normal. High price performs a twofold function: on the one hand it stimulates production, on the other it conduces to economy in consumption. Where competition exists to the full extent, price, distribution, and profits regulate themselves. Taking good years and bad years together, exploitation and profiteering cannot exist if competition is free and unimpeded—that is to say, when it is possible for capital and labour to flow quickly into industries whose prices are rising.

Any general permanent policy of anti-profiteering price-regulation applied to ordinary competitive trade would act differentially against those industries whose profits fluctuate. They would be deprived in their good years of part of their profits, and would receive no help in their period of bad fortune. Hence in the long-run capital and enterprise would tend to desert such industries for industries in which the profits were more nearly the same every year.

But there is no reason to suppose that industries in which the profits are fluctuating are socially less desirable than others. Consequently this arbitrary diversion of production from the channels into which economic forces would tend to direct it would almost certainly involve a misdirection of effort and a real loss to the community.

Broadly speaking, we therefore conclude that permanent Government control over the price of commodities produced under competitive conditions is not necessary as a preventive of profiteering and exploitation, because for competitive industries as a whole, good times and bad times being taken together, competitive conditions are themselves an adequate preventive, while from the standpoint of the public such regulations hamper production. Moreover, this type of price-control, for the reason set forth in the preceding section, would force the Government to undertake the enormously difficult task of rationing in peace-time. Hence, in the opinion of the Board, the case against a permanent policy of price-fixing in competitive industries is conclusive. The Board discusses in later chapters the policy to be adopted to keep competition free and open, but during the reconstruction period that now exists it may not be possible to keep trade and industry on a competitive basis, and consequently other considerations apply.

The Board therefore proposes to lay down the principles that should guide any authority entrusted with price-fixing powers during this period. These have been admirably summarized by the Committee of Price-fixing appointed by the American Economic Association (*American Economic Review Supplement*, March, 1919). Certain adjustments have been made in the text to fit New Zealand conditions.

(1.) Any conclusions which may be urged in regard to price-fixing in war-time should not be interpreted as necessarily applying to peace conditions.

(2.) In any case where price-fixing is justified the price should be high enough to call forth, in so far as the price can affect production, a prompt and adequate supply, but not higher than necessary to accomplish that end. It is not necessary that it should cover the cost of production of those producers who are especially inefficient or who are producing under especially unfavourable conditions, unless a sufficient supply cannot be obtained from other producers at the price fixed.

(3.) Where large quantities of any commodity are required by the Government for its own purposes the buying should be unified, even if such unified buying should result in something like price-fixing by a single buying agency. In this case the principle involved in clause 2 should be adhered to.

(4.) The price should be agreed upon after a conference with all parties who have a legitimate interest, including purchasers or their representatives, as well as the dealers and distributors or their representatives, and the price should as accurately as possible conform to the general principles set out in clause 2.

(5.) Prices under competitive conditions perform important functions. A rising price for a product tends to increase production and to check consumption; labour and capital in the long-run flow into those industries where prices are rising faster than costs, and away from those industries where prices are falling faster than costs. This is the main way in which an industry is guided and controlled under a system of free enterprise. When competition exists to the full extent—that is to say, when it is possible for labour and capital to flow quickly into industries where prices are rising—price-fixing is not as a rule called for. The occasion for price-fixing arises—

(*a.*) When there is a sudden increase in the demand so great that for the time being producers cannot meet it, even if they may be able and willing to start further production at once. This is usually brought about when the Government enters the market.

(*b.*) When the stock is so limited that, even though the demand may not be sudden, it cannot be met for some months to come—as, for example, when there is a shortage in some staple crop like wheat between harvests, or when replenishment of the supply is imperilled by an interruption in transport, due to strikes or other conditions.

(*c.*) In both these cases the demand for price-fixing is justified by the consideration that high prices will not benefit producers of commodities, but those who either by accident or design have them in their possession, and therefore make a purely speculative middleman's profit. If prices are fixed, some other agencies must usually be provided for controlling distribution—that is, for doing what changes of market prices would do automatically. Hence arises the need under these conditions for some form of rationing. Short of rationing, however, various indirect methods may be used to control consumption. Moral and social pressures may be applied to consumers to restrict consumption of scant supplies. Regulation by Order in Council may be used to repress non-essential industries. The Government may use its control over coal, transport, and basic raw materials to encourage needed industries and restrict those less needed. Banks, under the direction of the Minister of Finance, may be instructed to restrict credits to non-essential industries and to extend credits readily to those most needed.