

on prices, and, consequently, he has but the slightest incentive to attempt those fine adjustments of supply to prospective demand that are possible in some other industries.

(b) A period of high prices will gradually increase the volume of farming output; but when prices turn it is not easy to decrease production, for once an investment has been made, greater loss would frequently be suffered by curtailing production than by maintaining it. The larger the proportion of capital invested in the industry the greater the difficulty of curtailing production once begun. For many farmers, when prices began to fall, there was simply nothing else to do but to carry on producing.

(c) A change-over from an unprofitable form of farming to some other form is never easy, and often impossible. There are all the difficulties associated with soil, climate, pests, transportation costs, as well as the costs involved in the actual change-over. Moreover, such alternative farming industries as may be geographically possible may be economically impossible. Even if they are both geographically and economically possible, it is no light thing to abandon an old and embark on a new venture.

(d) Production must take place in advance. The decisions that are made are made in anticipation of a market situation which may not eventuate; but once committed to a production programme it is exceedingly difficult to make important changes.

So far as human planning of production is concerned, it has then to operate in a somewhat intractable situation. The individualized nature of the industry inhibits effective attempts to adjust supply to demand; where a diminution of supply is clearly desirable in a period of falling prices curtailment is difficult and substitution not less difficult; and when individual decisions are made, they are made in anticipation of market conditions that may not be realized.

(e) If actual supply is thus slowly and imperfectly affected by human volition, it is remarkably dependent on physical factors which in any given season may be very much more important. Even if acreages, herds, flocks could be accurately and quickly regulated to the exigencies of demand, this would give no assurance whatever that production would be adequately regulated. The weather alone may destroy all calculations.

All these difficulties intervene to prevent any sensitive response of supply to demand. Because of these difficulties, farmers are unable, in a period of falling prices, to equate their current supply to current demand, except at prices that may be ruinous. The possibilities of effective storing and holding against future needs are limited, and even where they exist may, as the result of weather caprice alone, prove disastrous.

Because of these circumstances the farmer has no adequate defence against deep falls in the price of his produce. Even if all the costs involved in working his farm remained steady in their weight, the fact that the prices he gets fall more than the general cost of living makes his position economically difficult. Moreover, a fall of any depth presses more heavily on him than on most other producers, for his rate of turnover is relatively very slow. For the United States as a whole it was calculated that it takes on the average eight years to make sales equivalent to the total capital invested. Obviously in a period of falling prices the time must be longer. Other industries having a quicker rate of turnover can adjust themselves to falling prices more readily.

It is this relative unresponsiveness of production to price changes, this inelasticity of supply coupled with a not very elastic demand, which is the deep and abiding fact making for price disparity. Were every other factor the same for all industries, this one alone would inevitably bring a deeper fall in primary products than in other products; and in boom times yield higher prices to farmers than to most other groups. Where supply can be quickly and effectively adjusted, price fluctuations can be confined within narrower limits than where, as in the case of farming, the adjustment is at best slow and uncertain.

It must be understood that I have been speaking in general terms. It is impossible in this brief report to do otherwise. What I have said, therefore, while true in general, is truer of some specific farming products than of others. Further, it applies to the *general trend* of primary prices; although the explanation of a sudden recovery of prices for a year or two during the general downward process, is also incidentally implied in the foregoing analysis.

IV.

The general inelastic nature of farming industries, then, causes a gap to occur between primary and other prices. It is not contended, however, that the actual width of this gap is due to this cause alone. The gap created by this cause has been widened by other influences. The organized bargaining-power of other industries is in general greater than that of farmers. This is clearly enough shown where the farmer's market is mainly a local one; it is no less clearly shown where his main market is an external one. Indeed, where the main market is external, and particularly where it is remote, the farmer's bargaining-power is likely to be weak unless his products constitute a preponderant proportion of the total supply. Where the main market is local, a development of the effectiveness of farmer's co-operative enterprise, say in marketing, is likely to produce material gains, particularly if a protective tariff operates to assist them by hindering outside competition. Where the main market, however, is external, a local protective tariff for primary products can have no relevance except as regards local prices; and external protective tariffs against primary products no relevance unless they are preferential: while no primary producing country, even though it makes the greatest single contribution to the total supply, controls a large-enough proportion to enable it to impose its will on the receiving markets. In such circumstances (I suggest them as being applicable to New Zealand), improved marketing organization is likely to achieve more in eliminating or reducing waste than in maintaining prices; it can, that is, achieve little in reducing the gap between primary and other