

gap between farm-costs and export prices would be narrowed by substantially the whole amount of the rise in exchange. This should be considered in relation to Sections XI and XII. A reduction of 20 per cent. in fixed money claims would make a substantial contribution towards bridging the gap between costs and prices.

SECTION XI.—THE REVISION OF WAGES.

Fall in Real Income.

98. It was shown in Section III that the community had incurred a loss of real income of the order of from 10 to 15 per cent. This loss must be spread throughout the community if sound economic conditions are to be restored. Hence it is necessary to consider what revision must take place in wages. The argument of Section X applies just as strongly to wages as it does to fixed money charges. It need not be repeated here.

Fall in Wages.

99. According to the official index number, money wages were high during the period of prosperity, with a slight tendency to rise from 1923 to 1930, though when at their peak in 1930 real wages were only 6·6 per cent. higher than in 1914. From 1929 to September, 1931, money wages have fallen by 11·5 per cent. compared with a fall in the cost-of-living index of 11 per cent. Thus, apart from the effect of the special unemployment levy on wages, real wages for workers in full employment are approximately the same as in 1929 despite the adjustment in money wages made by the Arbitration Court in 1931. To bring wages down in conformity with the fall in real income a reduction of a further 10 per cent. would be necessary. The necessity for any subsequent adjustment could best be judged by the general progress of economic recovery and the reduction in unemployment.

Wages and Spending-power.

100. An objection frequently made to a reduction in wages is that it decreases the spending-power of the people and thus intensifies the depression. This argument may have some force during the period of readjustment, but it cannot be true in the long-run. Indeed, it may be shown that it is a fallacy. The spending-power of the people as a whole depends upon the money-value of the national income. If a reduction in wages helps to restore national income, it must ultimately increase real spending-power. In the present circumstances of New Zealand, national income, both money and real, has fallen, and the former level of wages cannot be sustained for the whole people. Some will remain permanently out of employment unless costs of production can be brought down sufficiently to expand the margin of production and re-employ workers at present displaced by the depression. The fall in wages must be considered along with the reduction in other incomes and in the cost of living. Moreover, the wage-level bears a close relationship to unemployment. The maintenance of wages at uneconomic levels increases unemployment. Any increase in unemployment throws additional weight upon the Budget for unemployment relief. In the existing financial position it is important to avoid any increases in public expenditure if a sound Budget position is to be reached. It is therefore inevitable that a fall in wages will take place.

Restriction in Respect of Working Conditions.

101. At the same time it is desirable to consider whether undue restrictions on industry cannot be removed in order that costs of production may be lowered. In some cases working-conditions exert a more powerful influence in keeping up costs than does the level of money wages. At a time when all sections of the community are revising standards that were economically possible only in the period of high export prices and heavy overseas borrowing, a revision of regulations governing working-conditions in industry is appropriate. It is not suggested that free competition without any intermediary regulating authority should be restored. What is required is a relaxation of the rigid conditions that the community could afford in the days of prosperity, but cannot afford now.

Restatement of Reason for Fall in Wages.

102. It may be appropriate here to restate briefly the reasons why a reduction in real wages in New Zealand is inevitable. Export prices have fallen much more than import prices, and the same quantity of exports will purchase a substantially lower quantity of imports. Overseas borrowing is declining and will continue to do so. The real income of a community from the point of view of the consumer is the goods and services available for consumption. These goods and services are made up of home-production less exports plus imports. The volume of imports has fallen substantially, and for the present home-production in factories and other non-farm products has declined. The latter may be restored, but the former cannot until import prices fall relatively to export prices. Hence the community has less real income. With the fall in internal prices the reduction of money income is much greater. It has been estimated at £40 m. at present, and the decline is still going on. In these circumstances it is clear that a decline in wages both money and real is inevitable at least for a time.

SECTION XII.—BALANCING THE BUDGET.

The Deficit.

103. In Section VI it was estimated that the Budget deficit for 1932-33 would amount to £9·26 m., subject to a reduction of £0·6 m. if the Hoover moratorium were continued. On present indications there is little prospect of such improvement in national income as would increase revenue, or reduce the expenditure on exchange and unemployment due to existing conditions. It is therefore necessary to consider what special measures should be adopted to bridge the wide gap between revenue and expenditure and to lay the foundations of a balanced Budget.