

exchange, the immediate balancing of the Budget, and the consequent fall in internal prices. With this policy the real burden of the whole internal debt would be raised because of the lower price level. Against the lower burden of the existing debt under the alternative policy must be set the added interest upon the new debt created by the issue of Treasury bills. The point may be illustrated as follows: The internal debt service of Government and local bodies is about £9 m. If the price level is sustained at, say, 25 per cent. above what it would be at parity of exchange, the real burden of this debt is lower than it would be at parity of exchange. Thus, if we take 100 to represent the prices of goods at parity of exchange, 125 would represent the ultimate general price level at the higher exchange rate. This means that a lower volume of goods would be required to pay the interest on the debt at the higher price level. For instance, at the lower price level 5 units of goods would be required to pay a debt of 500 compared with only 4 units at the higher price level. The real burden is reduced by 20 per cent. The burden of the additional debt service on Treasury bills would be slight compared with this reduction.

**Necessity of
Co-operation.**

135. The question as to the best policy involved in financing deficits and sustaining loan expenditure through Treasury bills is one of vital importance to the Government and the banks and to the community as a whole. There would be a great advantage in having a clearly defined policy from the outset in which the Government, on its part, undertook a general budgetary plan, and the banks and other financiers concerned, on their part, undertook the underwriting of Treasury bills up to an agreed maximum.

SECTION XV.—SUMMARY.

SECTION I.—THE BASIS OF PAST PROSPERITY.

NOTE.—Only an outline of the main conclusions can be given here. For a full understanding of these it is necessary to refer to the facts, arguments, and related conclusions detailed in the sections themselves.

The national prosperity of New Zealand depends in exceptional degree on her high volume of external trade. Nearly 40 per cent. of her income comes from exports, and of these 94 per cent. are pastoral and dairy-products. The course of prosperity of New Zealand has been determined largely by the movement of export prices and overseas borrowing. From 1895 to 1921 rising export prices and continuous overseas borrowing provided for almost unbroken prosperity. The post-war boom resulted in considerable over-capitalization in many industries, particularly farming, but by 1929 this had been for the most part liquidated, though over-expenditure on public works financed by heavy overseas borrowing continued.

SECTION II.—CAUSES OF DEPRESSION IN NEW ZEALAND.

From 1921 to 1929 the average level of export prices was high, there were marked improvements in farm efficiency, and the continuance of overseas borrowing helped to sustain the national income. Largely because of this borrowing, there was a lack of balance between capital expenditure and expenditure on goods for immediate consumption. Even if external causes had not brought about the depression of 1930–31, the country would have been faced with a problem of readjustment. In 1930 export prices fell heavily, and the failure of other prices to fall in sympathy resulted in acute price disparity. The export-price index fell between 1928 and 1931 from 1520 to 874, whilst the farm-expenditure index fell from 1642 to 1490. The value of farm production fell from £82.1 m. for the year ended June, 1929, to £54 m. for the year ended December, 1931. The net income of the farmer fell sharply, and in many cases disappeared. This had serious effects on business in general. Moreover, the national income fell owing to the lower purchasing-power of exports over imports and to the increased volume of exports required to pay interest on the debt held overseas. The main problem in New Zealand is to remove the disparity between export prices and internal prices, and to adjust her economy to a lower level of overseas borrowing.

SECTION III.—THE LOSS OF NATIONAL INCOME.

The national income 1928–29 is estimated at £150 m. At the present time it is about £110 m. and is declining at a rapid rate. If adjustment is made at the present exchange of 10 per cent. and production does not increase, it may settle at about £90 m. If adjustment is made at parity with sterling, the income may fall to about £80 m.

SECTION IV.—DISTRIBUTION OF LOSS OF INCOME.

The fall in national income since 1928 has been unevenly distributed over the community. Out of a total loss of £40 m. about £28 m. has fallen upon export producers, and the unemployed have increased by about thirty thousand, bearing a loss of about £3.5 m. The profits of industry have fallen considerably, though not so severely as in farming. In these cases the losses have not been offset by the fall in the cost of living, so that the loss in real income has been substantial. The money loss of wage-earners and salary-earners has been, in the main, offset by the fall in the cost of living, though