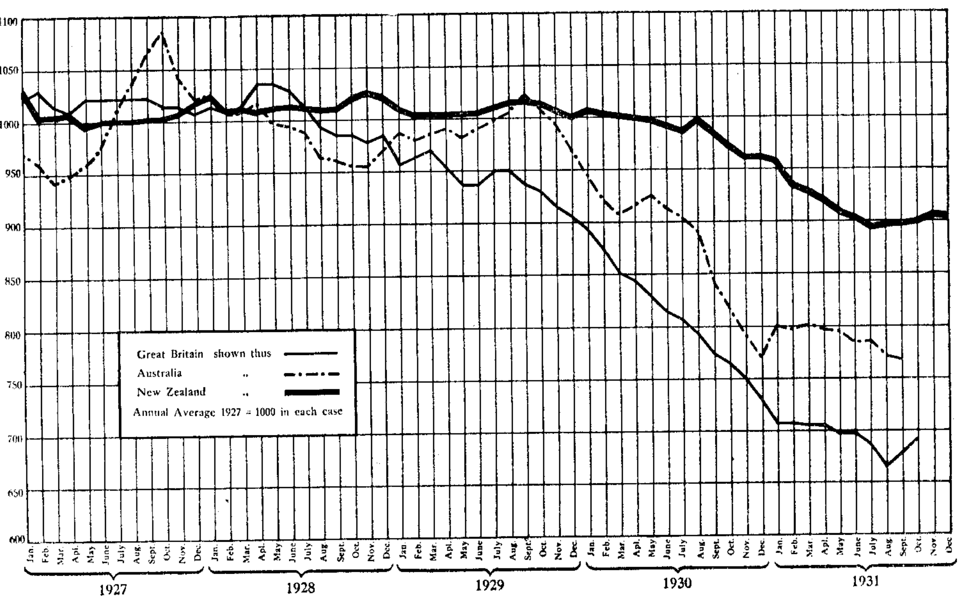
down the total value of production much below £98 m. We estimate that the national income is now of the order of £110 m., but is declining at a rapid rate. Its decline will not be arrested until the process of economic readjustment is well established. As this process must involve a reduction of costs and prices to close conformity with the level of export prices, the reduction in the money-value of the national income must be of the order of the fall in the export prices, as stated above.

22. From another point of view it is possible to check the extent of the fall in the money-value of the national income necessary to restore economic conditions. The price level in New Zealand has not been adjusted to the fall in the price level in Great Britain. If the average of the Board of Trade and the *Economist* wholesale prices index numbers be taken, it is found that in November, 1931, it was 98 compared with 100 in 1913. On the same date the New Zealand index number was 132 on the basis of 1913 as 100. What adjustment in New Zealand prices must be made to restore parity of exchange with London as the natural rate of exchange? It would be wrong to assume that a reduction to 98 would be sufficient. In 1913 New Zealand was borrowing in London, and she has continued on this course since that time. It is a recognized fact that the price level of a borrowing country is sustained at a figure higher than would be possible in the absence of borrowing. New Zealand will doubtless find it necessary to reduce its external borrowing, except for conversion operations, and possibly even to eliminate it altogether. In this event the prop to a higher price level will be knocked away, and New Zealand prices should fall below the English level if both are taken on the common base of 1913 at 100. If we assume parity of exchange, the fall in internal prices required would be from 132 to some figure below 98, say, 90. This is a fall of 40 per cent., involving a revaluation of the national income from £150 m. to £90 m.; but there is also the loss of borrowing and its repercussions upon internal production, which would bring down the income to about £80 m. as stated in paragraph 18. It is probable, however, that as costs were reduced, some expansion of export production and secondary production competing with imports would take place. In this event the fall would not be as low as £80 m., but might reach £90 m. These estimates are naturally to some extent speculative, but they present a picture of the loss of income which we believe to be a reasonable indication of the magnitude of the problem before the country.*

WHOLESALE PRICE INDEX NUMBERS, 1927–1931.



23. From yet another angle we may attempt an estimate of the present loss of income. Exports have fallen £20 m. in New Zealand currency. There has been a price adjustment of approximately 10 per cent., which may be applied to all the national income of 1929 other than exports and borrowing—that is, to an amount

* If we take 1927 as base at 100 the movements in the wholesale price index numbers were as follows:—

	Great Britain.	New Zealand.
1927	100	100
1928	101	101
1931 (January–November)	63·4	94·5

To bring New Zealand prices down to the level of British prices a drop of 33 per cent. is necessary. But New Zealand was borrowing heavily from 1927 to 1929, and New Zealand prices must therefore fall below British to restore parity of exchange at a natural rate without borrowing or on reduced borrowing. Ten per cent. below British prices would bring it down to 57—that is, a fall of approximately 40 per cent.