Total Loss of Money Income.

18. This is not the total money loss of income in New Zealand, nor is it the real loss. We deal first with the total money loss. The fall in export prices reduces the spending-power of farmers and causes a contraction in their demand for goods, both home-produced and imported. If the prices of these goods remain high, there must be a contraction of output. Consequently the loss is spread to other sections of the community. It is the same with such loss as may result from cessation of overseas borrowing. Workers formerly deriving their income from overseas borrowing would suffer a reduction of spending-power. They could not therefore purchase goods and services in the quantities they were accustomed to buy before the depression. What would be the total loss from this passing-on process ? We may arrive at a rough estimate in the following way. Before the depression income from overseas amounted to £55 m. from exports and £5 m. from borrowing, a total of £60 m. This was 40 per cent. of the national income. The income from overseas if borrowing wholly ceases will be reduced from £60 m. to £32 m. in sterling values. If adjustment were to be made on the basis of an overseas income of £32 m., and other factors remained unchanged, economic pressure would tend to force the national income down in a similar ratio to about £80 m., a fall of over 45 per cent. in money value. This figure assumes parity of New Zealand currency with sterling. At present New Zealand is 10 per cent. off parity with sterling. This means that the overseas income of £32 m. becomes one of £35·2 m. when converted into New Zealand currency. Thus the overseas money income is raised, and the whole national money income would be raised in similar proportion, and become, say, £90 m. In this way we arrive at a tentative conclusion that in the absence of a recovery in export prices national income in New Zealand at parity of exchange would amount to about £80 m. after the process of economic adjustment has been completed. At the present exchange of 10 per cent. it would be £90 m.

Loss of Real Income.

19. The general problem of adjustment is discussed in Section VII. It is necessary here only to mention that the passing-on of the loss of income from one section of the community causes an increase in the money loss until the loss of real income is fairly evenly spread throughout the community. What will be the loss of real income ? The adjustment in national income from £150 m. to £90 m. is in considerable part a price adjustment. Export prices having fallen by 40 per cent. it would be necessary, in order to relieve the exporter, for general prices to fall nearly 40 per cent. It is not necessary for them to fall by as much as 40 per cent., because this would relieve the farmer of the whole of the loss of his real income by the process of readjustment. If 35 per cent. is a sufficient average fall, the general decline in the money value of the national income will be 35 per cent. of £150 m.—namely, £52·5 m.—which reduces the national income to £97·5 m. Loss of income from borrowing might account for the balance, and reconciles the result arrived at by this method of approach to the money loss of income with the statement in paragraph 17. From this point of view the adjustment has been mainly a monetary adjustment, but there are other elements of the problem to consider.* With exports at £32 m. and a normal overseas obligation of £9 m.† for debt services and other charges, imports will be reduced from approximately £46 m. to £23 m.—that is, by £23 m.

20. From one point of view the national income may be considered as the total goods and services consumed—namely, home-produced goods and services locally consumed, and imports of goods and services rendered by other countries. On account of the fall in exports, imports have to be reduced and fewer external services can be paid for. Therefore, even if the internal production of goods remains the same, there will be a loss of national income for the year of one-sixth—that is, £23 m.—on an income of £150 m. before the crisis. But as costs fall and the average standard of living is reduced, some expansion of local production may be anticipated. This will take place partly in export production, partly in home production competing with imports, and partly in sheltered production. As this favourable movement develops and the gap between import and export prices is narrowed, the loss of real income will be reduced ; but for the immediate future it may safely be assumed that the real income of New Zealand will be from 10 per cent. to 15 per cent. lower than it was before the crisis. Part of the problem before New Zealand is to secure a speedy and equitable distribution of this loss of real income.

Present Loss of Money Income.

21. The loss of national money income is now increasing at a rapid rate. We have been supplied by the Government Statistician with figures of production for 1930–31. The total value of production was estimated at £98 m. compared with £125 m. for 1928–29. This is a fall of nearly 22 per cent. This estimate of production for 1930–31 includes £23 m. for factory products, £11 m. for builders, labourers, and industrial workers, &c. These items have suffered a contraction since the 31st March, 1931, on account of the decreased demand from primary producers. Moreover, there was a further fall in the value of exports throughout 1931 compared with 1930. This fall is not included in the production figures for the year ending the 31st March, 1931. The contraction of output in secondary production, together with the reductions in export values, will bring

* Apart from the reduction in costs the primary producer has been assisted to the extent of an increase of approximately £1,000,000 between 1928–29 and 1931–32 through special concessions in taxation and additional subsidies, including unemployment expenditure. See Table XVIII in Appendix.

† See note to paragraph 11, page 8.