would have to be *increased* by slightly under 12 per cent. It is important, too, to notice that since 1924 the index number of imported items moves about exactly parallel to the index numbers in columns (1), (2), and (3), and that the disparity with export prices is therefore about the same as in all items. This would suggest that the average movement in the prices of non-imported items is practically the same as in imported items; but the Arbitration Court can scarcely be blamed for the movement in import prices. Had the Arbitration Court been a factor of prime importance in raising prices we should have expected the average of prices in column (3) to be noticeably higher than in column (4) and column (5). There is, of course, a wide variety in the price of individual products. Some have risen more than the average and some less; but since most products, even those of agricultural origin, require some degree of manufacture or handling before they are sold wholesale, it is clear that were the Arbitration Court the pernicious influence it is alleged to be, the general level

(1) In fact subsequent inquiry shows that the inclusion of this figure makes very little difference.