Economic Committee.

Combined with this drastic curtailment of the purchasing-power of our exports, we have the major internal problem of the wide disparity between costs and prices. In the words of the Economic Committee, "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."

Currency.

It has been suggested that the violent fall in world prices is due wholly to inherent defects in the existing monetary systems, and that by means of currency reform the whole of the present difficulties could be made to disappear. There is admittedly an absence of unanimity amongst the foremost economists of the world as to the precise causes and the relative importance of the factors which have given rise to the existing conditions, but it is nevertheless generally conceded that the causes are numerous and not due to any single factor. Monetary policy and the maldistribution of gold are apparently important contributing items, but reparations and war debts, together with tariffs and other restrictions on trade, are also considered to be important and perhaps more fundamental aspects of the problem. What is of more importance at this juncture is the hope that monetary policy and easy credit conditions in Great Britain can be made a powerful instrument in assisting to bring about a rise in sterling prices for primary products. In this connection, the announcement made at the Ottawa Conference that Great Britain intended to pursue a monetary policy designed to bring about a rise in wholesale prices is of first-rate importance. With these prices lies the key to our prosperity. This fact is apparently overlooked by those who maintain that the Dominion can avoid the depression by adopting various internal currency proposals.

Banking position.

Banking deposits for the quarter ended June last amounted to approximately £52,200,000. This amount is £4,800,000 less than for the June quarter in 1929, but £5,700,000 more than for the same period of 1927. It is important to note, however, that whereas in 1927 only 47 per cent. of the deposits were fixed, the percentage is now 68, indicating that the banking resources at the disposal of trade and industry are being used to a much less extent now than was formerly the case. Statistics of bank debits are not available for 1927, but it may be mentioned that in 1929 the weekly average of such debits was £22,000,000, against about £15,000,000 for the past year, a decline of 32 per cent. in the turnover of money. In other words, ample credit is available and what is lacking is the business confidence to make more use of it.

The immediate cause of the abandonment of the gold standard by Great Britain was the withdrawal from London of some hundreds of millions of foreign balances. As a result, and in view of the uncertainty as to the reactions which would follow the departure from the gold standard, the situation in the short-term loan market was delicate, and borrowing there became more difficult daily.

The Government, from the commencement of the crisis, was in close touch with the London authorities, and in December last advice was received that the short-term loan market could no longer be relied upon and that we must be prepared to finance all London requirements from New Zealand. I may mention that normally it was the practice to purchase each year sufficient London exchange to meet requirements in excess of the amount of the long-term borrowing. When the exchange-rate rose to the present level, however, arrangements were made to utilize the short-term loan market in order to keep down the charges on taxation. At that time New Zealand Treasury bills were issued at rates as low as 2¼ per cent. per annum. The intention was to continue this method of London finance until economic conditions improved, and no difficulty would probably have been experienced had it not been for the crisis in London.

Exchange pool.

That crisis necessitated an abrupt change of plans, and in order to ensure that funds would be available to meet all commitments, including £4,000,000 of Treasury bills which were then outstanding, it was deemed advisable to arrange with the banks for the formation of an exchange pool. To meet all requirements in full, it was estimated that the Government would need £12,000,000 of exchange for the year, and local bodies about £2,000,000. Later, however, market conditions improved, rendering it possible to sell Reserve Fund securities without loss. In addition, a long-term loan of £5,000,000 was raised. In this way the Government's exchange requirements for the year were reduced to about £5,000,000.