

and private individuals have been borrowing upon their resources in order to lend money to the Government. The disbursement of these great sums has resulted in an increase in demand for certain goods—metals, fuel, textiles, and foodstuffs. The increase of demand has been made effective through the increase in the volume of credits; in so far as the advance of prices has been due to the increase of credits, the advance may be expected to continue so long as the conditions which produce it continue. Every creation by the Government or by the public of fresh credits means an addition to the purchasing-power, and therefore an increase of prices, until gradually as regards certain commodities a point is reached when increase of production must experience a check because of the effect upon wages and upon other costs of production. It is only when credits are redeemed by an equivalent increase in saving or in extra production that their effects upon prices are cancelled.

- (b.) In so far as the credits are necessary for the conduct of the war they must be created, although further extensions of them must lead inevitably, other things being equal, to further advances in general prices. The sacrifice imposed upon the community through the payment of these enhanced prices must be regarded as a portion of the cost of the war, and as part of the community's contribution to the cause of civilization.

2. On the side of supply—

- (a.) The second important cause of the increase of prices has been the diminution of the available supply of some of the chief commodities. The chief manufacturing countries of the world have withdrawn from the fields of industry the flower of their manhood, with the consequence that the supply of commodities has been greatly restricted, and the price has advanced sharply.
- (b.) The needs of the Army and Navy have greatly depleted the available supply of efficient labour, and thereby enhanced the price of labour available for the purposes of production.

The upward movement in prices, therefore, appears to have been affected by both factors—supply and demand: the increase in the latter due to war conditions, and made effective by practically unlimited Government expenditure; while the decrease in the supply of most commodities is also due to war conditions—reduction in the labour force, destruction of supplies, increased loss and waste in transportation, handling, and distribution. The increased money distributed amongst people from Government war expenditure further tends to create a greater demand for the decreased supply of goods, thus becoming a factor in raising prices.

High prices, then, are caused partly by the community having more money to spend (owing mainly to the creation of Government credits for war purposes) and partly by there being a less quantity of commodities for sale. Those who are loudest in their complaints of high prices are apt to overlook the real causes, and to make indiscriminate charges of profiteering and exploitation against producers and traders alike. On various dates during the year you instructed the Board to make searching investigations into these charges, and to report to you any cases that had been brought to the Board's notice or that the Board had discovered in the course of its inquiries. Under memorandum of the 28th August, 1917, you specifically requested the Board to ascertain as soon as possible whether the general charges that had been made from time to time were correct, and, if so, to furnish you with the names of persons responsible. The Board has given careful consideration to this matter, and reported to you at length on the 4th September, 1917. In that report the Board endeavoured to answer the question whether, apart from the causes of high prices already dealt with, individual firms or companies had been guilty of so arranging market conditions as to abstract from the consuming public inordinate gains by illegitimate methods, as this, we take it, is what exploitation means. The Board stated definitely then, and it desires to repeat the statement, that its various investigations throughout New Zealand revealed nothing that could justify a general statement of this nature. Indeed, in regard to two specific complaints—one dealing with sugar and the other dealing with petrol and kerosene—the methods of marketing complained of were submitted to the Solicitor-General for his opinion as to whether they were illegal, and in both cases the Solicitor-General advised that no statutory requirements were being infringed, and consequently no cause of action was disclosed.

As you are aware, in the case of sugar, the price at which this article is supplied to the public of New Zealand is a matter of arrangement between the Board of Trade and the Colonial Sugar Company; and although the company has at present a monopoly of the sugar trade in the Dominion, it is making no use of its economic advantage to exploit the public, as it is disposing of its product at a price considerably below its market value. If for any cause the Colonial Sugar Company withdrew from the New Zealand market it is doubtful if sufficient supplies could be obtained elsewhere even at twice the sum we pay—namely, £22 f.o.b. Auckland (subsequently increased on the 1st July, 1918, to £22 10s. f.o.b. Auckland).

In regard to petrol, an attempt was made by a firm not regularly in the trade to create an impression by the issue of a misleading circular that a shortage was in sight, and thereby to induce panic buying at enhanced prices by consumers. On this circular being brought to the Board's notice by you the firm concerned was interviewed by the Board, and, as a result, expressed regret that the circular issued tended to create a scare in the oil-market, and gave an undertaking that it would be withdrawn. An inquiry was made into the prices charged by the firm for petrol, and it was ascertained that, although these were in excess of the prices charged by regular importing companies, the firm in question made only a reasonable profit on its venture.

#### PROFITEERING.

The charge of profiteering has also been carefully considered by the Board. This is a term that has never been accurately defined. If it means creating an artificial scarcity by holding up supplies