

prices, but may achieve much in lessening the cost of marketing and in preventing the more violent oscillations in price that accompany unorganized competitive marketing of individuals. For an exporting country, especially where the exports are basic, the market is a world market where other competitors are a significant factor in the issue. Thus it happens that farmers supplying an external market in competition with other producers have little defence against relative price depressions and none against price maintenance of other goods. In other words, in a period of falling prices, he has little or no defence against lower prices for the things he sells, or against higher prices for the things he buys.

V.

Of the factors promoting price-disparity proper regard must be given to price-maintenance as practised by other groups. In a period of falling prices, price-maintenance, for all groups, becomes at once more desired and more difficult; but the more highly organized group are more successful than others, particularly than farmers. In recent times price-maintenance has become a more and more pervasive factor, either in raising prices or in maintaining them, or in easing their fall; either, that is, in accentuating price-disparity or in impeding the adjustments of disparities.

This topic is a difficult one, to be discussed cautiously. Some good may result from successful price-maintenance—as where labour defends its standard against an unwholesome depression; or where organized banking limits credit in the interests of economic health; or where higher prices provide an opportunity for necessary improvements in quality or service. But the case is otherwise where it sustains prices against the interest of the general economic situation: as where some groups of labour push up wages beyond the economic capacity of the industry, or where organized banking extracts exorbitant payments, or where no compensations in quality or service are forthcoming.

In the absence of more extensive and reliable New Zealand data than I have, I hesitate to express an opinion as to the relative importance of this factor in the present situation. I am aware that many attempts at price-maintenance have collapsed under competitive pressure. It is probable that few price-maintaining organizations have much stability in periods of depression. But some are more successful than others. Certain it is, that organized farming has but the remotest chance of all of practising price-maintenance with any success. The broad result is, whatever its precise weight may be, that the practice, while yielding less to all than is perhaps popularly supposed, yields more to non-farming groups than to farmers; it helps the expansion, inhibits the contraction, of the gap between primary and other prices.

VI.

Price-maintenance against the interests of other groups is especially favoured by protective tariffs. Where these tariffs provide encouragement for deserving industries, some eventual general benefit may ensue, and the present sacrifice be compensated by eventual gain. Such protection is social investment, of a more or less speculative nature, the “more” or “less” depending on the certainty of the economic prospects of the protected industry. But where protection is granted for industries which have no prospects other than protracted or perpetual infirmity, it is not investment, but industrial poor relief of the most uneconomic kind. With such industries, as with those whose prospects are good, protection ensures the high prices that are necessary for their survival; but these high prices are uncompensated by any present or future hope of reduction. With such industries we are committed to a sacrifice in perpetuity.

The maintenance of such industries is so much economic loss; but once established they are difficult to eradicate. Particularly in a time of depression are they difficult to eradicate, for then the absorptive powers of the rest of the industries are at their lowest and, consequently, the problem of diverting labour and capital to them most acute. And yet it is precisely in times of depression that their effect on the prosperity of other industries is most destructive. The evil is worst at the time it is hardest to cure. Other groups may, indeed, have some sort of defence against these higher prices in their bargaining power and the success of price-maintenance of their own products and services; but I am unable to see what defence the farmer can have. Prices are raised against him: his own prices he cannot raise. For consolation he is offered that venerable joke which relates to “keeping money in the country”; but the farmer has become impervious to the humour that resides in such obvious sophistry.

VII.

The effects of such protection and price maintenance are part of a vicious circle of high prices, high nominal (not real) wages, high costs, higher tariffs, and renewed attempts at price-maintenance. Arguments as to the ultimate benefit of protection in enabling an industry to expand and therefore to lower costs of production and therefore (?) prices, are valid only of the potentially strong infant industry. In the other cases, the high prices which are levied under cover of high protection raise the cost of living by so much, and so induce demands from wage-earners for increases to offset this rise in the cost of living. The higher nominal wages, not being higher real wages, are unlikely to result in increased labour efficiency (why should they?); therefore, to the employer they represent an added cost of production which, to retain the previous margin of profit, presses in the direction of higher prices of commodities. These higher prices at the existing rate of protection may expose the industries concerned to a fiercer competition from abroad; and this result makes for claims for still higher protection. The upward thrust to prices, originating in protection (I am excluding monetary disturbances), perpetuates itself through higher costs of production. The aggregate result is an artificially maintained high level of prices for such products, and a diminution in the purchasing-power of those sections of the community which are unable to find an equivalent compensation in a rise of prices of their own services or products.

VIII.

There remain some considerations which require further investigation—*e.g.*, our loan policy. To what extent has our loan policy been inflationary, if at all? This is a matter of some difficulty to determine. Some of our borrowing is used in buying commodities in the lender's country. These purchases are additional to the purchases that would have been made in any case. Their effect is the simple and direct one of promoting exports from the lending country to the borrowing country, leading to an “unfavourable,” or less “favourable,” balance of trade in the importing country.