the actual national income that brought about a reduced demand, and hence the fall in prices. It is true certain countries—notably Germany, France, and Italy—continued abnormal Government expenditure in excess of their internal revenue and provided for it by forced loans—*i.e.*, further issues of paper money. This, however, had to be discontinued after producing its inevitable result of individual hardship and equivalent heavy financial loss. Both France and Italy have had to stabilize their currency on a value about 400 per cent. lower than its pre-war value. Germany had finally to repudiate payment of the whole of its paper money—*i.e.*, its forced loans. Nations have had to return to a currency based on gold or on a gold exchange.

Consequently the increased demand for gold due to the increasing business dealings of the world will mean a slow appreciation of gold, just as occurred in the decade prior to the war. This will be increased by the greater competition both of primary and secondary products: as to the first, due to the opening-up of new sources of supplies during the war and improved methods, and, as regards the second, to the growth of manufactures in countries which before the war had been content to purchase them from more highly developed countries. Hence it would appear as if during the next decade or two there will be a slow but certain reduction in prices. In the face of the inevitable competition, prices, and hence costs of production, will have to be reduced. This problem is one which not only New Zealand but the whole world is feeling to-day. If it were possible to reduce the prices of all commodities and the various items of their costs of production simultaneously and proportionately, not so much hardship and difficulty would be incurred. Competition, however, does not act equally. Some trades are more protected artificially or naturally than others; hence the prices of the goods produced and services rendered by these will not be so seriously affected, and wages and other costs of production reduced. It is this natural force, however, which, unconscious of it as so many business men and workers are, is the main cause of the lowering of net profits, so perplexing and annoying to individuals to-day.

There are three main factors in the cost of production—labour, costs of raw materials and plant, and wages of superintendence; and one minor one—rent of premises. Unless there are improved methods of production and increased co-operation between labour and those directing it, resulting in greater production for the same cost, wages of labour and of superintendence must in the end be reduced. Unemployment, which is becoming prominent in every country throughout the civilized world, even in the United States, is a sure sign that money wages in each country are at such a height that all the labour available cannot be absorbed at the standard of money wages now current in those countries. It is nature's warning sign and also nature's method of adjusting the reduction to a proper level. In England the present private industrial conference is investigating this problem and endeavouring to discover how far improved industrial efforts, and, above all, the co-operation of labour with management in a joint whole-hearted endeavour to improve methods of production and returns, will render unnecessary a further reduction in money wages. In England, after the brunt of the post-war boom, the consequent heavy fall in the cost-of-living figures rendered big reductions in money wages necessary. This inevitable result was only effected after serious strikes had been fought out to their bitter end. The national and individual losses due to the big engineering stoppage, the seamen's strike, the two railway strikes, and two coal strikes in England were enormous. These strikes could not postpone the reduction in money wages which natural forces, in the control of no one, had made necessary. The only pity is that man's reason could not have arranged those reductions without those losses. Probably a reduction of perhaps 5 per cent. in present prices could be faced without a reduction in the present award rates of money wages, provided trade-union leaders and the members unanimously decided to avoid all stoppages and to loyally assist managers towards increased production. It may be that, when tried out, we may find this co-operation more effective; if so, all the better.

It is always wise to do voluntarily what ultimately you will be compelled to do. No trade or business can continue to employ men at a loss. Sooner or later they must either reduce hands or stop altogether. Many men will then be out of jobs. The fear of being in a similar position will induce those men in jobs to give of their best. Private generosity and the State, which is not an industry, will not—indeed, cannot—indefinitely find relief funds for the unemployed in order to maintain money wages at artificial standards. The Australian Governments have tried to do so by their Customs tariff. If we are to believe the last report of the Federal Customs Tariff Board, their efforts are bound to fail.

Coming now to the New Zealand Conciliation and Arbitration Act, how far will it help in the solution of this problem? If the purposes of this Conference are to be served, it is essential that this Act be reviewed calmly and dispassionately in the light of the knowledge which has been gained by experience of its past operation. The criticism of the theorists—economists and others—who have had no experience whatever of dealing with organized labour must not be given undue value. The weakness of all such criticism is that those from whom it emanates are ignorant of facts which are only brought home by practical experience to those who have been actually engaged in industrial negotiations. The theoretical critic, working upon the basis of his theories, draws conclusions which in themselves are logical, but which fall short of real value because the theories upon which they are based may be, and usually are, completely upset by the human element which enters into all discussions between employers and workers. Some economists, for instance, write as though trade-unions and individual workers conform to theories as pawns on a chess-board move under the guidance of a master player. Those who have had experience of dealing with organized labour know that there is no greater fallacy than this. All theories and all rules are ignored by workers who, moved by a natural ambition, are striving always to better their conditions of life, or who have a grievance, real or imaginary, to redress.

In order to consider the effect of the Arbitration system upon the industrial development of New Zealand it is necessary to understand, first of all, why the Arbitration Act was framed—what its authors hoped to achieve. It sometimes appears as though writers on this subject entirely forget that prior to the passing of the Act we had considerable experience of those industrial conditions