Stabilisation Policy in New Zealand

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Wartime increases in Government spending, combined with reductions in the supply of consumers' goods, have stepped up living costs and prices generally throughout the world. In some countries the rise has gone so far as to cause acute hardship to every person whose source of livelihood is a pension or other fixed income or a wage rate which rises less rapidly than prices. Everywhere constant vigilance is needed to prevent the undermining of price controls and to restrain the forces making for inflation. Considerable interest attaches, therefore, to the methods followed in a country which, despite great difficulties, has achieved an important measure of success in this direction. An account of the New Zealand policy is accordingly given in the following article.

STABILISATION BEFORE THE WAR

EVEN before the war, the New Zealand Government had gone some distance in the attempt to promote stabilisation, while there had been a considerable growth of controls of one sort or another. These measures could be applied as they stood, or with appropriate amendments and extensions, to meet the requirements of a war economy.[1] The objectives of stabilisation were various and they were sometimes mixed with other aims. For example, import and exchange controls were imposed in 1938 to conserve London funds and promote the development of local industry, as well as to help to "insulate" New Zealand against the effects of oversea price fluctuations.[2] This variety and mixture of aims is apparent during the war.

[1] Cf., for example, H. L. WISE: "War-Time Price Control in New Zealand", in *Economic Record* (Wellington), Dec. 1941, pp. 180-191. See also, W. B. SUTCH: "Marketing and Price Control in New Zealand", *idem*, June 1940, pp. 68-77; "New Zealand's War Economy", *idem*, Dec. 1940, pp. 208-217; and "New Zealand's War Controls", in *South African Journal of Economics*, June 1940.

[2] Cf. H. BELSHAW: "Import and Exchange Control in New Zealand", in *Economic Record*, Dec. 1939, pp. 173-186.

Nevertheless, the chief emphasis prior to the war was on the interests of the producer.[1] While the consumer was not entirely neglected, as is shown, for example, by the Fair Rents Act, 1936, the Government aimed mainly at benefiting him as a by-product of the stabilisation or expansion of production or the avoidance of fluctuations in producers' profits[2]; or endeavoured to improve his lot by an extension of social security. In general, the safeguarding and stabilisation of producers' profits were combined with attempts to maintain or expand production. In primary production, the methods adopted included direct subsidies (fruit), guaranteed prices (dairy produce), sliding scale tariffs and/or the fixation of prices (wheat, flour, bread), control of imports (fruit), and sale of surpluses abroad (potatoes).[3] The smoothing out of price fluctuations, especially seasonal fluctuations, was aimed at through market controls, both internally and externally, but especially the former.[4] In manufacture the combination of the stabilisation and development motives has been apparent in tariff policy and import control and in the operation of the Industrial Efficiency Act of 1936.

A more immediate concern for consumers' interests is revealed in the Prevention of Profiteering Act of 1936, which endeavoured to prevent profiteering by discouraging unreasonable price increases and to ensure that wage increases were not offset by increases in prices.[5] At the same time, the Arbitration Court was always likely to consider cost-of-living increases in fixing award rates of pay, so that the stabilisation of the real income of wage earners has been a motive in the background of wage policy. The extension of social security legislation by the Labour Government since 1936 may also be regarded as concerned in part with the stabilisation of real income, since it aims at increasing and extending pensions and providing against sickness, medical expenses, and other contingencies. Under the system of guaranteed prices for exports, the Government hoped not only to stabilise the income of certain classes of primary producers but also to equate them in stable relationship with the incomes of other sections of the community.[6]

[1] Cf. H. L. WISE, *loc. cit.*, p. 180.

[2] Thus, although the prices of flour and bread were regulated in the interests of consumers, this was an after-effect of measures designed to ensure self-sufficiency in wheat production at prices profitable to growers.

[3] The outstanding experiment was the guaranteeing of dairy produce export prices (cf. H. BELSHAW: "Guaranteed Prices for New Zealand Exports", in *Economic Record*, Dec. 1937, pp. 168-188, and "Guaranteed Prices in Operation", *idem*, Centennial Supplement, Oct. 1939, pp. 69-81).

[4] In respect of internal marketing, cf. H. B. LOW: "The Growth of Control of Butter Marketing within New Zealand", *idem*, June 1939, pp. 60-67. See also W. B. SUTCH: "Marketing and Price Control in New Zealand", *loc. cit.*

[5] Cf. H. L. WISE, *loc. cit.*, p. 183.

[6] Cf. Primary Products Marketing Act, 1936; and H. BELSHAW: "Guaranteed Prices for New Zealand Exports", *loc. cit.*, p. 169.

Objectives of War Stabilisation

These objectives of stabilisation policy were more or less carried on into the war period, but the difficulties were of course increased, even as the emphasis was changed, the scope extended, and new objectives demanded. Expressed in the broadest terms, stabilisation fits into the general war policy with the purpose of promoting the maximum war effort, while ensuring an equitable distribution of the burden. It is natural that a Labour Government should interpret equity as requiring that, as far as possible, the cost should be placed on the highest income groups and that certain minimum standards of consumption should be safeguarded. More specifically, the Government appears to have been actuated by the following motives:

(1) To maintain or expand production by a variety of measures, including the authoritarian direction of production and manpower and the regulation or fixation of prices high enough to provide the necessary incentive to produce, with as little as possible embarrassment to consumers, in order to:

(*a*) make the maximum contribution to war needs; and
(*b*) maintain living standards;

(2) To stabilise or at least restrain upward movements of costs, prices, and wages in order to:

(*a*) prevent the financial cost of the war from rising unduly;
(*b*) restrain the inflationary pressure of increased purchasing power;
(*c*) maintain living standards;

(3) Especially, to conserve the purchasing power of wage earners over "essential" goods by stabilising the price of selected commodities or, failing this, by permitting an equivalent increase in wage rates;

(4) To ensure the equitable distribution of scarce necessaries by rationing.[1]

These aims involve some formal contradictions, but the Govern-

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[1] The Economic Stabilisation Conference set up on 4 Sept. 1940 (see below, p. 310) expressed itself as follows:

In these recommendations the Conference has attempted to ensure that, commensurate with the maximum war effort:

(1) Sufficient of the necessaries of life will be available to all;
(2) Shortages in the supply of goods will be fairly spread on the whole community;
(3) Prices of goods necessary for the maintenance of a fair standard of living shall be kept down as much as possible;
(4) The goods value of the pound will, as far as possible, remain constant.

ment was not unaware of the economic implications of total war, and in particular that consumption must be reduced; but it was anxious to avoid unnecessary reductions in consumption and especially reluctant to trench on living standards among lower income groups.

Background of War Stabilisation

The Government's task has been made difficult by the problems normally associated with war. Official figures of the three armed services at home and overseas cannot be published, but the New Zealand Minister to Washington, Mr. Walter Nash, has stated that in 1942 160,000 men, or one out of every three workers, had joined the armed forces, while 100,000 more were in the Home Guard.[1] Very large numbers had been drafted to the Emergency Precautions Services. While men of the Home Guard and workers in the Emergency Precautions Services were not withdrawn from production, their duties involved some interference. For a country the size of New Zealand the numbers are considerable, especially if account is taken of women in the various Auxiliary Services. All males between the ages of eighteen and forty-six years have been called up or by now have received their draft notices. A big proportion of the available plant and materials, and of the remaining manpower, is directly engaged in meeting the needs of the armed forces of New Zealand and her Allies, whose *per capita* consumption of many consumers' goods will be greater than the civilian consumption.

Other factors operating on the internal economy have enhanced the problem of stabilisation. Women, retired persons, and youths have been drawn into industry, workers have been redirected into more essential industries, and schoolchildren, students, teachers, and members of the armed forces have been employed at holiday periods or to meet seasonal needs. The labour so employed involves a redistribution of productive resources. It enhances the war effort, but on balance, it is likely to be less efficient than the regular labour force in normal times. The effects of such dilution of labour have been reinforced by irregularities in the supply of materials or orders, changes in the types of raw materials calling for the use of substitutes or inferior products, difficulties of transport, difficulties in extending or maintaining plant, switches in production, and stoppages of work.[2] On the other hand, these conditions have been

[1] Address before the Canadian Club, Montreal, on 14 Dec. 1942 (cf. *Auckland Star*, 30 June 1942). Similar figures have been confirmed in later announcements.

[2] The stoppages of work in 1941 and 1942 were as follows: *1941:* 89 disputes, affecting 97 firms; workers involved, 15,261; working days lost, 26,237; loss of wages, £34,552; *1942:* 64 disputes, affecting 77 firms; workers involved, 14,282; working days lost, 51,436; loss of wages, £62,954.

offset to some extent by greater efficiency, due to standardisation and other methods, and in some cases the erection of new, up-to-date plants. In some cases efficiency has been reduced by the extension of production requiring overtime, or increases in staff, in others by reduced turnover resulting in higher overhead costs. Executives have been preoccupied to a greater extent with problems of supply, transport, and labour, and with conforming to a mass of new regulations.[1]

New Zealand's position has also been affected by its exceptional dependence on external trade. For the year ended 30 June 1939, exports were valued at £(N.Z.)57.9 million and imports at £56 million, while the total value of all production in the Dominion was £133.9 million. From this it will be apparent that a considerable sector of the economic life of the Dominion is directly susceptible to the impact of oversea conditions, and both real and money incomes and their distribution may be considerably affected. External influences are exerted through changes in the barter terms of trade, changes in the competitive position of imported and locally produced goods, changes in the purchasing power of exporters over goods and services sold locally, and secondary effects on production and employment throughout the country.[2] Since the war the barter terms of trade have deteriorated. By June 1942 the index number of export prices was about 13 per cent. higher than for 1938, but the index number of prices of imported items was 50 per cent. higher. Not only so, but many finished goods and raw materials were in short supply or not available, or substitutes were drawn upon. Where such normal imports could be replaced by local goods, costs were usually higher or quality inferior. The problem was rendered more difficult by shortages of stocks in some lines as the result of the operation of import control before the war.

For one reason or another, despite the increase in the price of imported goods, the value of imports fell from £55.4 million in 1938 to £49.2 million in 1941, rising in 1942 to £53.7 million. On the other hand, the aggregate value of exports rose from £58.4 million in 1938 to £67.5 million in 1941, and £80.9 million in 1942 (an all-

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[1] In some cases, absenteeism, especially among women workers, has been a difficult problem, so much so that the Government has directed that it should be the subject of a special enquiry (*Report of Department of Labour*, 1943, pp. 5-7). See also, A. E. C. Hare: *Labour in New Zealand* (Wellington, Victoria University College, 1942), p. 37.

[2] For a fuller discussion, cf. H. Belshaw: "Stabilisation in a Dependent Economy", in *Economic Record*, Supplement, Apr. 1939, pp. 69-81; *Standards of Living, Wages and Prices* (Wellington, Modern Books, for New Zealand Institute of International Affairs, 1941).

time record), thus contributing to the pressure of increased purchasing power on a reduced supply of consumers' goods.[1]

Government financial policy, to be considered later, also had important effects on the volume of purchasing power and its distribution.

Stabilisation Measures

In the conclusion of its report, the Economic Stabilisation Conference of 1940 summarised its aims as follows:

> The recommendations of the Conference are designed to achieve two main results:
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> The first is to stabilise prices, wages and costs so that the cost of the war is not thrown unfairly on one group to the benefit of another. The second is to increase all kinds of production and the efficiency of every type of service which will help, however indirectly, the national drive.

Our first task is to summarise the methods adopted to achieve the first of these objectives.

Price Control

In essence, price control during the war is derived from the Prevention of Profiteering Act of 1936, though this measure has its origins as far back as 1915.[2] Under the Cost of Living Act of 1915, a Board of Trade was set up which was given authority to fix prices, and maximum prices were fixed for various commodities, including sugar, wheat, and timber. The Board of Trade Act of 1919 provided for the establishment of a Department of Industries and Commerce and set up a Board of Trade consisting of the Minister of Industries and Commerce and four other members. By an Amendment of 1923 the Board was abolished and its functions were taken over by the Minister. The 1919 Act gave authority "for the establishment of fixed minimum or maximum prices or rates for any classes of goods or services, or otherwise for the regulation

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[1] The returns, in £million, for the ten calendar years 1933 to 1942 are as follows:

Year	Exports	Imports	Year	Exports	Imports
1933	41.0	25.6	1938	58.4	55.4
1934	47.3	31.3	1939	58.1	49.4
1935	46.5	36.3	1940	73.7	49.0
1936	56.8	44.3	1941	67.5	49.2
1937	66.7	56.2	1942	80.9	53.7

By the extent to which the figures for imports include the value of imports of military equipment, the position is of course rendered more acute.

[2] For a discussion of the history of price control, cf. W. B. Sutch: *Price Fixing in New Zealand* (New York, Columbia University Press, 1932). See also H. L. Wise, *loc. cit.*, and *New Zealand Official Year Book*, 1940, pp. 785-786.

or control of such prices or rates".[1] Since that time regulations have been issued covering a variety of goods or services.[2]

The Prevention of Profiteering Act of 1936 was designed "to prevent profiteering by prohibiting the making of unreasonable increases in the prices charged for goods and services". A main purpose of the Act was to ensure that wage increases were not neutralised by increases in the cost of living. It became an offence to raise prices above the basic price, which was that ruling on 1 June 1936. The Act took authority to establish special judicial tribunals for the prevention of profiteering. Jurisdiction was to be exercised by a stipendiary magistrate. Information was to be laid by an officer of the Department of Industries and Commerce, acting by direction of the Minister. It will be noted that it was not the intention to prevent prices from rising, but to ensure that such increases as occurred were "reasonable". A large number of price increases were investigated, and in a number of cases prices were reduced after representations by the Department.

By the middle of 1939 the price increases were giving concern to the Government, and in June of that year a Price Investigation Tribunal was established[3], to administer the Prevention of Profiteering Act and the section of the Board of Trade Act dealing with profiteering. At the same time regulations were passed specifying a list of goods and services for which increases in price must be reported to the Tribunal in advance, the reasons for the increase being given.

So the machinery for price control was already in existence on the outbreak of hostilities.

Immediately on the outbreak of war, the Price Stabilisation Emergency Regulations, 1939, were issued, making it an offence to increase prices, rates or fees beyond those ruling on 1 September 1939, except by the consent of the Minister, or to purchase goods for hoarding. The effect was to hold prices for the time being, during a period when the upward pressure might well have been considerable; but within a few weeks the increase in landed costs of imports and other factors made this no longer possible, and the Minister's powers to consent to price increases were delegated to the Tribunal. The Government directed the Tribunal to approve

[1] Cf. *New Zealand Official Year Book*, 1940, p. 785.

[2] For example, wheat, flour, and bread almost continuously since 1914, superphosphates since 1931, motor spirits (1933), road transport rates (1931), taxi fares (1933). For a further discussion, cf. H. L. WISE: "Price Fixation and Control in Non-Export Trades in New Zealand", in *Economic Record*, June 1937, pp. 66-67 (for a bibliography of earlier articles, see footnote to p. 66 of that issue).

[3] This was set up under the Board of Trade Act and consisted of a judge of the Arbitration Court and an officer of the Department of Industries and Commerce.

increases in prices on goods in respect of which increases in costs had actually occurred, except that the vendor might be required to absorb part or all of the increase where gross profits appeared to be exceptionally high.[1] Later, in cases of hardship, the Tribunal was authorised to allow a margin of profit on increased costs.[2] Replacement cost was disallowed, so that the same goods might sell at different prices in different localities or even in different shops in the same locality. This was justified on the grounds that otherwise the ruling prices would be maxima and the consumer would suffer.

The continued upward pressure on prices led to the granting of additional powers to the Tribunal under the Control of Price Emergency Regulations of December 1939. The main new provisions were powers to hold enquiries in public and to issue price orders. The name was changed from Price Investigation Tribunal to Price Tribunal. In July 1941 the personnel was increased by the appointment of two associated members, one being an expert on foodstuffs, the other on clothing. The Tribunal is assisted by investigating officers, including inspectors of factories.

Prior to December 1942 the chief remaining amendment was directed to ensuring greater publicity so that the co-operation of the public might be more effective. The system of publishing price orders was useful within limits, but the method was hardly adequate as price changes occurred and the range of commodities affected continued to be extended, more especially as the same commodity might, as already mentioned, be sold at different prices.[3] Hence in January 1942 regulations were issued requiring every retailer to display or keep for inspection a record of price orders of the goods carried. This afforded some additional moral deterrent to price increases, but it was seldom that a customer would demand inspection, so that control was still far from watertight.

It will be seen that the operations of the Price Tribunal are not directed at stabilisation, though the Tribunal has worked in close touch with the Stabilisation Committee.[4] Nor was it concerned simply with the prevention of profiteering—that elusive concept. The purpose was rather to restrain price increases within the narrowest limits consistent with ensuring the maintenance of essential supplies. The range of goods and services to be considered, the

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[1] Cf. H. L. Wise: "War-Time Price Control in New Zealand", *loc. cit.*, pp. 184-186.

[2] *Ibid.*, pp. 186-187, for a discussion of the principles applied.

[3] Price orders covered a wide variety of commodities, such as nails, bolts, nuts, screws, woodpulp board products, raw tobacco, fertiliser, storage batteries, scrap metal, boot and shoe repairs. So far, a total of over 130 price orders has been issued.

[4] See below, pp. 312-316.

wide variation in conditions from locality to locality, and even establishment to establishment, the complex of factors operating to raise costs preclude the possibility of complete success. Nevertheless the Price Tribunal has operated with competence, and there can be no doubt that prices would have been much higher had it not been in operation.[1]

The work of the Price Tribunal is supplemented in the case of food products by the operations of the Internal Marketing Division of the Primary Products Marketing Department. The scope of this Division, which was established in 1937 to reorganise the marketing of dairy produce, has been steadily extended until it is now an important instrument of war policy, including stabilisation policy. In particular, it is responsible for the marketing at wholesale of certain commodities, including apples, pears, lemons, imported fruits (pineapples, bananas, oranges), imported barley, and imported copra and manures, and exercises more or less control or supervision over the marketing of others, including honey, eggs, butter, and cheese. Moreover, the Division works in close co-operation with the Price Tribunal in making decisions on the prices of commodities in which the Division is interested. Maximum prices have thus been fixed for some forty foodstuffs, including those the marketing of which is handled, supervised or controlled by the Internal Marketing Division.[2]

Government participation in farm production has also been a factor in maintaining food supplies and thus checking price increases. In several districts State farms have been established to grow vegetables for the New Zealand and Allied armed forces, temporary surpluses being made available for civilian consumption. This lifts the pressure on civilian supplies and thereby benefits consumers. The Lands Department also produces a wide variety of crops under commercial conditions, but this is incidental to the development of lands for settlement.

Generally, the Government maintains a close oversight of potential production and arranges contracts between growers and merchants for some crops, such as potatoes. The Government encourages the production of oats and maize by agreeing to acquire surplus stocks at the close of the season at a guaranteed price. Surpluses are handled by the Internal Marketing Division.

Normally, domestic prices of exportable commodities follow

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[1] See below, p. 321, for statistics of price changes.

[2] The following are the items covered: butter, mild cheese, bananas, apricots, honey, flour, bread, sugar, tea, coffee, fish, baking powder, salt for domestic use, chocolate and confectionery, oatmeal, rolled oats, bacon, jam, golden syrup, treacle, rice, raisins, canned peaches, dried prunes. Seasonal variations are allowed for fresh and condensed milk, apples, pears, potatoes and nine other vegetables, meat, and eggs.

the corresponding export prices fairly closely. If this relationship were maintained during war, it would endanger stabilisation policy because of the increase in domestic prices as well as through the increase in purchasing power resulting from any rise in income from exports. The Government has endeavoured to reduce these effects by divorcing domestic prices from export parity and to some extent by withholding proceeds from the sale of exports.

In the case of wool, meat, butter, pelts, and hides, domestic prices have been kept below export parity by means of subsidies financed mainly out of a levy on exports. A part of the proceeds from the sale for export of wool, meat, and tallow has been retained, and any amount withheld not used as a subsidy has been returned later as a deferred payment, or used to meet special costs resulting from the war.[1]

Wages and Labour Conditions

On the outbreak of war, the Government recognised that greater elasticity in wage and labour conditions might be required, and issued regulations empowering the suspension of conditions restricting or prohibiting overtime or shift work.[2] But the Government had no desire or intention to lower labour standards, and at the same time it set up an Industrial Emergency Council to advise it on applications for the relaxation of labour conditions and other matters. As a result there has been a not inconsiderable relaxation of conditions affecting overtime, the employment of women and boys, statutory holidays, and the like.[3] Generally the Council has preferred to authorise modifications in conditions of awards for individual firms or industries, rather than issue general orders.[4]

The policy expressed in these and similar or contingent regulations has a bearing on stabilisation partly because it helps to augment the labour force, or makes its distribution more effective, partly because it tends, in some cases, to reduce the financial cost

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[1] The increase of 15 per cent. in the export price of wool in the 1942 season was distributed as follows: 5 per cent. in cash, 5 per cent. in Government stock, 4 per cent. in cash at the end of the season, and 1 per cent. as a subsidy to keep down local prices.

In the case of meat, pelts, and tallow, increases in price have been retained in a Meat Pool Account to subsidise local prices, maintain the returns on ewe mutton and canning meat, meet interest, storage, and insurance charges, and provide against capital liability on emergency canning plants and cool stores.

[2] Labour Legislation Emergency Regulations, 1939, and Labour Legislation Suspension Order, 1939. This latter applied to public works and defence works, and prescribed additional rates of pay on shifts or for overtime.

[3] Cf. A.E.C. HARE, *op. cit.*, especially pp. 20-26; W. B. SUTCH: *Workers and War Effort* (Wellington, New Zealand Co-operative Publishing Society, 1942).

[4] Cf. A.E.C. HARE, *op. cit.*, p. 25. The Annual Report of the Department of Labour for 1942 stated that the Industrial Emergency Council had refused to order a general extension of hours of work but had preferred to deal with individual cases as they arose.

of overtime.[1] There is reason to believe that in some cases the number of working hours has been increased too far, and that in consequence efficiency has suffered.

Despite the activities of the Price Tribunal, prices rose, and by August 1940 the "all groups" index number of retail prices was 4.7 per cent. higher than in August 1939. By the Rate of Wages Emergency Order, 1940, the Arbitration Court was empowered to order a general increase or decrease in wages. There was already considerable pressure by labour organisations for increased wages to compensate for higher living costs, and higher rates had been granted for special reasons. An application to the Court for a general increase was made, and an increase of 5 per cent. was granted, as from 12 August 1940, in wage rates covered by awards and industrial agreements. Further price increases caused the Federation of Labour to make application for a further general increase, which was heard in November 1941. This was refused in the Court's decision of 19 December, the decision, no doubt, being influenced by Japan's entry into the war, the accumulation of exportable produce in store, and the apparent intention of the Government to consolidate and extend its efforts towards stabilisation.

Notwithstanding a Government pronouncement in August 1941 of its intention to stabilise the price of 38 essential commodities, the cost of living continued to rise. Between August 1941 and January 1942 the all groups index number of retail prices rose from 1,073 to 1,094, and on 30 January 1942 the Federation of Labour made a further application for a general increase. The export situation had improved, and apparently a majority of the Court was sceptical of the prospects of stabilisation. So, on 1 April 1942, it granted an increase of 5 per cent. on the first £5 for men, on the first £2 10s. for women, and on the first £1 10s. for juniors.[2]

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[1] For example, under the Defence Works Labour Legislation Suspension Order, Mar. 1942, hours were fixed at 54 per week, shifts might be worked, and overtime or Sunday work was paid for at hourly rates. Although the hourly rates were raised, the result was a slightly lower weekly wage (cf. A.E.C. HARE, *op. cit.*, p. 22). On 1 July 1942 hours were reduced from 54 to 48, because it was found that a week of 54 hours was too long for outside work during the winter period. The rates of wages were not adjusted when the hours were reduced, except in the case of drivers who are paid a weekly wage.

The Overtime and Holidays Labour Legislation Suspension Order, 1941, fixed overtime rates for the first 4 hours in any one day, or the first 16 hours per week, at time-and-a-half, and double rates for holidays. In many cases these rates would be in substitution for double or triple rates (*ibid.*, pp. 20-21). There have been so many exceptions to the Order that the original Order seems no longer to be of general application.

[2] In granting the 5 per cent. increase under its General Order in August, 1940, the Court took account of a prospective increase in the cost of living. In July 1940, when the case was heard, the cost-of-living index was only 3.2 per cent. above that for Aug. 1939, but the workers' claim was based on the increase since Sept. 1937, when the Court issued its standard wage pronouncement. The Court rejected this claim, but said that it was "not directed in the Regulations to limit

The effects on purchasing power are not to be measured simply in terms of the increases ordered by the Court. Of greater importance are increases in the total wages bill through overtime and payments above award rates.[1] Moreover, there has been a considerable distortion of the pre-war distribution of wages and salaries, which is likely to create a problem of some dimensions when the war ends. Of course wage earners are not the only section whose nominal incomes have increased. Some groups of traders, manufacturers, and professional men have also benefited, but their gains are more difficult to handle statistically. Family allowances and pensions generally have also increased, but the real value of pensions has not increased.

Rent Restrictions

Under the War Legislation Amendment Act of 1916, the maximum house rent was fixed at 8 per cent. of the capital value of the

its investigations to the period since the war commenced or any other period". The Court anticipated a future increase in the cost-of-living index and estimated that a 5 per cent. increase would give an effective wage rate about the same as over the preceding three years. This estimate was falsified by events, but the workers were compensated for the first increase in the national security tax.

It is difficult to assess the effects of the Order of April 1942. It applied to award rates, and not to cases where wages were already in excess of the award rates. In some cases workers receiving wages in excess of award rates were granted the increase, but not in others. There is no doubt that an uncertain, but possibly large, proportion of wage earners are being paid above award rates.

Moreover, other factors were at work besides cost-of-living orders. By Dec. 1942 nominal wages for adult males were 14.1 per cent. above those ruling in Aug. 1939. Between 9 per cent. and 10 per cent. would be due to cost-of-living orders, the rest to new awards, and to increases enjoyed by agricultural workers and others not under awards.

[1] The following indices, applying to wages on 30 Sept. 1939, 1941, and 1942 (*Reports of the National Service Department and of the Industrial Man-Power Division*, 1943, p. 60), provide an interesting commentary on the situation (base: 30 Sept. 1939 = 100):

	Award rates			Ruling rate paid for good average worker			Highest rate paid for best workers		
	1939	1941	1942	1939	1941	1942	1939	1941	1942
Adult males	100.0	106.3	111.2	100.0	107.2	113.2	100.0	107.2	114.4
Adult females	100.0	107.6	117.3	100.0	108.8	121.0	100.0	114.0	130.0
Youths aged 16-17	100.0	111.1	125.3	100.0	110.5	131.4	100.0	119.7	136.9
Girls aged 16-17	100.0	107.9	126.5	100.0	108.1	128.6	100.0	110.3	129.8

(The table is based on wage rates applicable to ordinary time and excludes overtime. Figures are unweighted averages.)

The figures for adult males cover 23 occupational types, for adult females 9 occupational types. The figures for youths cover those commencing as metalwork assistant (not apprentices), grocer's assistant, or junior storeman or packer, and for girls, shop assistants and machinists.

In the case of juniors the very high wages earned are creating a social problem which is causing some concern (*New Zealand Herald*, 9 and 10 Feb. 1943).

dwelling. Various rent restriction provisions were in force until 31 October 1936, when earlier legislation was superseded by the Fair Rents Act of June 1936. The legislation covers dwellings or parts of dwellings let at not more than £156 per annum and applies to dwellings let at the time of the passing of the Act or between 27 November 1935 and the date of the passing of the Act. Rent may not be raised above that payable on 1 May 1936 or the rent last payable before that date. On application by either the tenant or the landlord, a magistrate may declare a fair rent, having regard to various specified conditions, including the relative circumstances of landlord and tenant. This fair rent is not to exceed that payable on 1 May 1936. This legislation has continued in force during the war.

Direct Stabilisation Measures

The actual and anticipated increases in the cost of living gave added point to the official policy of the industrial labour movement as expressed by the Federation of Labour. Reduced to essentials, the policy of the Federation of Labour, as formulated from time to time, was: (1) full assistance to the war effort; (2) the conservation, at least, of existing labour standards and their relaxation only in those cases where this was required by the war effort; (3) the maintenance of the consumption standards of the wage earner, at least over "essentials" produced in New Zealand and therefore within New Zealand's control, with the corollary that: (*a*) the prices of such goods, (essential foodstuffs, clothing and household necessities, rent, public services, fuel and light) should be stabilised; (*b*) failing stabilisation, wage rates should be raised to offset increases in the cost of living; (*c*) recent taxation increases should be removed.[1]

Fears that the pressure for increased wages consequent on price increases might induce social friction, increase the danger of inflation, and add to the financial costs of the war caused the Government to give increasing attention to the question of price and wage stabilisation as distinct from merely restraining price increases. Accordingly, in September 1940 an Economic Stabilisation Conference was convened, which consisted of 44 members representing employees, employers (including farming, manufacture, and trade), and banking. A great deal of evidence was called and considered by a working committee, whose report was adopted by the Conference. The order of reference of the Conference was "to survey the general

[1] Cf. New Zealand Institute of International Affairs, Newsletter: *New Zealand Affairs*, Vol. I, No. 2, Nov. 1940; No. 4, July 1941. See also, *International Labour Review*, Vol. XLIII, No. 6, June 1941, p. 727.

economic position of the country under war conditions in order to consider the possibility of stabilising costs, prices and wages, and to discuss expanding production so that the strain of war expenditure may be successfully borne and the standard of living be maintained as far as possible".

After drawing attention to the difficulties in the situation, the Conference recommended, *inter alia,* that:

(1) While the Price Tribunal had exercised beneficial effects, administration and policing must be greatly improved if control was to be effective. There should be legally enforced standard markings, and authorised prices should be clearly marked and price increases published. A representative of consumers should be added to the Tribunal.

(2) In addition to wages, salaries, and rents, the prices of essential foodstuffs, essential standard articles of clothing, footwear, household necessaries, public services, fuel and light should be stabilised.

(3) Subsidies possessed serious dangers and should not be resorted to, except when this was unavoidable, and then only under stringent control.

(4) "Family allowances are helpful in assisting parents with large families."

(5) Since the rate of building new houses was below requirements and the cost of building was unduly high, an adequate housing scheme was required and efforts should be made to reduce costs without sacrificing quality.

(6) No-one should profit out of the war.

(7) As far as possible, the war should be financed by taxation and internal borrowing out of the savings of the people.

(8) All State and local-body expenditure should be carefully surveyed with the object of effecting reductions and economies wherever possible.

(9) A range of essential commodities should be standardised.

(10) Production should be increased; measures were proposed to that end.

As might have been expected from the composition of the Conference, some of the recommendations were cautious and noncommittal, bearing evidence of compromise—for example, those in relation to profit limitation and family allowances. Nevertheless, there was sufficient agreement on certain important questions to furnish a useful guide to the Government and strengthen its hand.

The Conference reported in October 1940, but it was not until August of the following year that the Acting Prime Minister, Mr. Walter Nash, announced that the prices of 38 essential commodities, including foodstuffs, New Zealand made clothing and footwear, tram fares, fuel and light, would be stabilised as from 1 September 1941.[1] In making the announcement, the Acting Prime Minister stated that prices of some items had already been stabilised and that the list would be extended if necessary. If circumstances warranted, prices would be stabilised at a lower level. Standardisation, improvements in the organisation of production, possibly in co-operation with the Government, and subsidies were among the methods which might be applied. Subsidies might be unavoidable, especially in the case of imported goods, but they would not be paid till other methods were exhausted. The Price Tribunal was still to function and might hear applications for price increases even in respect of stabilised lines. Where increases in cost could not be absorbed, the Tribunal would report accordingly and a decision would be taken on the method to be adopted to stabilise the price.

It should be noted that, until December 1942, policy was directed to stabilising the price of each item separately, but seasonal fluctuations might be permitted in respect of seasonal products such as eggs.

On 25 September 1941 an Economic Stabilisation Committee was set up, consisting of the Minister of Finance and the Minister of Industries and Commerce, the Acting Chairman of the Economic Stabilisation Conference, and five others, representative of employers and employees. Later this was reduced in number to six, together with the Minister of Industries and Commerce as chairman. Various departmental officers acted as a secretariat.

In December 1942 new regulations were issued, which marked important developments in several directions.[2] By November 1942, the retail prices, all groups, index was 14.3 per cent. higher than in August 1939, and in announcing the new regulations, the Prime Minister stated that for some months the Government had been anxiously aware that its control measures were no longer adequate.

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[1] The following items were selected: *foodstuffs:* meat, flour, milk, sugar, bacon, cheese, honey, bread, eggs, butter, coffee, condensed milk, tea, rolled oats, oatmeal, baking powder, and salt; *New Zealand made clothing and footwear:* men's, women's, boys' and girls' shoes (New Zealand leather in each case), men's all-wool underwear, women's woollen underwear, boys' all-wool underwear, boys' all-wool jerseys, girls' all-wool underwear, men's woollen socks, boys' school hose, woollen piece goods, knitting wools, blankets, suitings (from New Zealand wools), and shoe repairs; *public services, fuel and light:* tram fares, electric light, gas, coal, and coke (NEW ZEALAND FEDERATION OF LABOUR: *Research Bulletin*, Vol. I, No. 7, 22 Sept. 1941; H. L. WISE: "Some Aspects of Price Stabilisation in New Zealand", in *Economic Record*, Dec. 1942, p. 184).

[2] The Economic Stabilisation Emergency Regulations, 1942; and the Control of Prices Emergency Regulations, 1939, Amendment No. 3.

Pressure by economic interests for increases in the prices of their products was becoming more and more insistent. The foundations of social security were in danger. The profit margins of manufacturers and traders were narrowing and they could not continue much longer to absorb increases in costs. A black market was appearing. The main reason for the difficulty arose from the fact that, although the people were working harder and earning more money, the supply of commodities was decreasing. By comparison with 1939 there was an excess of purchasing power of nearly £100 million. The national income had increased by £50 million, but the value of goods the people could buy had decreased by more than £40 million. As a result there was the danger of inflation.[1]

The Minister of Industries and Commerce continues to be the responsible head, but the Stabilisation Committee is replaced by an Economic Stabilisation Commission, with all the powers of a commission of enquiry, and a Director of Stabilisation, who has such functions as the Minister may determine.[2] The main function of the Commission is to conduct investigations and advise the Minister, but it may exercise administrative functions in respect of such matters as are referred to it by the Minister. The administration now becomes more clear-cut and gains in authority.

With certain necessary provisos, all rents, other than those of dwelling houses (which are covered by the Fair Rents Act, 1936[3]) are fixed at the rent payable on 1 September 1942, but on the application of the landlord or tenant, a court may determine a "fair rent", which may be above or below the basic rental. Any rent in excess of the basic rental is irrecoverable. The landlord of any dwelling house is required to keep a register. Rents commissions, with the powers of a commission of enquiry, are to be set up, and any application to a court to fix a fair rent may be referred by it to a rents commission.

The "basic" rates of remuneration ruling as at 15 November 1942 are to be fixed and any increase is to be irrecoverable, save as specified in the Regulations. An employer or employee may apply to a conciliation commissioner for a rate of remuneration in excess of the basic rate, on the ground:

(*a*) That the person holding the position or employment is employed by the same employer in any additional position, employment, duties, or work or in work involving additional risk to life and health;

(*b*) That an increase in the rate of remuneration is necessary for the removal of anomalies.

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[1] Cf. *New Zealand Herald*, 16 Dec. 1942.

[2] The first Director is the Secretary to the Treasury. The existing members of the Economic Stabilisation Committee became the Economic Stabilisation Commission.

[3] See above p. 310.

The Regulations impose a ceiling and do not require an employer to pay a certain rate. They apply to particular jobs rather than particular employees.

Any person aggrieved by the decision of a conciliation commissioner may appeal to the Court of Arbitration.

The Regulations affecting remuneration cover not only salaries or wages (including time or piece wages, overtime or bonuses), but also allowances, fees, commissions, travelling expenses, and remuneration of directors of companies.

The Court may make general orders, increasing or reducing rates of remuneration in sympathy with the movement of a special "wartime index". This is to be published at quarterly intervals as from 15 December 1942, and is to cover "the prices of such commodities and services (including rents) as the Minister directs". These will be the commodities and services which it is the Government's intention to control. The number of commodities or services affected has been increased from 38 to 110, but there is an important change in procedure. *Instead of endeavouring to stabilise the price of each item separately, the Government will aim at stabilising the wartime index.* This gives greater freedom of manoeuvre, since increases in some prices may be offset by reductions in others. It does not follow, however, that attempts will not be made to stabilise the prices of individual commodities.

A general order increasing or reducing rates of remuneration is to be made by the Court if there is an increase or reduction of not less than 5 per cent. in the general level of prices included in the wartime index, provided that in the first instance, rates of remuneration shall be increased if the wartime index shows a rise of 2½ per cent. Changes in rates of remuneration are to be as nearly as possible the same as changes in the prices covered by the wartime index, but general orders are to apply only to the first £6 of remuneration, except that a lower amount may be decided upon by the Court in the case of female workers, juniors, and apprentices.

Heavy penalties are provided for violation of the Regulations.

In announcing the new Regulations, the Prime Minister stated that the farmer would be treated in the same way as recipients of "remuneration" (as defined in the Regulations), by means of an adjustment in his price. Apart from such adjustments, "the price the farmer receives for all the main farm products, many of them stabilised now, will not be increased. This means, in effect, internal prices divorced from export parity, and any excess (*i.e.*, of export prices over the prices paid) will be paid into pooled accounts. The major items of farmers' costs will be correspondingly held down, and the cost of holding them, debited to the appropriate accounts."[1] He added that "the incomes of companies and individuals are held down through the combined operation of income tax, excess profits tax, and price orders".

It should be noted that wage earners are not the only section of the community who have so far benefited by increases in income through Government policy. Although farmers generally complain that increases in their prices do not compensate for increases in costs, higher prices have been permitted in some cases, while "subsidies to primary producers and for stabilisation purposes" totalled £2.3 million for the year ended 31 March 1943.

The functions and methods of procedure of the Price Tribunal remain unaffected, but its powers have been increased. The Tribunal may now issue price reduction orders and prohibit the sale of goods pending the fixation of prices. It may require any person to furnish a statement covering the quantity of goods held, their cost price and the methods of determining it, and other particulars. It is now an offence to sell or offer to sell any goods at a price in excess of that laid down. Previously, an actual sale had to occur before an offence was committed. Authorised price lists must now be prominently displayed by retailers.

Important new provisions relating to "profiteering" are introduced by the incorporation of the profiteering provisions of the Board of Trade Act, 1919. The regulations also cover "black marketing". It is now an offence for any person, whether as principal or agent, to sell or agree to sell any goods at a price which is "unreasonably high", which is defined as such "if it produces or is calculated to produce more than a fair or reasonable rate of profit". For this purpose no account is to be taken of the cost of replacement.

The regulations against black marketing provide that any person commits an offence who sells goods for purposes of resale to any person other than a retailer for the purposes of retail sale or a manufacturer for the purpose of his business, unless the wholesale price has been fixed by a price order and in conformity with it, or by approval of the Tribunal.

The more determined stabilisation policy embodied in the Regulations was on the whole very well received, the main criticism being that it should have been applied very much earlier.[2] The

[1] *New Zealand Herald*, 16 Dec. 1942.

[2] For example, on 4 Feb. 1942, the South Auckland Dairy Association adopted a resolution supporting the principle of stabilising prices, wages, and costs, but was unable without a direct mandate from the Dominion Conference of the industry, to support the proposal that existing levels of prices, wages, and costs

(Footnote continued overleaf)

increase in the number of items to be covered from 38 to 110 brings policy into closer touch with the realities facing the consumer, but at the same time increases an already difficult administrative problem. On the other hand, the proposal to stabilise the complex of prices covered by the new wartime index, rather than each separate price, may reduce the range and cost of the measures which may have to be applied. As already pointed out, the factors affecting costs are numerous and many of them operate from outside the country. Hence, unless these can be completely offset by improvements in efficiency, which is unlikely, or met by subsidies financed out of taxation or genuine savings, some increases in prices are to be expected. The spiral effect resulting from the contingent wage increases will then operate, though in a more effectively controlled fashion than formerly. The same applies to the increases in farm prices that will be permitted in similar circumstances. This method of compensation also leads to anomalies and is not strictly analogous with the method of compensating other income recipients. It is a payment on turnover and not a percentage payment on the whole or part of income. There is also the difficulty that the diversion of spending power from stabilised to unstabilised commodities will push up the price of the latter.[1] Control of this tendency is largely a matter of Government financial policy.

Public Finance and Purchasing Power

The magnitude of the financial problem facing the Government is indicated by the fact that a nation of slightly over 1,600,000 people had expended £239 million on the war by 31 March 1943. This expenditure was financed as follows:

	£million
Taxation (including transfers from Consolidated Fund)	88.1
Loans in New Zealand and overseas	123.5
Reciprocal aid: lend-lease	26.8
Miscellaneous	0.6
Total	239.0

should be stabilised, on the grounds that the dairy farmer had experienced his fifth season of fixed prices without allowances for increases in costs.

Similarly, the Secretary of the New Zealand Master Grocers' Federation stated that the plan was sound from the retailers' point of view, but three years too late, since their costs, especially wage costs, had increased considerably in the meantime. The President of the Auckland Master Bakers' Association and the Chairman of the Auckland Chain Stores Employers' Association drew attention to the difficulties resulting from the increased overhead because of reduced turnover (*Auckland Star*, 16 Dec. 1942).

[1] Even before the new policy was inaugurated, there was a considerable movement of investment into real estate, the value of which is increasing substantially. In part this is an attempt to use free funds, in part a search for security. The Servicemen's Settlement and Land Sales Act, 1943, is designed to check the resulting rise in land values.

Reverse lend-lease totalled £7 million, so that the net obligation is £19.8 million. If we classify this as a loan, £143.3 million out of a total of £232 million, or 62 per cent., has been raised by loan, and £88.7 million, or 38 per cent., by taxation and miscellaneous receipts.

The growth of public debt, external and internal, was as follows for the period 1939-1943[1] (in £million):

Year ended 31 March	External	Internal	Total
1939	157.8	146.2	304.0
1943	159.1	304.7	463.8

The net increase in public debt of £159.8 million would include loans for development. Apart from the net obligation of £19.8 million under lend-lease, practically the whole of this huge increase has been raised internally.

Meanwhile, with the exception of expenditure on national development, civil expenditure has been maintained at above pre-war levels[2]:

PUBLIC EXPENDITURE 1939-1944

Showing actual expenditure during the financial years ended 31 March 1939 to 1943, and estimated expenditure 1943-44

(£million)

	Year ended 31 March					
	1939	1940	1941	1942	1943	1944
Consolidated Fund	28.7	33.8	32.5	32.3	32.7	35.7
War expenses	2.1	7.1	33.7	55.0	144.0	148.0
Social Security Fund	11.5	13.7	15.0	15.0	16.5	17.9
National development	26.3	28.9	20.6	19.6	5.2	8.2
Total	68.6	83.5	101.8	121.9	198.4	209.8

It is not clear how far national development costs should be properly regarded as capital expenditure increased in the prosecution of the war.

From the point of view of stabilisation policy, it will be observed that the Government has endeavoured to sustain real income by sustaining civil expenditure and in particular by increasing social security expenditure in conformity with the normal development

[1] At the time of writing, a loan of £35 million, the largest in the history of the Dominion, has been over-subscribed.

[2] Cf. H. W. KING: "The New Zealand Budget 1942-43", in *Economic Record*, Dec. 1942, p. 218. Adjustments have been made to make these figures comparable from year to year. The budget statement for 1943 shows that total receipts of £199.9 million for 1942-43 were made up as follows: taxation, £88.5 million; lend-lease, £26.8 million; other receipts, £6.6 million; and loans, £78.0 million.

of its programme. Just how far this endeavour has added to the difficulties of the war effort has been a matter of keen public discussion.

Otherwise, the Government has been conscious of the need for avoiding inflation by skimming off excess purchasing power through taxation and public loans. In pursuit of this aim, it has pushed tax increases so far that we must now be very close to the limit of taxable capacity. It is not clear how far the use of borrowing has been inflationary. The Government has been commendably "orthodox" in the restraint it has shown in the use of the Reserve Bank, though borrowings from the Bank have increased from £19.5 million on the average for the last week in May 1939 to £32.7 million over the same period in 1943.

This would have an inflationary effect, as would the increase in trading bank securities from £11.1 to £36.2 million in the same period. So also, to a slight extent, would loans from the public. Arrangements have been made in connection with the current flotation of a loan of £35 million for the trading banks to finance the purchase by their customers by overdraft. These overdrafts are expected to be repaid within eight months. Until repayment is completed, and to the extent that overdrafts are not repaid during the period, some inflation is likely.

The expansion of the means of payment is shown in greater detail in the following table:

BANKING FIGURES FOR LAST MONDAY IN MARCH OF EACH YEAR 1939 TO 1943

(£million)

	1939	1940	1941	1942	1943
Coin held by public (estimated)	1.4	1.6	1.7	1.8	2.3
Notes held by public	11.2	14.8	17.2	20.2	26.1
Govt. deposits at Reserve Bank	3.8	6.8	6.3	13.5	15.6
Other demand liabilities[1]	1.0	0.1	0.9	0.2	0.4
Demand deposits (trading banks)	38.4	46.6	53.7	61.5	77.1
Total	55.8	69.9	79.8	97.2	121.5

[1] Excluding trading banks' deposits at the Reserve Bank.

The chief causes of the changes appear from the following table, showing the increase from year to year in the excess of receipts over payments overseas and in the expansion of bank credit (in £million):

	Increase over previous year				Total increase since 1939
	1940	1941	1942	1943	
Excess of receipts over payments overseas[1]	13.7	6.8	1.1	6.2	27.8
Expansion of bank credit:					
Reserve Bank[2]	2.1	−3.0	12.6	8.1	19.8
Trading banks[3]	−0.8	4.7	4.5	8.0	16.4
Total	15.0	8.5	18.2	22.3	64.0

[1] As shown by increase in net oversea assets of New Zealand banks. [2] Change in Reserve Bank's total advances and investments in New Zealand. [3] Change in trading banks' total advances and investments in New Zealand.

It will be noted that out of the total increase of £64 million, £27.8 million come from the building up of oversea assets and £36.2 million from an expansion of bank credit. Since trading bank advances and discounts declined by £10.6 million during the period, and securities other than Government securities are a small item in the portfolio of the trading banks, Government demands have been a very important factor in the expansion of purchasing power.

The main limitation on the Government's efforts to skim off purchasing power has been in the failure, with one exception in 1940, to apply the principle of compulsory loans in the manner of the Keynes proposals, as a means of withdrawing increases in money incomes. Possibly, also, the inflationary effect of the taking up of Government securities by the trading banks has not been fully appreciated. It is in part at least for these reasons that free purchasing power has continued to expand in relation to the flow of consumers' goods available.

Meanwhile, the aggregate of private incomes has increased:

ESTIMATED AGGREGATE PRIVATE INCOMES AND VALUE OF PRODUCTION 1938-39 TO 1941-42

(£ million)

Year	Aggregate private income[1]	Value of production
1938-39	185.8	133.9
1939-40	200.2	142.8
1940-41	217.0	158.4
1941-42	[2]	161.5

[1] For a discussion of methods of estimation, see *New Zealand Official Year Book*, 1942, pp. 647-648. [2] Not yet available.

Although estimates of private income for 1941-42 and 1942-43 are not available, it seems probable that these figures will show further increases. Under war conditions, estimates of civilian consumption are faced with such difficulties that their validity is doubtful. All that can be said is that the quantities available have been very substantially reduced.

CONCLUSION

From the point of view of adjustment to war conditions, New Zealand was fortunate in having instruments of control already established, so that the transition to a war economy was facilitated.[1] These measures were extended and strengthened as the situation developed and the need became more urgent. Thus the administration of price control was improved and its application extended and made more vigorous as time passed; but price control alone could only restrain price increases. It could not ensure an equitable distribution of goods or eliminate the causes of rising prices. Rationing was applied reluctantly and extended continuously as shortages developed. Comprehensive schemes were evolved to distribute manpower in accordance with a system of priorities based on both military and civilian needs, and a definite stabilisation programme was adopted, culminating in the Stabilisation Regulations of December 1942. This involved the control of incomes as elements in costs. Price control was still applied to limit price increases, but in addition, attempts were made to meet shortages, especially of vegetables, by increasing the incentive to growers through contract prices, and by direct Government participation in production.[2] In many lines of production, subsidies were given, but the amount granted by way of subsidy is concealed in the War Expenses Account.

It would be tempting to measure the success of stabilisation policy by statistical comparisons; but there are too many pitfalls to justify such an attempt. The following table merely serves to indicate, without endeavouring to measure it, that a considerable

[1] In some cases, for example, in the imposition of import and exchange controls, the conditions responsible for their adoption might make the problem of stabilisation more difficult. Thus over-importation was one factor leading to the depletion of exchange funds which was the immediate reason for the establishment of control. In certain lines, the application of the policy led to shortages of stocks. In other cases, for example, in the adoption of internal marketing, techniques had not been developed fully before the outbreak of war greatly increased the complexities of a problem which was complicated enough even under peacetime conditions. Reliable information on internal marketing is very difficult to obtain, and since products handled by the Internal Marketing Department, especially fruit and vegetables, have risen conspicuously in price and been noticeably in short supply, it is not surprising that many should blame the system and be insufficiently appreciative of the inherent difficulties in the situation.

[2] The writer has been unable to obtain information on the extent of Government production contracts to growers or subsidies.

measure of success has been achieved in the attempt to restrain increases in the cost of living, more especially as wholesale prices, in particular those of imported items, have increased a great deal more than the cost of living.[1] The table gives the index numbers of prices for 1942 (base: average 1939=100):

	Average 1942
Wholesale prices:	—
(*a*) Imported items	146
(*b*) Locally produced items	113
(*c*) All groups (*a*) and (*b*)	132
(*d*) Consumers' goods	132
(*e*) Producers' materials	132
Cost of living	112
Money wages[1]	111
Real wages[1]	100

[1] Males, hourly award rates of pay.

International comparisons are also of doubtful validity, not only for statistical reasons but also because of difference in the conditions in which stabilisation policies have a control. For what it is worth, it may be stated that there are few countries in which there has been a smaller increase in the cost of living than in New Zealand.[2]

The table shows that real award wage rates are as high as in 1939. This means nothing more than that, if supplies of consumers' goods were available, and taxes on wages had not been increased, the hourly wage would buy as much from the composite basket of consumers' goods as before; but taxes on wages have increased and many goods are not procurable in pre-war quantities. On the other hand, yearly income is higher through payments above award rates, overtime and bonuses from employers, and improvements in industrial status. Moreover, social security provisions have been

[1] Note, however, that the comparison would be less favourable if vegetables were included, and that no cost-of-living index can correctly reflect the position when shortages have developed, the range of choice is restricted, and some goods have gone off the market altogether.

[2] Percentage increases of index numbers for 1942 over 1939 are as follows:

	Cost of living	Food	Money wages (hourly rates, males)	Real wages
New Zealand	+12	+ 9	+11	+ 0
Australia	+19	+11	+16	− 2
Great Britain and Northern Ireland	+29	+15		
Union of South Africa	+17	+22		
Canada	+14	+27		
United States	+17	+29	+33	+13

(After *International Labour Review*, various issues.)

extended. A large proportion of wage earners would be "better off" in the rather vague, popular sense of the term. The same could be said of a proportion of business men and some professional men, especially doctors. It is not true of farmers or salaried workers.

While stabilisation policy has met with a much greater measure of success than might have been expected on the outbreak of war, there are still dangers and difficulties. The price of imported items is beyond our control and may rise further. The demands of the armed forces, including those of our Allies, will continue to trench on supplies. As has been shown, despite the austerity of the taxation programme, expansion of purchasing power through bank credit and the building up of oversea exchange funds has been by no means insubstantial and may increase yet further. In these circumstances, the linking of wage increases and of payments to farmers to increases in the wartime index of the cost of living[1] may set prices running upwards, or require increased subsidies to offset the effects of shortages and redundant purchasing power.

[1] The wartime index for June 1943 showed no increase over that for Dec. 1942.