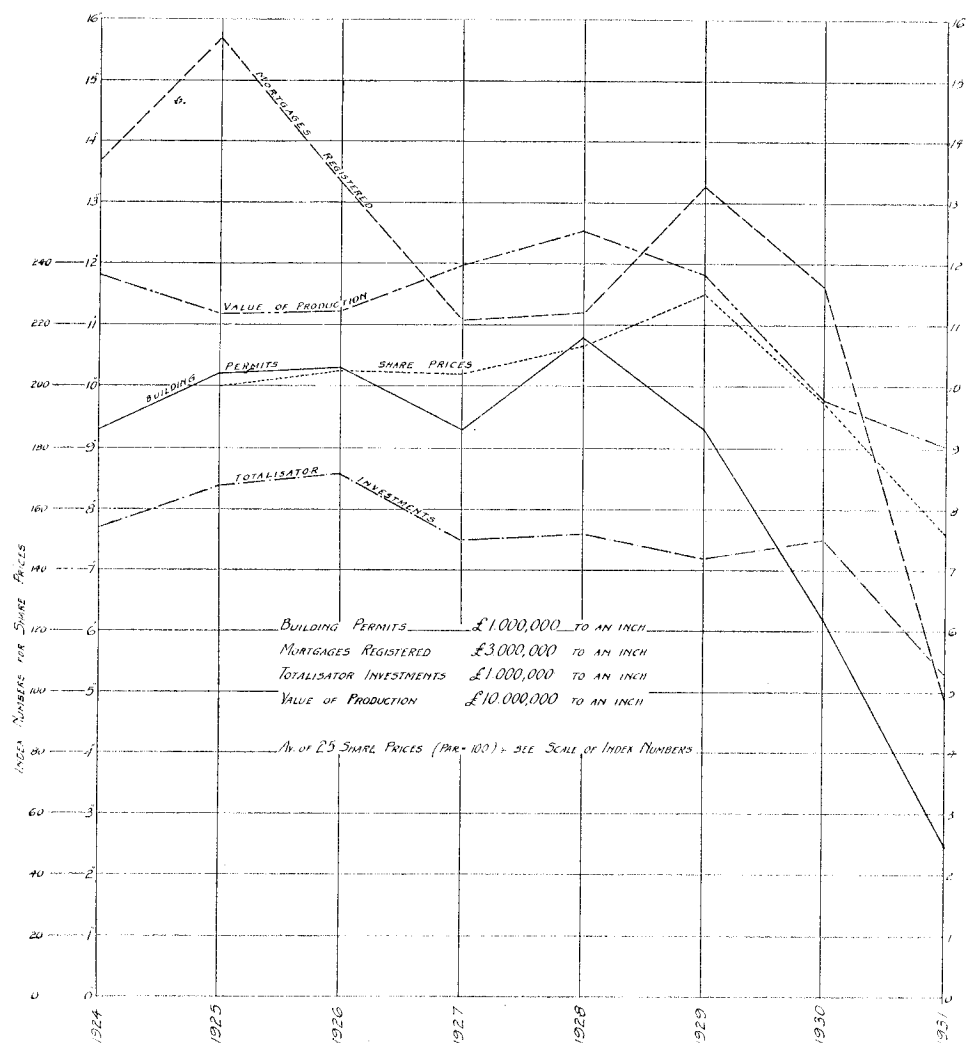


spending-power amounting to about £5 m. net per annum. Changes in the transport system and the demand for hydro-electric development resulted in considerable expenditure on high-class roads and electric-power schemes. It was already evident that the country was becoming over-capitalized in regard to public works. Even apart from the depression of the succeeding two years, some reduction of capital expenditure on public works would have been necessary. If the volume of capital works undertaken by the Government and by local bodies is considered in relation to existing population, there can be no doubt that much of this work was greatly in advance of its time. This condition may be remedied gradually as population increases, but it adds appreciably to the problem of readjustment on account of the additional burden of debt and maintenance which it has necessitated.

6. In effect, this means that even prior to the depression there was a lack of balance between capital expenditure and expenditure on goods for immediate consumption. Even if external causes had not brought about the depression of 1930 and 1931, we should have been faced with a problem of readjustment. A slowing-down of the public and private capital expenditure was necessary to bring about economic equilibrium, and was, indeed, already taking place, as was exemplified in the decline in the values of building permits, mortgages registered or discharged, land transfers, totalisator investments, and railway freights. This is shown by the following graph:—



7. The increase in unemployment from 1926 to 1929 is partially explained by the recession in capital expenditure. This recession would have raised a problem of economic adjustment and of labour transfer in New Zealand, whatever had happened outside the Dominion.

8. At a time when the economic machine was thus out of adjustment it was subjected to the terrific strain of rapidly falling prices. This raised a new and more serious problem.

9. The fundamental cause of the depression in New Zealand is the fall in export prices, combined with the failure of other prices, including interest, rents, wages, fees, taxes, and other payments for services, to fall in sympathy. These differences in price movements are due, in the main, to the retarding influence on some prices of contract, agreement, or custom. Thus the farmer or business man whose products are falling in price is faced with interest payments or rent which are fixed for a considerable period, while the wages and salaries paid to his employees tend to lag behind the