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RECENT CHANGES IN NEW ZEALAND'S ECONOMIC POLICY

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BEFORE outlining the recent changes in agricultural policy in New Zealand, I think it is essential that I should draw your attention to the salient features of New Zealand's economy, because without that background it would be impossible to convey the full ramifications of those changes.

The history of the white man's organized settlement of New Zealand is less than one hundred years old, and it was a somewhat reluctant British Government that agreed to extend its sovereignty to a group of islands which had been claimed as a British possession over seventy years before. 'For all practical purposes the economic history of New Zealand begins with the arrival of the first Wellington settlers in 1840.'[1]

In the first twenty years progress was slow. Distance was an effective barrier against the export of perishable commodities, and, although the pastoral industries were established in this period and the beginnings were made in grain-growing, the prospects of this new colony, 12,000 miles away from the British Isles, were not as attractive as the undeveloped countries much closer to the Western World. It was not until 1862 that the white population reached 100,000 people. The discoveries of gold in the sixties in both the Otago and Westland provinces stimulated the settlement of the country, and in the next ten years the number of settlers jumped to over 250,000. These people had to be fed, and the exploitation of the land was also accelerated.

The gold boom was comparatively short-lived, and once again the colonists had to fall back on the land as their main hope for economic and social advancement. Sheep-raising for wool, tallow, and skins, and grain-growing were the sheet-anchors of the farmer, and the rich timber resources of the country were vigorously and often wastefully exploited. However, had New Zealand been compelled to rely for all time on these products, it is practically certain that she would have remained an insignificant colonial possession of the British Empire.

[1] Condliffe, *New Zealand in the Making*, p. 17.

The turning-point came in 1882 with the discovery that meat could be successfully shipped from New Zealand to England in a frozen state. The first shipment arrived in London on May 24, 1882, and it was a 'prodigious fact', as *The Times* called it, both for the producers in New Zealand and the consumers in Great Britain. This date is the most important in New Zealand's economic history, although the development of this new trade was held back somewhat by the slow-moving downward trend of prices which was not arrested until about 1896. From that period until the outbreak of the War New Zealand poured an ever-increasing volume of agricultural and pastoral products on to the insatiable markets of the world.

The state borrowed freely on the London money market, and, in addition to providing liberal facilities for land settlement, vigorously pursued a policy of railway and road construction. In a country where soil, sunshine, and rain were stauncher allies than men, the future was worth mortgaging. In the pre-War period the growing debt commitments were outstripped by the continuous increase in external trade.

During the War years there was a drop in the volume of exports, but immediately hostilities ceased the state again stimulated the demand for land which became inflated in value and subject to widespread speculation. It has been estimated that rather less than half the land in New Zealand, even allowing for re-transfers, changed hands in the ten years 1915–24. The Government of the day encouraged this speculation by its action in purchasing large areas of land for soldier settlements by voluntary negotiation. From the inception of the discharged-soldiers settlement in 1915 to the end of the financial year 1926–7, £22,627,864 had been advanced to 22,585 discharged soldiers.[1] Little provision was made to control the advance in land values, and both rural and urban areas were affected. A sharp drop in wool prices gave rise to uneasiness in 1921, but dairy produce prices showed little movement, and wool recovered in the next two years. This was the first sign of instability, but it was quickly forgotten as fluctuations in prices were more than offset by increased production and the swelling of the national income by heavy state borrowings overseas.

There was no doubt that the situation was unhealthy, and in the next few years before the disastrous economic depression there were attempts to rectify the unstable financial position of large numbers of farmers, but it was quickly proved that debt commitments, once incurred, are difficult to adjust outside the bankruptcy court.

In a review of the economic and financial position of New Zealand

[1] *New Zealand Year Book*, 1928, p. 426.

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in 1928, Mr. Pember Reeves, a former Cabinet Minister and High Commissioner, speaking as Chairman of Directors of the National Bank of New Zealand, stated: 'It cannot be said that New Zealand as a whole is suffering from low prices, dear money, and high costs of production. So far as she is suffering at all, it is from the results of dear land, heavy taxes and rates, too much public borrowing persisted in for many years, and, still more, from too much private debt.'

I have dwelt on this problem of land inflation and mortgage indebtedness at some length because it provides much of the motive for the actions which followed when we were faced with a cataclysmic fall in prices, but before proceeding farther I think I should complete the pre-depression picture with an outline of the volume and nature of New Zealand's production at this stage.

In 1882, the year of refrigeration, our main exports were as follows:

Wool	65,322,707 lb.
Frozen meat	15,244 cwt.
Butter	11,264 cwt.
Cheese	3,553 cwt.
Gold	230,893 oz.
Timber	16,486,901 sup. feet
Grain	4,310,984 bushels

The population of the Dominion was then 561,804. The return for our meat exports was £19,339, for butter £52,088, and for cheese £10,130. The wool clip was worth £3,118,554. At this stage there were over 390,000 acres cropped for wheat, and 320,000 acres were sown in oats. The value of the exports from both crops approached £1,000,000. The total value of the exports was £8,609,000.

In 1929, the year before the break in prices as far as New Zealand was concerned, the classes of our exports which exceeded £1,000,000 in value were:

TABLE I. *New Zealand's Exports of Live-stock Products in* 1929

	Quantity	*Value*
		£
Wool	234,955,978 lb.	15,359,206
Butter	1,653,807 cwt.	13,228,027
Cheese	1,779,093 cwt.	7,017,463
Frozen meats (principally mutton and lamb)	3,336,200 cwt.	9,883,277
Sheep skins and pelts	1,133,298	1,516,738

Out of a total return of £55,579,063 for our exports, £50,780,113 came from pastoral products, and 80 per cent. of the total exports were marketed in the United Kingdom.

It can readily be seen that New Zealand's export trade was in an extremely vulnerable position in the event of a marked drop in export prices, and an examination of both her external and internal position will reveal an even more dangerous situation. In the year ended March 31, 1929, the total value of production was estimated at £126,756,679, and of this amount only £42,728,835 was unconnected with the production or processing of agricultural and pastoral products for export.

The position was well summed up in the report of the New Zealand Dairy Industry Commission (1934) which commented on our economic structure as follows:

'It has always been apparent to close observers of our economic structure that it is highly sensitive to external conditions. This sensitiveness arises from the facts that the greater part of our National Income is derived from primary products exported overseas, that these products are few in number, that, with the exception of wool, they are sold almost entirely in one market, and that our *per capita* external trade is the largest in the World. The result is that any event which prejudices the successful sale of any one of our major export commodities has immediate prejudicial effects on the farming community. Our lack of diversification both in products and in markets, plus the notorious instability of farm-produce prices as compared with other prices, makes our economic position far more insecure than that of most other countries as soon as there is a check to the expansion of markets or a fall in prices.' (p. 11.)

The course of the world-wide depression of 1930–5 does not need any reiteration from me, but I ask you to note the severity with which it struck New Zealand's unbalanced economy. In the period 1929–35 inclusive the quantity and value of our four chief exports were as follows:

TABLE 2. *Quantity and Value of New Zealand Exports of Wool, Meat, Butter, and Cheese from* 1929 *to* 1935 *inclusive*

	Wool		*Frozen meat*		*Butter*		*Cheese*	
Year	*Quantity*	*Value*	*Quantity*	*Value*	*Quantity*	*Value*	*Quantity*	*Value*
	000 lb.	£000	000 cwt.	£000	000 cwt.	£000	000 cwt.	£000
1929	234,956	15,359	3,336	9,883	1,654	13,228	1,779	7,017
1930	197,240	7,664	4,037	10,937	1,884	11,854	1,813	6,438
1931	211,719	5,515	4,139	8,893	1,989	10,650	1,636	4,461
1932	238,179	5,743	4,645	8,436	2,186	10,639	1,790	4,951
1933	286,307	7,422	5,203	9,846	2,635	11,649	1,983	4,766
1934	255,797	12,516	4,969	11,887	2,615	10,043	1,984	4,694
1935	222,661	7,097	5,207	12,769	2,789	13,617	1,728	4,377

As you see from these figures of our cardinal exports, the oversea trade generally received an unprecedented setback, and, with an air of general uncertainty and pessimism and the raising of the exchange rate in order to provide a greater monetary return to the farmer, imports contracted even more than exports, and we had a piling up of export credits, even in a depression.

The following official figures for these years graphically illustrate this point:

TABLE 3. *Total Value of Exports and Imports, and Value of Total Production, New Zealand, 1929–35*

	Exports	*Imports*	*Total production*
	£000	£000	£000
1929 . . .	54,930	48,734	126,600
1930 . . .	44,941	44,340	120,900
1931 . . .	34,951	26,498	97,600
1932 . . .	35,610	24,646	83,600
1933 . . .	41,006	25,581	83,800
1934 . . .	47,343	31,340	98,800
1935 . . .	46,538	36,317	97,000

As I have stated previously, our national income is extremely sensitive to fluctuations in our export trade, and this point may perhaps best be illustrated by the value of production in the years 1929–35, which is shown in the table above (Table 3).

I have dealt at some length with New Zealand's economy, because without that background it would be impossible to convey the importance of a series of legislative experiments, both by the past Government and the present, which have attracted world-wide attention.

Although there is general agreement that the first manifestations of the depression showed itself in the break in the New York Exchange in the latter part of 1929, no action was taken in New Zealand to meet the new situation until early in 1931. There were several reasons for this seeming delay. The reasons were mainly political, and in addition there was a non-acceptance on the part of the New Zealand farmer that the depression, the fall in prices, was anything but quite transitory.

After the 1930 Session closed in September, the Government set up an Economy Committee comprising members of the Cabinet, but it was not until the Prime Minister returned from the Imperial Conference early in the following year that adjustments were made in an effort to meet the falling price-level.

The first Act to be passed imposed a 10 per cent. reduction on salaries and wages of public servants, and authority, which was duly acted upon, was given to the Arbitration Court, which was responsible for fixing the wages of practically all industrial workers, to reduce general wages by a like percentage. Farmers were already feeling the pressure of debt commitments, and a Mortgagors Relief Act, which was amended and extended on several occasions during subsequent years, was enacted for the purpose of protecting mortgagors, notwithstanding default in payment of principal or interest. On the petition of a mortgagor, the Supreme Court was empowered to: (*a*) postpone (for not more than two years) the due dates of payment of principal or interest; (*b*) to reduce the rate of interest chargeable under mortgage; (*c*) to remit, in whole or part, arrears of interest. Commissions were also set up with a view to encouraging voluntary adjustments between mortgagees and mortgagors.

Income tax and customs tax were increased, and, in furtherance of the Government's policy of assisting the primary producers, land-tax, which had been raised in 1929 on properties exceeding £14,000 in unimproved value, was reduced. For the year ended March 31, 1931, £1,145,617 had been collected in land-tax; under the amending legislation the total from this source was £542,128.

The Sessions of 1932 and 1933 were almost wholly concerned with efforts to bridge the disparity between costs and prices, with special reference to the maintenance of farmers on the land. Three Acts affecting mortgagors and tenants were passed. The Supreme Court was given power to postpone the rights of the mortgagee under a personal covenant or stock mortgage, 'contracting out' agreements between mortgagor and mortgagee were invalidated, and lessees were given practically similar protection in respect of their lease commitments. With the object of settling numbers of the unemployed on small holdings a Small Farms (Relief of Unemployment) Act was passed, under which the Crown had the right to acquire land compulsorily, but the scheme never became significant. A further reduction in salaries and wages, varying from 5 to 12½ per cent., was made, and compulsory arbitration in industrial disputes affecting wages and conditions was abolished. Legislation was also passed reducing the rate of interest on internal government and local-body debt by one-fifth, and this was followed later by a similar compulsory reduction in all interest and rent. These enactments raised widespread protests on the ground that they interfered with the sanctity of contracts. The graduated land-tax was abolished.

Still the gap was not bridged. The Ottawa Conference of 1932 brought agreements for the marketing of primary produce in the United Kingdom, and in the case of meat, in which the principle of quantitative regulation was applied, the results to New Zealand have been beneficial, but export prices which governed the internal price-level were still well below costs. In November 1932 it was estimated by the Government statistician that—

Export prices were 21 per cent. below 1914.
Farm expenditure was 49 per cent. above 1914.
Retail prices were 29 per cent. above 1914.
Wholesale prices were 21 per cent. above 1914.

In a statement to the House of Representatives on January 27, 1933, the Right Hon. J. G. Coates, Minister of Finance, stated that farmers 'have been able to carry on and to maintain production only by failing to meet their fixed charges and by living on capital; but farm maintenance is suffering, and in many cases stock is being sacrificed. If some effective action is not taken, a greatly reduced volume of production will follow.'

In January 1933 the Government made a further effort to close the gap by raising the exchange rate on London. This action was taken, according to Mr. Coates, after 'all suggested methods, such as bounty on exports, remission of rates and land-tax, exemption of farm loans from income tax, and direct issue of credit by the Government, were considered'.

In 1933 the legislation passed by Parliament once again had reference to the special conditions created by the fall in overseas prices for exports. A further amendment to the Mortgagors and Tenants Relief Act gave the Supreme Court power to divide the proceeds of farming operations between mortgagee and mortgagor in cases where a mutual agreement could not be reached.

In April 1934 a Royal Commission was set up 'to inquire and report upon the condition of the dairy industry in New Zealand, and upon all matters incidental or relevant thereto with a view to the enactment of such further legislation for the welfare of the industry and the Dominion as a whole'. The order of reference was almost unlimited in scope. The Commission was engaged almost continuously in hearing evidence from May 9 to August 14, and submitted its report on October 15. From this report emerged the first constructive plan for the rehabilitation of the dairy industry, but I shall omit the recommendations and proceed to the action taken on the report.

Out of this report arose the Agriculture (Emergency Powers) Act of 1934, under which an Executive Commission of Agriculture was set up with power to co-ordinate and supervise the functions of the produce control boards, and under which the Dairy Board was given authority to regulate the production of dairy produce, and the handling, marketing, transport, and distribution of dairy produce intended for consumption within New Zealand.

The Act also contemplated the expenditure of public moneys by way of grant or loan for the rehabilitation of the dairy industry. The specific purposes for which public moneys might be applied included the reconstruction of dairy factories, the eradication of disease from dairy herds, and the general improvement of conditions in and about dairy farms. Wide powers were also taken under the Act to make regulations for the purpose of giving effect to the recommendations of the Dairy Commission.

A Mortgage Corporation, on the lines suggested by the Dairy Commission, was set up with a capital of £1,000,000, of which £500,000 was held by the state. The Corporation, which commenced business on August 1, 1935, was placed under the control of eight directors, including four appointed by the state, one by the Treasury, and three by the shareholders. The Corporation was given power to lend upon long-term instalment first-mortgages on land and upon stock or other chattels. Advances were restricted to two-thirds of the value of the security, but, in special cases of advances to repay existing loans on farm land, the margin might be raised to four-fifths, the state guaranteeing the loss attributable to the excess over two-thirds. The maximum term for a mortgage was fixed at fifty years, and money was made available to borrowers at 4⅛ per cent. Mortgages held by the State Advances Department, which had made advances for many years, the Lands and Survey Department, and the Rural Intermediate Credit Board were authorized to be transferred to the Corporation, and the transfers have largely taken place.

In 1935 a wider policy of rural settlement was initiated under the small farms scheme. Provision was made for leases of small farms, and the lessees were given the right to purchase their holdings for cash or on deferred payments, or to take perpetually renewable leases. The principal line adopted has been dairying, because the endeavour is to keep the establishment cost below £1,400 per settler and this amount would be insufficient, for example, to establish a settler as a sheep-farmer on a self-supporting scale. No actual restriction is placed on settlers, who are free to develop side lines. Up to March 31, 1933, 488 individual settlers had been placed under this scheme, together with 265 share-milkers. The total expenditure to that date was £142,000. During the next three years the scheme was administered by the Small Farms Board which by March 31, 1936, had issued authorities totalling £596,840 and had settled 363 holdings of a total of 24,964 acres. The Board is now definitely concentrating on the development and reconditioning of Crown lands or reverted Crown leaseholds, and since 1936 steady, if unspectacular, progress has been made with the scheme. It may never play an important part in land settlement work, but it offers an avenue for the person with comparatively little capital to set out on a farming career. When the present areas under development are completed, about 51,538 acres, the Board will have about 1,000 holdings under its administration.

One of the important features of the scheme is the recognition of the economic advantage of large-scale development by the most modern methods in place of the settlement of undeveloped land by persons who have neither the capital nor the equipment to carry out an efficient and adequate improvement programme.

Parliament also gave recognition to the tobacco-growing industry, which had undergone steady development and was now supplying a substantial quantity of leaf to local manufacturers and building up an export trade overseas. The Tobacco-growing Industry Act of 1935 provided for the establishment of a Tobacco Board, which has since been constituted, consisting of nine members, including one Government representative, four growers' representatives, and four manufacturers' representatives. Raw tobacco may not be grown, purchased, sold, or manufactured except under the authority of the Board, whose main function is to exercise a guiding influence over the industry.

The boards constituted by legislation and under the control of the Executive Commission were now as follows: Dairy Board, Meat Producers' Board, Honey Board, Fruit-export Control Board, and Tobacco Board. It will be noticed that the marketing of all the substantial categories of New Zealand primary produce with the exception of wool, the only one enjoying a world market, were under boards having extensive powers of control and negotiation in such important matters as shipping freights, brokerage, and regulation of supplies to the consumer.

At the General Election of 1935 the Labour Party won an overwhelming majority of the seats in the House of Representatives, the elected chamber of the New Zealand Parliament, and on the formation of a Government under the Right Hon. M. J. Savage immediately embarked on a radical programme. In the first year of office no less than fifty-nine public Acts were passed, and many of these directly affected the whole of the agricultural and pastoral industries, but principally the dairy industry.

At the elections the chief planks in the platform of the Labour Party as affecting the rural community were: (1) the guaranteed price for primary produce; (2) a reduction of mortgage liabilities in keeping with prices; (3) the expansion of trade by reciprocal agreements with other countries; (4) minimum wages for farm workers; (5) reduction of interest rates through greater state control of the monetary system.

Price fixation by the state, or by cartels, or by private concerns enjoying comparative freedom from competition, is not a new phenomenon, but it must be admitted that, even in the most advantageous circumstances, the machinery for the maintenance of that price is complicated and difficult to keep in smooth running order. This point is particularly applicable to agricultural commodities, the production of which is subject to incalculable factors and is extremely sensitive to variations in demand as in most cases consumption cannot be for long withheld.

It may be said that the problem of price fixation varies in intensity in proportion to the control the fixing agent has over both production and consumption. New Zealand has had little difficulty in devising machinery for insulating her wheat industry from the vicissitudes of world parity, because normally the total crop does not meet the internal demand and there are no exports. The United Kingdom wheat and sugar-beet policies are also in this category, and New Zealand has guaranteed for some years the price of fruit exports by a direct subsidy from the state revenues, but fruit has filled only a minor role in our export trade.

In the case of butter and cheese, the two commodities on our export lists so far covered by the guaranteed price, the great bulk of our total production is sold abroad. The proportions of total production consumed locally and exported of New Zealand's more important food products are as follows:

TABLE 4. *Proportions of Important Food Products consumed locally and exported, New Zealand*

	Consumed locally per cent.	*Exported per cent.*		*Consumed locally per cent.*	*Exported per cent.*
Butter	17	83	Lamb	10	90
Cheese	4	96	Pork	13	87
Beef	71	29	Potatoes	97	3
Mutton	52	48	Onions	90	10

It will thus be seen that the loading of the internal price on dairy produce, as has been done in some countries, would give little benefit to the New Zealand producer of dairy produce, and in a period of low prices a subsidy to maintain normal prices would reach a formidable amount. So far we have had two seasons of the guaranteed price for dairy produce, and neither the asset nor the liability side of the financial aspect of the scheme has given any cause for alarm, but it is widely believed that the real test of the policy will come if prices show a marked and precipitous fall.

The Act which put this scheme into operation is the Primary Products Marketing Act, and the title and preamble, which are as follows, express the views of the Government on the question of the guaranteed price:

'Title: An act to make better provision for the marketing of dairy produce and other primary products so as to ensure for producers an adequate remuneration for the services rendered by them to the community.

'Preamble: Whereas it is considered essential in the public interests that producers of primary products should, as far as possible, be protected from the effect of fluctuations in the market prices thereof; and whereas it is thought that the most effective and appropriate way of affording such protection is, so far as relates to primary products intended for export, to provide that the Government, on behalf of the Crown, shall acquire the ownership of such products at prices to be fixed and promulgated from time to time and, so far as relates to primary products, intended for consumption in New Zealand, is to empower the Government in its discretion either to acquire the ownership thereof at fixed prices or to control the sale and distribution thereof; and whereas it is not feasible to put into operation forthwith any plan or plans to deal effectively with all classes of primary products, and it is considered desirable that in the meantime a plan should be inaugurated in respect of dairy produce (including certain other products usually associated with dairy farming); and whereas, in order to enable the Government to put into operation its present plan with respect to dairy produce and to formulate its plans with respect to other primary products, it is intended to establish a Department of State, to be known as the Primary Products Marketing Department, to be charged with the special duty of marketing all primary products in which the Government has acquired ownership or over which the Government has assumed control, and charged also with such general duties and functions as may from time to time be imposed or conferred on it.'

Under the Act the Government fulfilled its pre-election promise to fix the price in the first year on the average prices for dairy produce over an eight- to ten-year period prior to July 31, 1935. In fixing the guaranteed prices for butter and cheese the Government took the ten-year average, because this was the highest, and then to cover any possible increase in costs it added £562,000 to the total this average would yield, so as to arrive at the actual price to be paid.

The guaranteed prices fixed were:

For butter	*For whey butter*	*For cheese*
$12\frac{9}{16}$*d.* per lb. f.o.b.	$11\frac{9}{16}$*d.* per lb. f.o.b.	$6\frac{13}{16}$*d.* per lb. f.o.b.

The price for cheese was fixed higher than for butter to compensate for the additional costs of supplying milk rather than cream, and for the disadvantage in having no skim milk for pig-rearing. As there is an 'over-run' in butter of something more than 20 per cent., the guaranteed price for butter-fat worked out at 1*s.* 1*d.*, and, owing to the effect of increased production on factory costs this season, this figure was exceeded in the pay-out by the more efficient factories. The guaranteed prices are basic prices and are subject to additions or deductions according to quality as disclosed by the grading points awarded by the Government graders. This is designed to provide a stimulus to more efficient production.

The fixing of the price on the average prices for a number of years is a fairly simple thing, but the Act provided a more elaborate procedure for the fixation of the guaranteed prices in subsequent years. This procedure is laid down in the Primary Products Marketing Act as follows:

'In fixing prices in respect of dairy produce exported after the thirty-first of July, 1937, regard shall be had to the prices fixed before that date, and to the following additional considerations, namely:

'(*a*) The necessity in the public interest of maintaining the efficiency and stability of the dairy industry.

'(*b*) The costs involved in the efficient production of dairy produce.

'(*c*) The general standard of living of persons engaged in the dairy industry in comparison with the general standard of living throughout New Zealand.

'(*d*) The estimated cost to the Department of marketing the dairy produce concerned, and also the cost of the general administration of this Act.

'(*e*) Any other matters deemed relevant.

'Due regard having been made to the several matters mentioned, the prices fixed in respect of any dairy produce exported after the thirty-first of July, 1937, shall be such that any efficient producer engaged in the dairy industry under usual conditions and in normal circumstances should be assured of a sufficient net return from his business to enable him to maintain himself and his family in a reasonable state of comfort.'

The Act provides that the guaranteed price as fixed by the Government cannot be challenged, and the Courts will therefore never be called upon to determine the meaning of 'usual conditions', 'normal circumstances', 'efficient producer', 'sufficient net return', and 'reasonable standard of comfort'.

From August 1, 1936, the Government of New Zealand became the owner of all the export butter and cheese of the Dominion. The financing of the purchase and marketing of this produce is being done through the Dairy Industry Account at the Reserve Bank, and the produce is being sold by the Primary Products Marketing Department on behalf of the Government.

Before the price was fixed for the second season (1937–8) of the new scheme a special statistical survey was made of production and employment on dairy farms. Some 40,000 questionnaires were widely distributed, and nearly 20,000 complete returns were obtained. On these returns and on other statistical data covering costs, living standards, &c., required by the Act, the guaranteed price for 1937–8 was based. The Government, after examining the position, decided to raise the differential margin for cheese to 2*d*. per pound for the 1937–8 season, and the guaranteed prices were fixed as follows:

For butter	*For whey butter*	*For cheese*
13½*d*. per lb. f.o.b.	12½*d*. per lb. f.o.b.	7·54*d*. per lb. f.o.b.

In the first year's operations of the scheme there was a deficit in the Dairy Account of £270,000, and for this season (1937–8) it was estimated, when this paper was written, that there would be a surplus substantially exceeding this figure. It has generally been considered that a deficit in any particular year or years would be held in a form of overdraft until years in which the receipts exceeded the guaranteed price, and this was the opinion of Dr. W. B. Sutch, Economic Secretary to the Minister of Marketing (the Hon. W. Nash), the originator of the scheme. Dr. Sutch writes:

'From explanations given by the Minister of Marketing it has been made clear that the Dairy Industry Account is to act as an equalisation fund whereby surpluses from realisation in "good" years balance deficits incurred in low-priced periods. The benefits of the stabilised price to the farmers themselves should be obvious. The difficulties involved are, however, political, financial, and economic. Politically, it may be difficult to use possible surpluses of "good" years to pay off deficits incurred in the past, especially when the farmers who receive the surplus realised by the Government above the guaranteed price are not necessarily the farmers on whose account a deficit was incurred.'

The Primary Products Marketing Act, which set in motion the guaranteed price, also made radical changes in the marketing organization set up by previous Governments. The Act provided for the setting up of a new Department of State—the Primary Products Marketing Department—directly under the control of the Minister of Marketing and supervised by a Director of Marketing. The principal functions of this department are 'to make all necessary arrangements' with respect to—

'(*a*) The acquisition, on behalf of the Crown, of all primary products in accordance with the Act, or in accordance with any other lawful authority that may be conferred;

'(*b*) The marketing in New Zealand or overseas of primary products, whether or not such products have been acquired on behalf of the Crown.'

The New Zealand Dairy Board has had its functions curtailed and has been made subservient to this Department, while the Executive Commission of Agriculture, set up by the previous Government, has been brought under the Act and may exercise its powers only with the concurrence of the Minister.

The Commission was empowered by legislation to rationalize the supplies of milk and cream received by dairy factories and has been for some time engaged in zoning districts with the object of eliminating overlapping and other uneconomic practices arising from the competition to obtain supplies. As the great bulk of the butter and cheese in New Zealand is processed by co-operatively owned factories, the opposition to this scheme has been only sporadic and isolated.

Alterations have also been made in the method of marketing of dairy produce in the United Kingdom. Under the new arrangement all butter and cheese, with the exception of a quantity under special licence, is marketed under consignment on a commission basis by a panel of appointed agents of the Government.

In a pamphlet on *New Zealand's Labour Government*, which has received official endorsement, Mr. J. Thorn, M.P., writes:

'The elimination of speculation has been effected by arrangements under which the best elements in the Tooley Street trade handle New Zealand's dairy produce, but no attempt is made to interfere with or control the London price-levels. During this season (1936–7) these levels for butter and cheese have not only rapidly fluctuated, but they have been at such levels as to make a deficit in the Dairy Industry Account possible. The Department's marketing arrangements, however, have had the effect of largely cancelling out the difference in London prices for New Zealand and Danish butter.'

The external marketing policies for meat, fruit, and honey, the other commodities which have been for some years under the control of export boards, have remained practically unchanged, but, as with dairy produce, there have been alterations in the internal marketing system. In the case of honey the alteration led to the resignation of the old board and the appointment by the Government of a new one.

Under the Primary Products Amendment Act of 1937 a department called the Internal Marketing Division was set up, and, in order to establish quickly an organization to carry out the functions of internal marketing of foodstuffs, a trading company with extensive ramifications in this class of business was purchased, and the services of one of its directors also acquired as the head of the Division. Under the legislation the Division has been given powers to control the marketing of dairy produce, honey, eggs, fruit, and any other foodstuffs which may be named by Order-in-Council. One of the first actions of the Division was to regulate the wholesale sale and distribution of butter by licensing a number of dairy factories, merchant firms, or produce distributors, who had been carrying out this work, and fixing a margin of ½*d.* per pound as the maximum allowed to cover the cost of distribution to the retailer. The Division has also assumed the monopoly for the importation of bananas and oranges, some of which are grown in New Zealand South Seas dependencies. This fruit is sold on a consignment basis by private auctioneers and brokers. The blending and marketing of honey within New Zealand has also been assumed by the Division which has purchased an existing blending and trading organization. The honey is bought from the producers and after being blended and packed is distributed to the public through 'the recognized trade channels'. The producers are to receive the net proceeds of the sale of this honey on both the local and export markets. Prices have also been regulated for the internal sale of wheat and onions. The wheat scheme is particularly interesting in that not only is the price of wheat fixed, but the prices of flour and bread are also regulated. The scheme and the claims made for it by the Government are outlined as follows by Mr. Thorn in *New Zealand's Labour Government*. He writes:

'Under this plan a Wheat Committee representative of each of these three interests was set up with the Minister as its Chairman. From the wheat-growers all milling-quality wheat was purchased at prices in excess of those ruling for some years previously. The wheat was sold to the millers, and the price of flour was fixed so as to give them an adequate return. Each miller was allocated a share in the total flour trade proportionate to his share in the previous three years. Flour is marketed on behalf of the millers, and unnecessary freight costs are avoided by a regional distribution plan. Without increasing the price of bread to the consumers, bread prices were also fixed at rates which gave the bakers a fair return.

'The advantages of the plan are that wheat-growers receive increased returns, the millers are relieved from the anxieties of competitive marketing, the bakers are safeguarded against losses in price wars and can therefore fix their attention on efficient production, and the consumers have the assurance of a fair price for bread. All are protected against the disturbances which accompany market fluctuations.

'A small commission on flour sales, and a fractional margin between the buying and selling prices of wheat, meet the administration costs, which are extremely low. When necessary, the Wheat Committee imports wheat, but flour may be imported only under permit.'

It will be noticed that no attempt has been made to interfere with land tenure, or to place any control over the actual production on the farm of any class of primary product, but that the whole of the actions by the state have been confined to the processing or manufacture and distribution of those products. The present Government is building a new structure based on some of the foundations laid by its predecessors which had already given legislative status and authority to Ministers and boards to control the distribution of various commodities, even to the extent of fixing prices. Maximum prices were first fixed in New Zealand in 1915 by the Board of Trade which was set up under the Cost of Living Act of that year, and in 1919 a Board of Trade Act was passed extending the War-time authority into the first hectic days of peace. By an amendment to the Act in 1923 the board was abolished, and its functions were taken over by the Minister of Industries and Commerce whose powers included 'the establishment of fixed minimum or maximum prices or rates for any class of goods or services or otherwise for the regulations of such prices or rates'. Various commodities came under this provision of the Act from time to time, although from 1923 to the advent of the present Government there was a tendency to relax the policy of price-control except for wheat and superphosphate, which has been continuously controlled since 1931, and use the powers of the legislation to bring about voluntary maximum prices rather than compulsory. Maximum prices were fixed for bread, flour, bran, and pollard until February 1925, when free marketing was resumed, and two years later a sliding scale of protective duties on wheat was introduced. From 1933 to the inauguration of the present system a Wheat Board controlled the purchase and sale of milling wheat.

It will thus be seen that the present Government in its principles of control has departed but little from those in operation from time to time over a number of years. What it has done is to make its ramifications of control more extensive and to play a more active part in the handling of the various commodities. The guaranteed price system for exports has no precedent, and this system is wrapped up with a form of control not exercised by any previous Government—the control of the monetary system. Without a brief sketch of this side of the Government's policy my paper would not be complete.

The Reserve Bank which was set up by the previous administration has been converted from a partial to a complete state institution whose general function has been defined by the Reserve Bank Amendment Act, 1936, as 'to give effect as far as possible to the monetary policy of the Government as communicated to it from time to time by the Minister of Finance'. The Act also provides that 'the Bank shall regulate and control credit and currency in New Zealand, the transfer of moneys to and from New Zealand, and the disposal of moneys that are derived from the sale of any New Zealand products and for the time being are held overseas'.

The Bank has made available the whole of the credit to finance the payment of the guaranteed price, which takes place immediately the Government acquires ownership of the produce, and has already made money available for a number of other state projects.

Another aspect of the Government's financial policy affecting the agricultural and pastoral industry has been the conversion of the Mortgage Corporation into a completely state institution under the title of the State Advances Corporation. The board of management is required to give effect to every written direction given by the Minister of Finance. The Corporation may make loans on mortgage up to two-thirds of the value of the security, but there is a provision that this margin may be extended under Ministerial authority. When the limit is extended, the Corporation is guaranteed against loss by the Consolidated (or general revenue) Fund of the Government.

Another section of the Government's policy relating to the farming community is contained in the Mortgagors and Lessees Rehabilitation Act, 1936. The general purpose of the Act is to enable the Court of Review (a special court established for the purpose) and adjustment Commissions to make a final adjustment of the liability of mortgagors and lessees on the following lines:

(*a*) Mortgages are reduced to the value of the security, and the surplus becomes an 'adjustable debt'.

(*b*) Rents are reduced to the 'fair rental value' of the property, and arrears of rent become an 'adjustable debt'.

(*c*) All adjustable debts are written off, except so far as the mortgagor or lessee can afford to pay them.

(*d*) The terms of payment of moneys remaining owing on mortgage and adjustable debts (if not written off) are adjusted according to the financial position of the holder.

In the case of the farmer 'adjustable debts' include (in addition to adjustable debts representing part of mortgage debt or arrears of rent) all his unsecured liabilities. The Adjustment Commissions are at present hearing the great numbers of applicants for relief, but progress reports indicate that the effect of the Act will be substantially to reduce the load of mortgage debt on the farming community.

One of the first acts of the Labour Government was to restore the graduated land-tax which was abolished in 1931. This tax has always been a contentious subject in New Zealand. It was originally introduced in 1891 just after the advent of the Liberal-Labour Government for the purpose of preventing land aggregation and to compel the cutting up of large estates, rather than to secure additional revenue.

In the early stages the tax had the effect of breaking up large estates, many of which were under absentee ownership, but, with the almost continuous rise in prices from the date of its imposition to the War, it never became really burdensome, and it is doubtful whether it played the part many have claimed for it in the trend towards smaller holdings. It is perhaps significant that in other countries where no such tax has been in operation there has been the same tendency towards closer settlement. The rise of the dairy industry, improved farming methods, and a steady flow of state loans to settlers have all played their part in the cutting up of the original pastoral runs.

Except in minor details the system of land-tax in force at the outbreak of the Great War had remained unaltered for many years, but subsequently amendments were made in 1917 and again in 1921, 1923, 1924, 1929, and 1930. In 1931 the graduated scale of land-tax was abolished, only the flat rate of 1*d.* in the pound of unimproved value being retained.

There was no further alteration until 1936 when the present Government passed legislation stipulating that where the unimproved value on which land-tax is payable does not exceed £5,000 the present rate of land-tax is 1*d.* in the pound. This rate is increased by 1/8000*d.* for every £1 in excess of £5,000, with, however, a maximum of 6*d.* in the pound. This rate stands at the present time, but, owing to the reductions of valuations during the depression, the tax is perhaps not as burdensome as the special imposts which had been introduced in 1929 and abandoned in 1931.

Another action of the Labour Government was to give facilities to agricultural workers to obtain wages and conditions of employment by collective bargaining. Certain types of seasonal workers, such as harvesters and shearers, had been able to obtain collective agreements with employers either by conciliation or arbitration, but the Arbitration Court had always refused to grant an award to general agricultural workers. In one judgement the Court stated ths grounds for its refusal:

'The conclusion we have come to on the whole matter is that it is not practicable to make an award fixing the hours of work and wages for general farm hands without altering seriously the conditions under which farming is now carried on. If a strong case had been made out for interference the Court might have felt compelled to make an award on the subject, and to attempt to regulate the hours of work and wages of general farm hands. Such a case, however, has not been made out, and the Court is thus relieved from the necessity of making a perilous attempt tò regulate by award the whole farming industry of the Dominion.'[1]

Thus the only determining factors in the conditions of general agricultural workers up to 1936 had been the goodwill of the employer and the supply of, and demand for, labour. Under the Agricultural Workers' Act, 1936, minimum wages and standards of accommodation have been set out for practically all classes of general farm labour. The following gives details of the scope of the provisions:

Agricultural or dairy farm workers of 17 years of age shall receive not less than 17*s.* 6*d.* weekly and an additional 5*s.* weekly for each additional year of age until the age of 21 years. Workers of 21 years of age and over shall receive not less than £2 2*s.* 6*d.* weekly, inclusive in all cases of board and lodgings, or where that is not provided, the wage to be increased by 17*s.* 6*d.* weekly. No child under 15 years of age can be employed for hire or reward.

Every agricultural worker who is continuously employed on a dairy farm for not less than four weeks is to be given a holiday, on full pay, of not less than seven days in every twelve weeks of employment or proportionately for less terms of employment. Before the commencement of the holiday the employer shall pay wages for the holiday at ordinary rates

[1] *Book of Awards*, vol. ix, p. 517.

together with an allowance of not less than 8*s.* 9*d.* weekly for board and lodgings. The minimum yearly holiday is 28 days. Workers who receive a weekly half-holiday must receive a minimum of 14 full days' holiday yearly.

Employers are obliged to provide accommodation which will not be deemed to be sufficient and suitable unless the following conditions are complied with. Where there are two or more persons the sleeping accommodation to be separate from the dining quarters; there is to be sufficient furniture and utensils and sufficient supply of water for drinking and washing, and provision for lighting, heating, ventilation, and sanitation. Sleeping quarters are to contain not less than 500 cubic feet of air space for every person; suitable provision is to be made for the storing of meat and other perishable provisions; suitable first-aid appliances are to be provided and provision is to be made for the drying of clothes.

An inspector appointed under the Act can at all times enter upon the land or premises for the purpose of seeing that the provisions of the Act are being carried out.

Apart from legislative enactments, government administrative policy plays a large part in New Zealand agriculture. Successive governments have realized how vulnerable the farmer is to economic vicissitudes, and many forms of assistance are available to him from the state. For example, a farmer in New Zealand can obtain the free carriage of lime by rail up to 100 miles, provided the minimum load is six tons. The cost of lime transport under this arrangement is borne by the Department of Agriculture. The Department also pays 40 per cent. of the freight charges on other fertilizers and 12½ per cent. of the freight-rate on certain farm products. Assistance is also given by way of subsidies, and sometimes labour is supplied for the work of destroying noxious weeds, rabbits, and other pests.

The Department of Agriculture, in addition to carrying out regulatory work common to most departments of a similar nature in other countries, maintains a research and instructional service covering every branch of New Zealand's primary industries, and the policy of the Government in this connexion may best be summed up in the words of the present Minister of Agriculture, the Hon. W. Lee Martin:

'In New Zealand, where the foundations of our economy are so firmly planted in the soil, it is imperative that the closest co-operation should exist between agriculture and the State. . . .

'The units of agriculture and pastoral production are necessarily smaller than in the manufacturing industries, and the average farmer has neither the opportunities nor the capital resources of the manufacturer for the economic development of his property. Unlike the factory, he is not sheltered from the elements, his cycle of production is longer and subject to greater fluctuations and more beyond his control than mechanized processes, and history has shown that prices for foodstuffs and raw materials are subject to wider variations than the returns from manufactured commodities. From these facts one does not imply that the farmer should receive privileged treatment at the hands of the State, but at the same time, if he is to maintain his place in the national economy, the special circumstances of his calling should be taken into account by any progressive Government. . . .

'The trend of the Department of Agriculture in recent years has been instructional rather than inspectorial, and I am firmly convinced that it is along these lines that we can make the greatest advances. The old adage that prevention is better than cure is just as applicable to agriculture as it is to medicine, and in animal husbandry, for example, it is essential that we get as close as possible to this precept. . . .

'It is obvious that the farmer cannot carry out this research as an individual. It must be done on a collective basis, and the State, which must necessarily maintain an impartial national outlook, is in the best position to judge the extent and importance of any widespread collective undertaking. It is, therefore, the duty of the State to make adequate endeavours to eradicate, by research and instruction, any factors which are detrimental to the country's economic and social welfare. It is in such work that the Department of Agriculture is playing a tremendous part, and it is the policy of the present Government to marshal the expert knowledge of the Dominion in a crusade against the problems of the man on the land.'

I have completed an outline of the salient features of New Zealand's agricultural policy. To-day her great problem is not internal. It is external. The forces of production within the Dominion are well organized and capable of tremendous expansion, but her producers are deeply concerned with the limitations of the present effective demand. We have realized since 1930 that there is no bottomless market prepared to pay profitable prices for our exported farm produce, and to-day the emphasis of our national work in connexion with agriculture is being placed on marketing rather than production. The solution we may suggest, and the present Government has put forward a plan of reciprocal trade, but it takes two sides to make an agreement on those lines.