

It is clear from this that in so far as the disparity between retail prices and export prices is sufficiently serious as to represent a real burden on our "unsheltered" farming industries, it is due to special conditions affecting distributive charges, and cannot be proved to be due to the effects of the Arbitration Court on manufacturing costs.

IV. OTHER FACTORS IN THE ECONOMIC SITUATION.

It is clear that the Arbitration Court is, at most, a minor factor in the present economic situation. Many other factors should be considered. Space does not permit of their adequate treatment in this memorandum; but in two supplementary memoranda on "Unemployment" and "The Economic Position of the Farmer" some of the most important are touched upon.

As I view it, the present economic position of New Zealand is due mainly to the sharp fall in export prices since 1925, and the decline in the purchasing-power of farmers which ensued. This naturally reacted on the rest of the community; but was intensified in its effects by over-importation, which normally follows a period of relative prosperity in this country. Over-importation, and an unfavourable balance of trade reacted on the banking situation and occasioned a reduction in the ratio of deposits to advances, in consequence of which it was found necessary to raise the overdraft rate on best accounts from $6\frac{1}{2}$ per cent. to 7 per cent. about the middle of 1927.(1)

While the raising of the rate may have been justified by the ratio of advances to deposits at that time, and no doubt would have some influence in rectifying the unfavourable balance by discouraging imports, yet within the country it could not fail to have a dampening effect on industry and trade, and in particular would hamper such farmers as required short-period credit accommodation.

The inelasticity of wage rates was, perhaps, a secondary factor in the situation; but on the other hand, it must be remembered that award rates of wages showed a corresponding inelasticity upwards in good times.

There are abundant signs that these conditions are steadily rectifying themselves; and that a return to business optimism is now overdue. I believe that a lowering of the bank rate would very much facilitate recovery.

There are, however, more permanent features in the present situation than those which have been outlined. Chief among these are the following, arranged not in order of importance, but as they suggest themselves to me:—

- (1) A trend of falling world prices which appears likely to continue in the future. In view of the relative fixity of many costs, especially capital charges against land and fixed capital, this is an important problem in a country which both privately and publicly is a debtor country.
- (2) Increased competition from abroad in respect of both exports and imports, together with the existence of economic barriers to trade recovery throughout the world.
- (3) Over-capitalization in both town and country, and duplication of productive equipment; associated with a considerable increase in mortgage indebtedness and an increase in urban site rents due to land inflation in the cities; and with similar conditions of over-capitalization and duplication in public services.
- (4) The high rate of interest.
- (5) An increase in public debt, taxation, and local-body rates not commensurate with a corresponding increase in economic and social services rendered; associated with a faulty distribution of taxation.
- (6) The last three factors taken together have increased overhead costs of industry considerably; while in consequence of (1), (3), and under (4), the creditor class is obtaining a greater and increasing share of our real national income.
- (7) Probably, the costs of retail distribution are too high, as is suggested by the disparity between wholesale and retail prices. The expansion of overhead costs, an increase in the number of retail establishments, price agreements among retailers, and a probable increase in the number of bad debts seem likely explanations of this condition; but the problem is very involved and should be investigated fully.
- (8) The exhaustion of our resources in some directions, notably in relation to timber.
- (9) The small scale of many of our "secondary industries" which makes it difficult for them to instal the newest machinery and necessitates a protective tariff to enable them to compete with imported goods.

In relation to the overhead costs of industry, the following quotations from bulletins of the Canterbury Chamber of Commerce are important:—

"At the present time many legacies of the war years stand in the way of cost reduction. Some businesses are over-capitalized; overhead expenses and particularly the expenses of distribution are unduly high; there are still many trade associations aiming at the maintenance of high prices by means of trade restrictions, where much more is to be gained from competition and trade expansion at a lower price level.

"The responsibility for reconstruction and for the further reduction of costs to a level which will enable market conditions to be met must necessarily be borne by those who undertake the task of business organization and management. The strongest argument for private enterprise is that it entrusts this task to those who stand to gain or lose most directly by the success or failure of the business. They cannot escape this responsibility now. The recovery and expansion

(1) The best exposition of the mechanism whereby depression is transmitted into New Zealand is found in a number of articles and Bulletins by Professor Tocker, of Canterbury College—notably, "Monetary Standards in Australia and New Zealand," *Economic Journal*, December, 1924.