

3. OTHER CAUSES AND REMEDIES.

There are other causes of unemployment which lie deeper and which must be remedied if permanent improvement is to be achieved. They are partly the result of the experimental legislation of many years past, the effects of which, though concealed during a long period of rising prices, prosperity, and expansion, are being severely felt now that falling prices have brought depression, industrial contraction, and unemployment; for the effect of much of this legislation is to hamper the necessary adjustment of industry to changed conditions. There is far too much rigidity and regulation in industry where elasticity and freedom of initiative are needed. Regulations often appear desirable, but if they increase costs, however indirectly, they must inevitably narrow the markets both for goods produced and for labour employed.

Standardized wage-rates fixed by authority to maintain a particular standard of living fail to ensure that all labour will be employed at those rates. Taxation which discriminates in favour of public and against private borrowing encourages expenditure on public works and retards the expansion of more productive industry. Tariffs which protect certain town industries impose heavy burdens on primary industries. In addition, there are many undesirable legacies left over from the war period. Over-capitalization and debt, with their burden of interest charges, scarcity of working capital, the attention given by many groups in industry and commerce to price-maintenance rather than to more effective production, wasteful methods and poor organization for production and marketing—all these tend to maintain both costs of production and prices at a high level, and therefore to limit demand, though present market conditions make it necessary to reduce both costs and prices in order that demand may be increased.

It is mainly in the removal or modification of conditions such as these that permanent remedies for unemployment must be sought. Relief and relief work are emergency measures unfortunately necessary in times like the present; but they are palliative measures, often uneconomical, and essentially temporary in nature, which, though they relieve immediate distress, do not remove causes. The surest road to permanent relief from unemployment lies in the creation and maintenance of such conditions as will promote the development of production and prosperity.

If this road is to be followed, the interests of the primary producers must be watched and safeguarded by all who are concerned with industry, for on their prosperity the prosperity of the whole country must ultimately depend. The primary producers can always market the greater part of their product overseas, while other producers have no option but to market most of theirs within the Dominion. Both are dependent on their markets, but the local market is always dependent, directly or indirectly, on the purchasing-power of the primary producers. It follows, therefore, that anything which makes for the prosperity of the primary industries will react favourably on other sections of the community, but anything which brings adversity and depression to the primary industries will in due course bring trouble to the rest of the community. Some part, at least, of our present unemployment, and many of our other difficulties, are mainly due to the long neglect of this elementary principle.

Costs and Prices in Primary Production.

(Canterbury Chamber of Commerce Bulletin No. 34.)

1. THE PRODUCER'S BURDEN.

The last bulletin (No. 33), which investigated the expansion of overhead costs in New Zealand since 1914, reveals a somewhat disquieting position. Official statistics indicate that our present production per head of population is no greater than in the years immediately before the war. Wage indexes provide evidence that the wage-earners covered are approximately as well off as before the war—that is, they secure about the same proportion of a volume of production which is no greater per head. There can be no doubt that overhead costs have expanded greatly on account of higher capitalization, increased indebtedness, higher interest rates, heavier taxes and rates, and other items, and that overhead costs are therefore a considerably greater proportionate charge on total production. Production per head has not increased; apparently the same share goes to labour; a greater share goes to meet overhead costs; consequently the residual claimants, the producers, who secure a proportionately smaller share of the product, bear an unduly large share of the burden of an increase in overhead cost for which they are by no means wholly responsible. The rest of the burden is spread mainly over salaried workers and recipients of professional and other incomes whose earnings have increased less than the general increase in prices. All these find now that their incomes possess less purchasing-power than they did in more normal times. Their occupations are thus rendered relatively less attractive, and the dislocation of balance in the relative attractiveness of various occupations may have significant long-run effects. For the present discussion, however, the effect on producers alone will be considered.

Although this burden falls so largely on producers in general, many of them can pass it on, and the ultimate incidence is not evenly distributed, but tends to be concentrated upon particular groups of producers. The distinction between sheltered and unsheltered industries affords some assistance in analysing this unequal distribution. It has been shown in previous bulletins (Nos. 24 and 25) that the pastoral and dairying industries alone account for about 55 per cent. of our total production; 37 per cent. is produced by mainly sheltered industries supplying a purely local market; while industries partly sheltered, but competing with imports, and also supplying only the local market, provide the remaining 8 per cent. The first group of primary producers is alone subject to the full force of world competition, and it must accept for its produce the prices offered in the world's markets. The two latter groups are more sheltered; they sell their products only in local markets, where the force of competition is less and where custom and protective regulation combine to maintain their prices at levels which yield, for the most part, reasonable profits. This difference in marketing conditions is sufficient to enable many industries in the sheltered groups to pass on their increased overhead costs in prices higher than they would otherwise be. But these higher prices enter largely into the production costs of the unsheltered industrial group, who, selling in more competitive markets, cannot pass them on, but must bear them.

It appears, therefore, that a considerable part of the burden of the increase in our overhead costs is passed on until it has to be borne by the primary producers. Wage-earners, for instance, whose wages are adjusted to maintain the pre-war standard of living, are thereby protected against carrying any part of the burden of taxation and rates increased to meet war charges or to provide additional social services; many industries sheltered from competition in their local markets can pass on such increases; it is mainly the exporting producer who cannot pass them further and who must eventually foot the bill.

2. THE EVIDENCE OF PRICES.

The manner in which expanded costs are passed on, to be borne mainly by producers for export, is indicated by the relative levels of these producers' prices and general internal prices. Price-levels for primary produce are best shown by the official index numbers of export prices; no perfect measure of costs of production is available, but on average they are likely to follow closely the general level of internal prices. The best indication of internal price-levels is probably the cost-of-living index, for the other available index number, that of wholesale prices, is determined largely by the levels of export and import prices. In the following table, which must be regarded as a general indication rather than an exact measure, the official index numbers of export prices and of the cost of living are compared, and an index is computed from them showing the real purchasing-power of those producers who use their income from exports to buy local goods.