

Indexes of Prices and Purchasing-power of Exports.

				Export Prices.	Cost of Living.	Purchasing-power of Exports.
1914	..	..	..	100	100	100
1915	..	..	..	118	107	110
1916	..	..	..	138	116	119
1917	..	..	..	157	129	122
1918	..	..	..	162	143	114
1919	..	..	..	167	157	107
1920	..	..	..	164	178	92
1921	..	..	..	152	177	86
1922	..	..	..	115	160	72
1923	..	..	..	140	158	88
1924	..	..	..	160	160	100
1925	..	..	..	170	162	105
1926	..	..	..	138	163	85
First half of 1927	..	..	..	135	163	83

The most significant feature of this table is brought out in the last column, which indicates the real income accruing to farmers from the sale of exports. It appears that during the war years farmers, as a whole, gained greatly. From 1914 to 1917 they were able to exchange the same volume of primary products for an amount of local goods which increased steadily until in 1917 their purchasing-power was 22 per cent. higher than 1914. This was due to the fact that export prices rose rapidly and in advance of local prices. But from 1917 a change set in and local prices rose more rapidly than export prices, and continued to rise, or remained fairly high, while export prices fell and fluctuated around a lower level. By 1920 farmers were able to buy, for the same amount of exports, only 92 per cent. of the local goods they could buy in 1914. By 1923 they could buy only 72 per cent. of such goods. By 1924 they reached again their 1914 level of purchasing-power, and were 5 per cent. above it with the exceptionally favourable prices of 1925. Since then export prices have fallen about 20 per cent., while internal prices show practically no change, and the farmer in the first half of 1927 is 17 per cent. worse off than in 1914, being able to buy now only 83 per cent. of what he could buy then for the same amount of exports.

It is undoubtedly true that primary producers made considerable gains during the war period, and it is often considered that the subsequent losses may fairly be balanced against those war gains. But war gains, and the expectation of the continuation if such gains, were in large measure capitalized during the land boom of 1919–21, and, where the overcapitalization induced has not been written off, it now remains largely an added burden to the industry. An average of the whole period, too, shows that the farmers have been losers on balance during the years 1914 to 1927, for their bad years have brought losses much greater than the gains of the good years. But the period is too long to average in this way. Farmers expect some alternation of better and worse conditions over short periods, and allow for these changes. But over the last seven years they have averaged only 88 per cent. of their 1914 purchasing-power. Even including the exceptionally good year of 1925, farmers have been able to buy, over the whole period, 12 per cent. less local goods for the same quantity of exports. Such a contraction of purchasing-power might be borne easily enough over one or two years, but over a period as long as seven years it suggests a permanently changed situation which must inevitably react, and react unfavourably, on the economic life of the country as a whole.

But this contraction in the purchasing-power of exports as compared with local goods is not the whole story; for out of a real income, depressed because the expanded costs of other industries are passed on to him, the farmer has yet to meet other unavoidable charges which have expanded to an extent far greater than his export prices. Some indication of these charges is given in the next table, where various figures are shown for 1914 and 1926, and the percentage increases are compared.

		1914.	1926.	Increase per Cent.
		£	£	
Land-tax paid		767,000	1,266,000	65
County rates		755,000	1,797,000	138
Total mortgages		112,700,000	282,700,000	151
Valuation of land (unimproved) in counties only		159,800,000	231,600,000	45
Cost of living		100,000	163,000	63
Farm wages		100,000	147,500	47½
Export prices		100,000	138,000	38

All these increases concern primary producers very closely. Land-taxes and county rates are paid largely by farmers; the rise in mortgage indebtedness and in land-valuations indicate the causes of further charges on their incomes. The cost of living has risen 63 per cent., and this figure probably indicates fairly closely the increase in many of the costs of farm production. But farm wages have risen only 47½ per cent., and that figure is considerably higher than the level of farmers' incomes, for export prices have risen 38 per cent.

It follows, therefore, that, while the purchasing-power of producers' incomes from exports has been, over the last seven years, 12 per cent. lower than in 1914, their costs of production and their overhead charges appear to have increased considerably more than their produce-prices. Pressed between high costs and lower prices, their net income has been contracted, and its purchasing-power further reduced, owing to the relatively higher level of internal prices. But this decline in effective purchasing-power reacts again on the sheltered industries. For they, like the farmers, are dependent on their market; but their market is purely local, and the farmers comprise a large proportion of that market. Since the export industries produce more than half of the estimated total production, the producers for export probably constitute directly about half of the local market, and the other half is all dependent, more or less directly, on the purchasing-power of the primary producers. Contraction of that purchasing-power means inevitably a contraction of the local markets for sheltered products, with overproduction and unemployment in the sheltered industries as a direct result. Depression in the towns must therefore follow upon depression in the rural industries, and during recent years the position has been made worse because both capital and labour have been attracted from the country to the towns by the more protected and hence more attractive conditions prevailing there.

This disparity between the price levels of the sheltered and the unsheltered industries is undoubtedly a main cause underlying the economic difficulties which have afflicted the Dominion since 1920. Variations in the balance of trade and payments bring alternations of relative prosperity and depression, but these are temporary and pass. The permanent basis of sound prosperity and progress in New Zealand is and must long continue to be the primary industries, for they alone are strong enough to export and sell in competition with the rest of the world. Other industries, being unable to export goods in any quantity, must rely upon the local market, the condition of which varies with the fortunes of the big exporting industries. When primary producers suffer depression, their depression must inevitably be communicated, through contracted local markets, to other producers. While present conditions persist, the primary industries must suffer some depression, and it follows that some measure of general depression is unavoidable.