But some of the borrowed funds will be available for local expenditure. Under long-continued borrowing, some of these funds at least would be remitted in the form of a specie flow to the borrower; or, if the borrower is a gold-producing country, some gold normally exported would stay at home; or, if gold-movements were reduced to a minimum, the remittances might take place by entries in the books of banks. In any event, a larger purchasing-power is placed in the hands of the borrowing community. The effects are likely to be a rise in local prices and incomes. Particularly is this so if a country is in the early stages of borrowing where the principal amount annually borrowed is greater than the interest bill annually due.

In the later cycle of borrowing, the interest annually due will be greater than the principal sum annually borrowed, on the average. By the same reasoning, there will be a contraction of local prices and incomes.

The points at issue are: Does our borrowing policy help to maintain local prices? Can it conceivably have any effect on export prices? If it raises local prices, or prevents local prices falling as far as they would with less borrowing, and if it has no effect on export prices, then here is another circumstance promoting price disparity.

Again: We have an absolute interest bill of so-much to meet annually. The main means of meeting it is an excess of exports over imports. But borrowing means increased imports and therefore a narrower margin between imports and exports, and sooner or later the necessity of still greater surplus of exports to meet a still larger interest bill. This is normal enough, of course; but there is a point of particular importance to New Zealand. Where the demand for our products is relatively inelastic, the normal disadvantage of the "barter terms of trade" that occurs when large interest bills have to be met, is accentuated. In other words, our export prices are depressed relatively to import prices. The whole question, however, is too intricate except for the specialists; but their attention might well be turned to this matter.

IX.

Somewhere in this complex of economic factors, the Arbitration Court plays its part. It will be recollected that my whole analysis is concentrated on the price aspect, my object being to disclose the forces at work which bring about a disparity between primary and other prices, for in the fact of this disparity is to be found a chief reason for rural depression. The influence of the Act in promoting or hindering economic discord, its lack of elasticity, the opportunities it provides for magnifying trifles into important legal issues, &c., are not germane to my thesis, however important they may be in assessing the general worth of the Act. They are not price considerations; and I am concerned here with price considerations alone.

The price consideration in regard to the Act is not "Has the Act pushed wages higher than they were, or kept them from falling?" but "Has the Act kept wages higher than they would have been if there were no Act?" The question unfortunately cannot be answered with any accuracy; and therefore the guess that they would have been lower in the absence of the Act is neither better nor worse than the guess that they would have been higher. We do not know.

Since we do not know this, how can it be validly argued that the operations of the Court have, in any sense that is real, *caused* this or that to happen to wages? If there had been no Court, can it be lightly assumed that wages would have gone this way or that? Can it be lightly assumed that their general movements would have been in a different direction from that which they have actually taken? If, as some think (I with them), that the Court has merely registered changes (more or less quickly) that would have come about in any case, then the Court has introduced no novel element into the price situation; the price situation is more or less what it would have been; it has not been deflected in an arbitrary manner or direction. The matter comes to this: before we can condemn the Act because, under it, wages are so and so, we have to prove quite definitely that without the Act wages would have been materially different.

And if it were possible to prove that the Act has caused a marked divergence from the course that wages would have taken, it still has to be decided which of the two wage levels would, in a broad social sense, be the more desirable. Suppose that wages would have been lower. Would that, for the community at large, be a better thing? I do not answer that question; I ask it. It would have to be answered definitely before the Court could be abolished on the grounds that wages are kept by it at too high a level. Again, suppose wages would have been higher; would that be a justification for retaining the Act? Either way a definite answer is required, and from those who seek the abolition of the Court. Those who seek abolition on this ground, on the ground that the Act has interfered with the "normal" course of wages have then to decide two highly intricate questions: they have to show in what way the Act has deflected wages; and, having done that, they have to show that the "normal" course of wages would have been socially better than the present course. I can conceive of no manner in which either could be done with sufficient force or accuracy to justify legislative action.

In the upshot I think it is impossible to say that the Court has had an arbitrary effect on wages; it is impossible to say—that is, that the Court has had any material influence in promoting price disparity.

All this does not touch the question, say, of the principles on which the Court should proceed in settling wages; for, even if a case can be made against the principle of adjusting wages by cost-of-living indices, there still remains no evidence to suggest that wages would, without the Court, have been materially different from what they now are. This issue is pertinent, therefore, not to an abolition of the Court, but to the question of its modification.

In view then, of the clearly definite influence that elasticity of demand and supply, price-maintenance, tariffs, &c., have in promoting and maintaining price disparity, and in view of the entirely conjectural influence that the Court has had in this direction, its abolition must be urged on other grounds. Its effect on price disparity, its effect on the proximate causes of rural depression, cannot be assessed; and there is positively no clear reason for holding that its effect either way is important.