would be reflected in rising bank deposits and higher spending-power in New Zealand. This in turn would lead to greater trade activity and more imports, payments for which would diminish funds in London. In these circumstances an easy credit policy in New Zealand might stimulate this process. Any temporary accumulation of funds in London might be used for loan repayments in London or alternatively for the transfer to New Zealand of debts held overseas. These operations would be required only during a transition period, and the cost to the Government would be slight. The practical difficulties in the way of such operations emphasize the need for a central bank.*

Stabilizing the Rate.

87. When stabilization has been achieved, such transactions would no longer be necessary. If it were decided that a permanent rate of 20 per cent. above sterling were desirable, it would be sufficient to fix the value of the New Zealand unit of currency at an exchange of 1·2 New Zealand pounds equivalent to 1 British pound. The normal control of exchange would then operate, because banks would know that their funds in London would retain a fixed value in terms of New Zealand currency. Such an arrangement is a proper exercise of the functions of Government. Before it is necessary to take any such step in New Zealand, Great Britain will probably have stabilized her own currency at a new parity with gold. In that event if New Zealand should find it economically beneficial to fix her currency at a rate above sterling, she would then merely be following the example set by Great Britain in changing from her parity with gold.

The whole question of exchange and currency is one that doubtless will be discussed at the Imperial Conference.*

SECTION X.—FIXED CHARGES: INTEREST AND RENT.

Fixed Charges and Price-movements.

88. In a period of rapid price changes interest and rents fixed under contracts lag far behind other price movements. Though the lender or the lessor suffers a loss of real income during rising prices, the lower relative burden of fixed charges on the community increases profit margins and promotes general economic prosperity. Indeed the rigidity of fixed charges is a contributory cause of the rapid upward swing of business conditions during a period of rising prices. It would probably promote economic stability if fixed charges could be made subject to periodical adjustment in accordance with price-movements. During periods of rising prices profit margins would expand less and there would be a less powerful stimulus to overtrading. On the other hand in a period of falling prices the reduction in fixed charges would diminish losses in enterprise and thus mitigate the severity of depression.

Fixed Charges and National Income.

89. Unfortunately, fixed charges are still expressed in terms of a fixed amount of money, and this fixity is an obstacle to rapid recovery in a period of acute depression like the present. Interest on the public debt, interest on mortgages, bank deposit, savings-bank and other deposit interest, dividends on preference shares, rents and other fixed money claims—all these become an increasing percentage of a declining national income. The burden of these charges tend to keep up costs in industry, increase the share of the national income going to the recipients of fixed money claims, and thus reduce the real income of wage-earners and salaried workers in employment, and generally increase the degree of the adjustment to be made by other sections of the community. We have estimated the national income to have declined from £150 m. in 1929 to £110 m. at present. The decline is still in operation, and with a 10-per-cent. exchange it may fall as low as £90 m. unless export prices rise or production increases. Should exchange be raised to, say, 30 per cent. the income would tend to settle ultimately at about £105 m. At 40 per cent. it would be approximately £112 m. Whatever the rate, it is clear that a community cannot pay the same amount in fixed money charges when its income has declined so heavily without imposing an intolerable burden upon debtors.

Increasing Burden of Debt Charges.

90. Adjustments are of course being made. Interest and rents are not being paid in full over the whole field of industry because at present prices industry as a whole cannot afford to pay the fixed amounts. With regard to the national debt, the internal interest and debt-reduction charges amount to approximately £9 m. This was 6 per cent. of the national income in 1929. It is now over 8 per cent., and will rise towards 10 per cent. as national income falls towards £90 m. In these circumstances some adjustment in interest on the internal debt, and on interest generally, is inevitable. What could be paid without strain at the higher level of prices now becomes such a burden on industry as to reduce enterprise and retard economic recovery. See also Section XI.

Real Income from Fixed Charges.

91. Another aspect of the situation should be mentioned. Since 1929 the cost of living has fallen by 11 per cent. It was comparatively stable over the whole post-war period from 1920 to 1930. The fall in world prices and the economic adjustments to be made in New Zealand point to a further substantial fall in the cost of living in New Zealand. In these circumstances an adjustment of interest, whether by a special duty, a special income-tax, or a reduction in interest rates, would not impose undue hardship upon the lender. As the cost of living falls a given sum from interest payments represents more and more purchasing-power. In other words, the real income of the recipient is increasing. Thus at present a reduction of interest of the order of

* See Addendum by Mr. Park.