

From the earliest times the major part of the Court's attention has been given to wages, and, failing to find any other definite basis, the Court has gradually concentrated more and more on the cost of living as the standard by which to determine wage-rates. The drift towards this standard, strengthened by many judicial precedents, was given legal sanction when, from 1918 to 1923, the Court was authorized to grant bonuses upon the basic wage calculated upon changes in the officially recorded cost-of-living index number. It is not surprising, therefore, to find that indexes of wages (mainly award rates) and of retail prices move closely together, and that the estimated purchasing-power of average wages has changed but little.

Official comparisons of these index numbers go back only to 1914, when the great changes in prices consequent upon the war began. These official figures indicate that wage indexes lagged behind price indexes during the war years, and, though they made up much ground during the post-war slump, they have hardly caught up yet. But if allowance is made for the fact that the official index number is pulled downward by the relatively low level of wages in the agricultural and pastoral group, and for the reduction in hours worked since 1914, the purchasing-power of award rates per hour is seen to have been since 1922 slightly above the 1914 level.

In effect, the Court has succeeded in stereotyping, for a large proportion of the wage-earners, the standard of living which happened to obtain in 1914. It has adopted the usual definition of a fair wage, which is regarded as a wage similar to what is paid for similar work in other occupations. But the Court's experience of other occupations is, in the main, limited to those it investigates and for which it fixes the wage-level itself. These occupations are mainly sheltered, for they are subject to little, if any, overseas competition, and it is natural that they should pass on their higher labour costs in higher prices. Their higher prices do not alone determine the whole of the cost of living, but they include the production costs of a considerable part of the goods and services entering into the household budget, and the greater part of the costs of transport and distribution of such goods. These prices, largely determined by wage-rates, have therefore a very considerable influence on the cost of living, upon which wages are based. Consequently, though not wholly true, there is a considerable amount of truth in the statement that, in adjusting wages to a rising cost of living, the Court moves in a vicious spiral of its own creation.

3. SOURCES AND LIMITS OF WAGES.

The real limits to the upward movement of this vicious spiral are set by the unsheltered industries, those which have to export their products for sale in competitive markets overseas, which have to accept the world prices ruling there, and which, therefore, cannot pass on increasing costs in higher prices. They have no defence against rising costs, but when pressed between these rising costs and falling produce-prices their demand for goods and services produced by the rest of the community must fall, and with it production and employment fall also. In New Zealand the unsheltered industries are the primary industries. In 1921 they employed about 30 per cent. of the working population, and in recent years the pastoral and dairying groups alone have produced about 55 per cent. of the estimated total net product of the Dominion. Hence these unsheltered industries form an important part of the local market. But their ability to buy in that market depends on the relation between the prices they receive for goods sold and the prices they have to pay for goods and services bought. The following table indicates the disparity in recent price-movements:—

Price Indexes.
(Base, 1909–13 = 100.)

	1924.	1926.	1927 (Two Months).
Export prices	177	153	148
Four sheltered groups	197	199	191
Award wages	170	176	..

At the present time export prices are slightly higher than at the end of 1926, and are about 48 per cent. above the 1909–13 base. Import and all wholesale prices are 56 per cent. above that level. Award wages and the cost of living are both about 76 per cent. above the same pre-war average, while four important groups of sheltered prices (milled agricultural products, textiles, wood products, and coal) are 91 per cent. above base-period prices. Between 1924 and February, 1927, all wholesale prices fell from 174 to 154, or 12 per cent.; export prices fell from 177 to 148, or 17 per cent.; award wages rose from 170 to 176, or 3½ per cent. Receipts from exports will now pay for 20 per cent. less labour than in 1924.

It is this disparity of price-levels that is at the source of most of our economic troubles to-day. The higher rewards obtained in town industries are largely responsible for the drift to town, and official figures show that while the mean population increased by 80,000, or over 6 per cent., the numbers employed on the land decreased by 9,000, or over 6 per cent., between 1923 and 1926. This means a fall of 12 per cent., or almost one-eighth in the proportion of our population engaged in farming. Price-disparity is also the chief cause of unemployment, for, while it tends to encourage the drift of wage-earners to sheltered occupations where award rates set the wage-standard, it contracts the market for the products of those occupations, and so lessens the demand for labour there. In fact, under present circumstances, the general level of award rates of wages has probably reached and perhaps passed the maximum capacity of industry to pay, for it is almost certain that any further increases, and perhaps even the retention of the present level, would reduce the total earnings of wage-earners by reason of the unemployment created.

None would deny the desirability of maintaining and improving by every practicable means the standards of living of the wage-earners. But the present practice of fixing wages in accordance with the cost of living is based on indefensible fallacy. There is never any guarantee that industry will produce enough to maintain a given standard, and the standard of living cannot possibly exceed for long the standard of output. These facts must be faced. Wages are paid by employers who can afford to pay up to the limit of the market value of the workers' net product. That market value is fixed by market conditions, by what the buyer can afford to pay, as well as by costs of production, and the costs of production, including labour costs, must be adjusted to what buyers can pay if contraction of both production and employment is to be avoided. It is seldom possible to measure accurately the net product of labour. But every employer knows that the surest road to expansion of sales is lower prices; hence, to expand production and employment, the costs of production, including labour costs per unit of output, must be lowered. Conversely, if labour costs of production are standardized at a level higher than the market for goods and services will bear, then sales, production, and employment must be reduced accordingly.

One of the latest and most authoritative pronouncements on the wages question is the South African Wage Commission's report of 1925, in which the hand of Professor Clay, of Manchester, one of the greatest living authorities on wages, is clearly discernible. The report states, *inter alia*, "A fundamental distinction is to be drawn between policies which increase, or seek to increase, wages by increasing the volume of wealth-production as a whole and policies which increase or seek to increase wages at the expense of other incomes in the community." We may not realize the fact, but the Arbitration Court has been trying for many years to maintain the standard of living of a particular section—the manual workers in sheltered industries, comprising about one-fourth of the total wage-earners—with little regard to the effect its efforts have had on other sections of the community. The intractable nature of the prevailing unemployment shows that that attempt has now reached its limit.