the sale of exports. Owing to the fall in export prices, about 80 per cent. more exports must be sent abroad to pay this interest than were required in 1928. This means that if the total volume of goods and services produced remains the same the community as a whole is able to consume a smaller quantity of goods than formerly.

Farm Costs and Prices of Farm Products.

12. A serious disparity has occurred between farm costs and farm selling-prices. This raises the crucial problem in New Zealand. Before we can recover from the present depression primary industries must be placed on a satisfactory basis that will show a profit. No other measures will be adequate to restoration. The serious nature of the crisis in farming is further revealed by statistics showing the value of farm production. The following estimates are in New Zealand currency, and so allow for the increased values due to the higher exchange during the past year:—

TABLE 2.—VALUE OF FARM PRODUCTION.

Year ended	Exports. £ m.	Total. £ m.
June, 1929	55·2	82·1
June, 1930	46·2	72·2
June, 1931	36·8	56·0*
December, 1931	35·1	54·2*

* Estimated.

Fall in Net Farm Income.

13. On the basis of the above figures, it is clear that the gross income of the farmer is likely to be between 30 and 40 per cent. less for the season 1931–32 than for the season 1928–29. Since costs from the farm to f.o.b. are very rigid, and since costs on the farm have not fallen, according to the index of farm expenditure, by more than about 10 per cent. during the period, it is clear that the net income of the farmer has fallen by much more.

Indirect Effects.

14. A shrinkage of such magnitude in the farmers' spending-power will not only be reflected in reduced demand for the goods of importers, traders, and local manufacturers, but also weaken the security of mortgagees and embarrass financial institutions. The removal of the disparity between farm costs and selling-prices is the only way in which farm production is likely to be increased or even maintained.

15. The depression in farming industries has affected other types of business in a similar way. Although retail prices and wholesale prices as a whole have fallen by about 10 per cent. since 1928, and although reductions in wages and salaries have afforded some relief to costs, the shrinkage in demand has meant that overhead costs, which are very rigid, have been spread over a smaller volume of output, so that in many instances unit cost has actually increased. The increase in taxation has also imposed some additional burden. It is clear that, if demand is to be sustained, prices must fall still further, and, unless this fall is associated with an appreciable fall in costs, profits will be further curtailed and the depression intensified. Hence in industry and trade, as well as in farming, it is necessary, if the depression is to be relieved, to remove the price disharmony between costs and selling-prices, so that some profits may emerge.

SECTION III.—THE LOSS OF NATIONAL INCOME.

National Income.

16. We have estimated the national income in 1928–29 to be £150 m. This estimate is arrived at as follows: In 1925–26 the Census and Statistics Office estimated national income at about £136 m. In the same year production was estimated at £112 m. Thus national income was approximately 20 per cent. greater than production. This would give a national income of a little more than £100 per head of the whole population in a period of prosperity. A comparison with the national income per head in other countries enables us to arrive at the conclusion that the estimate of a little more than £100 per head is reasonable in the circumstances.

Direct Loss of Money Income.

17. From 1929 to 1931 export prices fell continuously and are now approximately 40 per cent. below their level in the period 1928–29. These are prices in New Zealand currency. When converted into sterling the fall in export prices amounts to over 45 per cent. This fall has cut deeply into the income received from exports. For these years the sterling value of New Zealand exports was approximately £55 m. In 1931 it was £32 m., and with present export prices it cannot rise appreciably above this figure. There is consequently a direct loss of £23 m. in the income from exports. In the period of prosperity overseas borrowing formed part of the national income, because it supported production and employment for a large number of people. The net amount of overseas borrowing for the period 1926–30 was about £5 m. per annum. If this is discontinued a further loss of £5 m. is involved. This would make a total direct loss of income from abroad of £28 m. During the period of readjustment overseas borrowing of a diminishing amount would ease the difficulties of New Zealand. We must, however, assume the ultimate cessation of overseas borrowing. When this position has been reached, then the loss estimated on present export prices will be £28 m. In the meantime, however, some recovery in export prices might reduce this direct money loss.