

PART I.

GENERAL REVIEW.

INTRODUCTION.

1. Pre-war International Trade :

The pre-war economic system of Western industrial countries was predominantly international in outlook, and all these countries strove vigorously to penetrate the world's markets with their rapidly increasing surpluses of goods, capital, and labour. At the same time they recognized more or less clearly the essential interdependence of trade, and were prepared, some freely, others under more or less moderate tariff penalties, to accept, in exchange for their goods and services, the surplus products of other countries.

The result of this reasonably liberal view of the nature of international trade was a rapid development of international specialization in trade and industry, a concentration of national energies and resources on those forms of production for which countries were by nature best suited, and the ready interchange of products not required for local consumption. This policy of specialized production and interchange of surpluses led to a rapid development of new countries capable of supplying the needs of industrial countries for raw materials and foodstuffs, and to a great increase in the volume of production and of world trade. Moreover, the younger primary-producing countries necessarily fashioned their economic structure to meet the requirements of the great consuming markets of the industrial West, and did so to a large extent by means of capital borrowed from the industrial West. In our own case, our national development has been based almost entirely on British markets, British capital, and British people. We have consistently looked upon the United Kingdom as the "natural" market for our primary products, and just as consistently we have viewed her as the "natural" source from which we could obtain the bulk of our requirements for manufactured goods and such new development capital as we needed. Both for the United Kingdom and for us, this growing reciprocal trading was, in the years previous to the present crisis, of great financial benefit.

2. Changes in International Trade :

The economic problems which confront New Zealand at the present time, and which are of particular moment to the dairy industry, arise out of the changes in the nature of international trade that have occurred in post-war years. The most notable feature of these changes has been the rapid growth of policies of national self-sufficiency in practically all European countries. Particularly, in recent years, have restrictive trade practices increased both in scope and intensity, with the result that exporting industries have found it more and more difficult either to hold markets previously established or to penetrate new markets.

Side by side with the tariff and quota obstacles imposed by countries on the import of primary and manufactured commodities has been the growth of the policy of subsidizing exports. Rapid production has been the inevitable outcome of this later development. It is clear that attempts on the one hand to limit imports and on the other to increase exports represent mutually opposed principles, and that the universal adoption of such practices would lead to the virtual cessation of international trade and the piling-up of unsaleable surpluses. In practice the result has been for these increasing surpluses to be thrown on to the United Kingdom market since, until recently, it was the only free market in the world. This double process of expanding production and limiting importation has been most evident in the case of dairy products, particularly butter, and has led to an acute state of market congestion in the United Kingdom, and been accompanied by a serious fall in prices.

3. Our Economic Structure :

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 industry concerned and early prejudicial effects on the rest of the community. Our lack of diversification both in products and in markets, plus the notorious instability of farm-produce prices as compared with most 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. While this insecurity was always inherent in our economic structure, it was of no immediate practical importance while overseas markets were both profitable and expanding, and during this time there was no valid reason for assuming that a restriction or congestion of markets would occur. Recent events, however, have presented us with the problem of low prices combined with a state of market congestion. Policies of economic nationalism, notably in Europe, have both limited our outlets and led to the dumping on the English market of rapidly increasing supplies of subsidized dairy-produce. We, in turn, have enormously expanded the volume of our exportable surplus in an endeavour to increase turnover as a means of offsetting lower produce prices, and as a result of years of work in improving our grassland policy and the general efficiency of production. The serious fall in prices which has accompanied the increase of supplies to the United Kingdom makes it evident that this market is unable to absorb dairy-produce at prices that will cover the present costs of production of the majority of our dairy-farmers. In general, these costs are low. If interest charges are excluded, it is probable that no other