

(e) The most serious aspect of the problem, and that which directly hits the farmer, is the maladjustment between wage and price levels and between groups of industries, partly resulting from the system of judicial fixation of wage rates. From this point of view the industries of the country can be divided into two groups, sheltered and unsheltered. Sheltered industries, either because of the market for their services, *e.g.*, baking and tramway transport, or because of legislative interference in the form of tariffs or wage fixation, are shielded from external competition. Unsheltered industries have to compete with foreign commodities either at home or in the markets of the world, and to take the world parity for their products. Their prices are fixed in the world market irrespective of costs of production at home, and they cannot pass on to the buyer any increased cost of production due to special local causes. On the other hand, the sheltered industries subject to the effect of higher prices on demand, can do this. Award rates can be passed on by the sheltered industries, but not by the unsheltered ones. Now farming is the most important unsheltered industry in the Dominion.

It is true that award rates directly affect only somewhat less than 30 per cent. of the workers, but these award rates are mainly fixed in the sheltered industries, and become the standard determining what other workers will regard as the wage to be paid in industries not directly regulated by the Court. It is also true that the Court, under its discretionary power, has more than once refused to make an award covering the wages of general farm hands, but some groups of workers whose wages are a direct or indirect charge on the farmer are protected by awards, and all workers tend, whether under the Act or not, to demand the minimum wages fixed from time to time by the Court.

In the sheltered industries the worker is protected by artificially determined wage rates through the Arbitration Act, and the employer by artificial profits and prices through the tariff. These industries sell their products to the unsheltered primary producers, who are afflicted in two ways:—

- (1) By higher costs of production due to the increased price of the products of sheltered industries which they buy and use.
- (2) By higher wage rates and labour costs in their own industry indirectly resulting from rates fixed for protected workers and demanded by others.

The farmer cannot pass on this increased cost to his foreign buyer. If then the wage demanded is higher than the added value produced by the labour, the farmer must either stop employing men, or pay to them as part of their wages a portion of his legitimate profit or working capital. This process cannot be permanent.

Wages in the long-run depend on productivity, and are paid out of the product of industry. They should be based on what a man produces, not on what he consumes. The cost-of-living basis of wage fixation is in my judgment economically unsound.

It is the buyer, not the seller, who in the last analysis holds the price situation in the hollow of his hand, and market prices are determined primarily more by what the buyer can afford than by what it costs the settler to produce. If labour costs are not so adjusted as to allow of production within the range of the buyer's demand then production in the long-run will stagnate and cease. In the short-run, however, an industry paying an uneconomically high wage rate is really eating up capital disguised as wages.

Wages then in New Zealand tend to be settled on the basis of investigation by the Court of about 30 per cent. or less of the workers in mainly sheltered industries. It is true that the Court probably does all that human sagacity can do in estimating the effect of its awards on other groups of labour; but it is the special problems of the dispute under consideration that it primarily views, and the effect of the award on other industries is seldom explicitly argued, nor would such an inquiry lend itself to judicial methods of investigation, since it can be elucidated only by reasoning and deduction from facts.

The object of the Court has been to maintain the 1914 standard of living for unskilled workers. This has been substantially attained. No sensible man will quarrel with so desirable an objective, if the national production warrants it; but you cannot get more than a pint out of a pint-pot, and if the national production in conjunction with export prices will not permit of this standard being maintained, then fall it must, sooner or later. Post-war conditions do not permit all industries to bear the pre-war standard of living translated into present-day money values. This is especially true of farming. If this wage level falls on the farmer either directly in the wage he has to pay, or indirectly through the commodities he has to buy, then the burden of maintaining the pre-war standard is passed on to the primary producers as a special tax. It is inequitable that this should be so.

The farmer has to bow to the law of supply and demand in the sale of his products, and he has to submit to the law of supply and demand, also, in the rate he pays for his borrowed capital and credit. He does not object to this, but he thinks that what is sauce for the goose should be sauce for the gander, and considers that if supply and demand rule the price of his capital and commodities, it should also rule the price he has to pay for labour. As things are, he loses on the swings and does not make up on the roundabouts. He is ground between the upper millstone of the world price for commodities and capital, and the nether millstone of an artificially protected wage rate.

If the real wage is thus maintained at an uneconomic level, the farmer is in effect paying over part of his capital in the form of wages, in so far as the wage he pays is higher than the economic value of the services rendered by labour. The farmer will gradually be able to purchase less and less of the products of the sheltered industries, and the resultant stagnation in them will ultimately throw men out of employment, and if the uneconomic wage persists, force it down by a catastrophic process. Tariff protection will not materially retard this process. It can only paper over the cracks in the economic edifice. The pressure of the unemployment that will ensue if the wage is kept at an artificially high level will finally so increase in intensity as to bring the system of wage fixation down to an economic level. The validity of this argument turns upon whether in fact wages in the unsheltered industries are too high in comparison with the value of the services rendered. I have assumed that they are.

These factors cause a disparity between wage rates and the price levels in sheltered and unsheltered industries. The figures given in the Canterbury Chamber of Commerce Bulletin already quoted disclose the following position:—

- (1) Export prices—*i.e.*, prices in the unsheltered industries, are about 48 per cent. above pre-war level.
- (2) Import prices, and wholesale prices generally, are about 56 per cent. above the pre-war level.
- (3) Award wages, and the cost of living are about 76 per cent. above the pre-war level.
- (4) Prices in certain sheltered industries (milled agricultural products, textiles, wood products, and coal) are about 91 per cent. above the pre-war level.

It is thus seen that sheltered industries are paying wages about 76 per cent. above pre-war, and getting prices about 91 per cent. above pre-war, whereas unsheltered industries are paying wages about 76 per cent. above pre-war, but getting prices only 48 per cent. above pre-war values. There can be no economic stability in the country until these maladjustments are eliminated. While it would be incorrect to blame the arbitration system for the whole disparity, there is little doubt that (a) the maladjustment is in part caused by award rates, (b) the readjustment is in great part hindered by award rates.

If this analysis is correct it is obvious that most of the suggested amendments proposed by farmers' meetings recently are futile and useless. The fault is inherent in the system of wage fixation, and cannot be eradicated while that system persists. I take these suggestions seriatim:—

(a) Abolition of preference to unionists. This would not relieve the situation, since if an award fixes wages the employer must pay that rate to a worker whether he is a union man or not. Farmers are in error in thinking that the award rate must be paid only to unionists. Section 92, subsection (2) of the Act says,—

“The award, by force of this Act, shall also extend to and bind every worker who is at any time whilst it is in force employed by any employer on whom the award is binding . . .”

To abolish the right of the Court to grant preference to unionists would take from the tribunal a most useful implement of discipline over recalcitrant unions. It would not seriously hurt the large militant unions of relatively unskilled men, but it would do great damage to the smaller unions of skilled men, who deserve and require encouragement. The problem of separating the bad from the beneficial elements of unionism is engaging the attention of the world to-day, but it cannot be solved along these lines. If the workers surrender the right to strike and co-operate in the orderly settlement of disputes they have a right to expect preference. In any event it is granted only at the discretion of the Court, and can be withdrawn by that body if it is abused.