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GENERAL ECONOMIC EFFECTS OF VARYING MARKET CONDITIONS.

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1. The course of external prices has been one of the chief economic influences aff ecting our country. Even in the early history of New Zealand when we were a comparatively isolated unit, external prices had important effects on our economic organisation. Thus the Australian gold discoveries in the fifties assisted by an upward price movement which. operated most noticeably on the prices of foodstuffs and in this way gave a greater impetus to agriculture than to pastoral farming. The South Island gold discoveries in bringing a rush of immigrants, reinforced the process and gave at least a temporary prosperity to the agriculture of the Wakefield settlements.

Again'the period from the late seventies to the mid nineties was one of acute depression associated with a world-wide fell in prices. During this time our external marketing was concerned with non-perishable products such as gold, wool and agricultural and forest products; but new markets and new industries were in the making, The success of refrigeration eventually enabled us to build up an economy based on the export of perishable primary surpluses to distant and (apparently) unlimited markets, and i-t altered the whole balance between agricultural and pastoral farming. Refrigeration was the technical starting point of our modern economic structure, but the course of our economic evolution was enormously accelerated by developments in organisation within industries and by the support of a steadily rising price level, Refrigeration gave us new markets and the possibility of new industries; co-operation in dairying for instance made it possible to serve -those markets efficiently; and a rising price level made the whole venture comparatively easy and profitable. The escape from the great depression of the seventies and eighties was by way of new markets, new industries, new organisations and higher prices.

The characteristic outward features associated with this period of new developments were expansion of farming area as well as greater'diversity of exportable primary products. So long as prices kept on rising the margin of occupation expanded. Side by side with this expansion of area, went the growth of more intensive forms of farm management once the dairying in particular become important.

There were other almost as obvious effects flowing from the new market conditions. The same underlying forces lie behind the activity of closer settlement policies. Closer settlement became more plausible as an economic theory and as a State policy only when more intensive types of farming became profitable. The revolt against land -- aggregation had little practical point so long as wool was our chief pastoral export. With tha new situation created by accessible markets for the products of more intensive farming, successive governments sought to make the land more accessible to smaller farmers. Apart from penal taxes against estates large in value, this objective was sought mainly through easier tenures and cheaper finance.

The optimism which sprang from rising prices and from the natural belief that there was no visible limit to the markets to be supplied culminated in the war time boom, Rising land values coupled with one of the most efficient land transfer systems in the world, established a virile tradition of farmland trading and speculative dealing in properties. The stream of private finance seeking investment and the dompetitive finance of the banks and stock and station companies were all caught up in the same apparently- irrestible process of expansion, inflation and mortgage speculation.

Expanding markets and rising prices, then, were accompanied by an extended area of'occupation, a growth in intensive forms of farming, the establishment of pastoral farming as the chief basis of our export trade, the development of tenures aiming primarily at ownership, a notable acceleration in the rate at which properties changed hands, easy, sometimes lavish, State and private finance, and land values inflated mainly through mortgage indebtedness. Under the stimulus of these events there was an enormous increase in the volume and a large increase in the value of pastoral products. With prosperity, came also a ready adoption of mechanical aids to farming and processing and a marked increase in the per capita output of labour.

Looked at structurally, the outcome has been to develop an economic system which is abnormally dependent for its success upon overseas marketing. A few major pastoral products are' the base upon which our economic structure is built; and by far the greater part of the output of these products is sold overseas. Moreover , with the exception of wool, the overseas market means the United Kingdom. To an exceptional degree our national prosperity depends upon the state of affairs in the market. The course of prices for any one of our major exports can directly and profoundly affect our economic security. Speaking broadly we have evolved a system based on undiversified products and undiversified markets.

The effect on us of external market instability is accentuated by the fact the over large areas, farm ownership is based on large mortgages and small equities. The magic of property has not always turned sand into gold, but too often has turned good earth into mill-stones.

11. Failing market prices since 1930 have been associated with two distinct attitudes of mind. So long as it was believed that overseas markets were indefinitely expansible, the dominant idea was to increase production as an offset to price decline. This policy carried conviction because it was universally believed that the price decline would soon give way to price recovery. Later, the fall in prices became so severe and appeared to be so prolonged, that hopes of early recovery were gradually abandoned. Some conversion of properties from sheep farming to dairying occurred but had not been carried far before dairying too was afflicted* When next it was proposed to add quota restrictions of butter exports to quota restrictions of meat exports, New Zealand realised for the first time that the era of happy-go-lucky expansion was over.

In the meantime a decade of unstable market conditions had brought about certain adjustments. The total area of land in occupation gradually contracted but under the stimulus of the ideal of a large turn-over, intensive forms of production increased, so that total output was larger. Extensions of farming finance, private as well as public, were justified on the grounds that overhead costs were best met by larger output and that a price recovery would soon **close** the gap between costs and receipts. Later when depression was converted into crisis, the problem of finance became much less the expansion of farming and much more the maintenance of farmers. The debt burden on farming threatened to crush our Key industries. The battle for debt adjustment split the country into two camps of mortgagor and mortgagee and so raised a class war which superseded that of labour and capital.

Closer settlement acquired an entirely new emphasis. Formerly it was designed to hit' the land-aggregators and to speed up land occupation, It functioned as intensified occupation in an enlarging total area. The new policy was linked to unemployment, not to aggregation; and it has to function in a contracting total area. The old legislation meant occupation for occupation's sake; the new, places the emphasis on efficiency of occupation and introduces the principle that the State may dispossess inefficient private enterprise.

Finally in this connection we may- note that problems of quality production have received much more urgent attention in the post-war years of declining prices and further that the possibilities of improved industrial organisation are now being discussed more keenly than ever before.

111. Varying marketing conditions have brought also, changes in marketing policy. Confining our attention to the more modern period, we can distinguish four phases in the development, of marketing technique. The period of rising prices up to the out break of war was one of individualistic, competitive marketing. During the war period the State played a large part both in negotiating the commandeer agreements and in the development of a system of price-fixing. Immediately after the war there came a reversion to private competitive marketing. Under the pressure of falling and unstable prices, however, the main exporting groups established Export Boards whose prime function was the cooperative marketing of the export surpluses.

The, pre-war years of expanding markets and rising prices presented settlement and production problems rather. than marketing problems. It was a seller's market. To a large extent the products sold themselves. Increasing output marketed on an upward flow of prices, with no apparent limit to either process? made the. question of organised marketing a secondary consideration. War-time necessities of belligerent countries plus inflstionary finance merely accentuated the advantage of seller countries. The post-war return to competitive selling revealed its true anarchy once prices began to fall and very early showed the necessity for marketing adjustment through organisation. The experimental marketing of the Boards has undoubtedly been beneficial although the deepening of the depression has shown, particularly in the dairy industry, that adequate marketing organisation is impossible without some control over production,

Now that this country which is so dependent for its security on the overseas market is faced with the possibility of further applications of the quota principle we are likely to enter upon a fifth phase of marketing policy. What, from a marketing point of view, are the likely repercussions of a development of quotas'?

1V. Most of the discussions about quotas have centred round the question: is the principle a good or bad one? As far as possible I intend to leave that issue alone, It would be necessary to face the issue if me were considering what practical political steps we should take to oppose or support the principle. But we are concerned at the moment with something quite different. We have to consider how a country which hitherto has organised its economic life on the basis of expanding markets can adjust itself to the situation where its existing markets may cease to expand and may even contract, We may lament that the world has reached such a state that it has come to look upon abundance of necessaries as an economic evil. We may even still hope that some international sanity will prevail to clear the channels of trade and bring those who wish to consume into more effective touch with those who can produce. But we must also consider ways and means of meeting a new situation, regardless of whether we welcome it or not.

In the first place let us be clear that a quota does not necessarily mean selling less to a given market than before. It MAY mean that, and in the first instance it almost certainly WILL mean that. Later it may mean that overseas markets may limit the amount of our annual export increase. Conversely it could mean that a market may set out a programme for a progressive reduction in the amount it will annually buy from us. Obviously it matters a great deal to us whether a quota means a declining, a stationary or an increasing demand from our consumers. And it matters still more if all our major exports become subject to quota control. It is evident at once, for instance, that a quota programme which permitted a more rapid increase in frozen meat than in dairying would present a more difficult problem than one which reversed the order. Whatever form or direction quota control takes, however, the principle is unaltered; authority steps in as a new factor in determining output. Authority is added to the normal determinants which in farming are price and nature. The price factor as influencing production may in fact be completely overridden. if quota restrictions become universal; but this is not probable. The likelihood is that quotas will prevent price exercising its full influence on production.

That in turn means that individual producers lose some of their liberty of decision as to their farm production programmes and may in consequence have to face novel farm-management problems. Such problems would not be serious if the quota principle turns out to mean no more than a limitation of incrcese; but would be more serious if it implied a positive scaling-down of production. I find it difficult to believe, however, that those individual problems would be greater than the present one of trying to farm on incomes that often have no contact with costs. This point, however, is more appropriately discussed in subsequent papers.

Viewed broadly the general application of quotas would put an end or a limit to the process by which declining prices could be met by increasing turnover. If the net effect of reduced or limited production of necessaries were to raise their prices proportionately or more than proportionately, farming communities as a whole would be as well or better off. If this were the result, quotas would simply invert the process which has marked the course of events in recent years -- they would put smaller turnover and higher prices in place of larger turnover and lower prices.

There is no reason to doubt that a deliberate and general reduction of the output of the world's foodstuffs would raise their prices by more than a proportional amount, for it is characteristic of these commodities that relatively minor shortages have a marked influence on lifting prices, just as small gluts can so quickly bring about large falls in prices. In principle, therefore, it is not at all necessary to assume that a general extension of quotas would involve New Zealand in bankruptcy. It may have that result if the effect on prices is too small to compensate for the reduction in turnover; but bankruptcy is unavoidable for this country, if on the other hand an economic war on the basis of unrestricted production cuts prices substantially below general farming costs of production.

Much depends on how far quotas go and to what extent they represent a deliberate restriction of the volume of international trade. If they merely add one more impediment to world trade and aim not merely at maintaining the existing degree of self sufficiency in the countries imposing them but at substantially increasing this self-sufficiency, then they hasten the day when the world 'as a whole must admit insolvency. They put the finishing touch on events which have steadily narrowed the volume of trade which has 'to carry an expanding body of debt, But if quotas turn out to mean that consuming markets give orders for a planned increase of output, the basis of trade would be widened. The big difference between this type of expansion and the expansion to which we have been accustomed would be the substitution of a known and ordered expansion for a speculative and competitive expansion.

Whichever direction quota development takes, it cannot efficiently be met by individualistic competitive production. From our point of view as a producer unit, we have to adjust ourselves to the nation of producing to the ORDER of our customers instead of producing competitively in advance and anticipation of demand. Is this so terrible, provided the orders be large enough?

The answer to that question seems to be this: however, large the orders, they represent a control and direction of our economic development which can'be 'efficiently coped with only on the basis of much more competent primary organisation than now exists in this 'country, If quotas came generally it will be impossible to deal with them except on terms of the fullest co-operation amongst producers. The general application of quotas, whatever else it pretends, means the death of unorganised, competitive, individualistic production and marketing.. If our customers plan the volume of their orders for our products, we must plan the organisation of -production, processing 'and marketing.

This at once raises the point: what authority will apply the quota to industry? Obviously the alternatives are either for the State to work our detailed regulations to fasten on the industry, or for the industry to undertake the task itself, Any organisation within the industry must be much more comprehensive than existing organisation if it is to work adequately,! To cite the dairy industry: is it impossible to develop a series of district federations linked to each other and to a national council with powers which start at the producer and end with the consumer? Is anything short of such a comprehensive national organisation any use, quota or no quota? What other method is there by which an industry can carry out a desired national policy? Without a national organisation of this production -- marketing type, how deal adequately with such questions as all-the-year-round dairying, the production and marketing of new products, the explanation of new markets and the production of specialised products for specialised markets: and are not these the essential issues which the industry must face, urgently if a quota is applied but inevitably in any'cese? In other words the industry must work out a planned economy itself, if it wishes to avoid having one thrust on it.

It is impossible for this country hurriedly to change its,, economic structure which as we have seen is based chiefly On the export of large surpluses overseas, mainly to the United Kingdom. The inescapable task, therefore, is market better. This means much more then regulation of shipments. It means a thoroughgoing exploration of existing markets by a body competent to judge what production adoptions it is possible to make in this country; and on the basis of such an investigation it means fuller experimentation in the direction of diversifying our primary exports; and to do both those it means a rationalisation of primary organisation along the lines suggested.

(Signed) D. O. Williams.