

SECTION VII.—THE GENERAL PROBLEM OF READJUSTMENT.

**Fall in the
Standard of Living.**

43. In discussing the readjustment of economic conditions in New Zealand to the new situation the money and the real losses of income must be distinguished. We have estimated the real loss as from 10 per cent. to 15 per cent. of the national income in 1929. It follows that, whatever the internal price level of the immediate future may be, the average standard of living will fall from 10 per cent. to 15 per cent. so long as export prices remain low. With increase in the productivity of existing enterprise from higher efficiency and with the expansion of production, whether export, sheltered, or protected, some of this real loss will be made good, and the standard of living may revert to the 1929 level and may even rise above it. In the short period, however, it is unwise to assume much relief from this cause. We are not unmindful of the possibilities of increasing productivity, but the loss of real income has been so great that a fall in the general standard of living is inevitable in the immediate future. Should productivity increase, the community will benefit. Whilst every effort to this end is to be encouraged, we feel that the situation is such as demands a speedy adjustment to existing conditions, and that the country cannot afford to wait upon the slower processes of ordinary or normal productivity improvement or risk its future on chance movements of prices.

**Level of World
Prices.**

44. We have also taken as a basis the present level of export prices. There can be no doubt that a level of world prices lower than that to which we have been accustomed must be accepted. We do not suggest that there may not be some improvement in world prices. On the contrary, as will be shown later, we hope that export prices will rise to some extent, so as to bring to a rapid conclusion the process of readjustment through which the community must pass. We must, however, emphasize the fact that the present depression differs from any that New Zealand has experienced during the past forty years—a period when world prices were tending upwards or remaining relatively stable at a high level. On this occasion the collapse of the world price level is so serious that a return to anything approaching the 1929 international level cannot be expected. The process of recovery from the depression will therefore be delayed, because an improvement in world prices of the order of magnitude experienced in previous depressions is not to be counted upon. Despite a depreciation of nearly 30 per cent. in sterling currency, wholesale prices in Great Britain are now below their pre-war level and 30 per cent. below their 1929 level. That is, should the international gold price level rise, the recovery in gold prices may be expressed partly in an improvement of British exchange on the dollar rather than in a rise in sterling prices. In this event New Zealand, in common with other Dominions that maintain their currencies on a sterling basis, will not benefit to the full extent of the rise in international prices. Just as the depreciation of sterling has acted as a buffer between the catastrophic fall in gold prices and New Zealand export prices, so will the appreciation of sterling in terms of dollars keep down the New Zealand export price level should the international price level rise. We feel it necessary to draw attention to this fact in order to discount the assumption often made that an improvement in world conditions alone will lift the depression in New Zealand.

Overseas Borrowing.

45. It is equally important to consider the change in the national economy of New Zealand on account of the decline and the possible cessation of overseas borrowing. We have shown that overseas borrowing was too heavy in the post-war period, and it is desirable in the interests of the country that the process should be gradually eliminated. This should not preclude recourse to the London market for the purpose of completing existing public works and easing the process of adjustment. (See Section XIII.) No relief, however, can be expected from this source unless the community faces the task of internal readjustment with determination. When the process of readjustment is completed, external borrowing will be brought to an end, except where it can clearly be demonstrated that the projects financed by such loan operations are profitable.

**Summary of
Assumptions.**

46. We may restate the assumptions upon which we have considered the problem of readjustment. These assumptions are—

- (i) Little increase in productivity per head in the immediate future.
- (ii) The maintenance of the existing export price level.
- (iii) The ultimate cessation of overseas borrowing with some recourse to the external market during the process of readjustment.

We have confidence in the soundness of the last condition. The task of readjustment is so great that any possible increase in productivity or in the export price level will expedite the process of recovery, but cannot obviate the necessity for fundamental readjustment.

**The Fundamental
Problem.**

47. Upon these assumptions we may state the general problem of readjustment as follows: At the present time export production is bearing a heavy burden on account of the fall in export prices greatly exceeding the fall in other prices and farm costs. The spending-power of the farmers has been greatly reduced, and their demand for the goods and services of the sheltered and protected industries has declined; thus these industries suffer a contraction of demand and of output, which will continue until the spending-power of the export producers is restored either by an improvement in prices or by a cut in the costs of production and of internal services generally.