

1932.  
NEW ZEALAND.

# ECONOMIC COMMITTEE

(REPORT OF THE).

---

*Laid on the Table of the House of Representatives by Leave.*

---

Wellington, February 24th, 1932.

The Right Hon. G. W. Forbes, Prime Minister, Wellington.

DEAR SIR,—

In accordance with your instructions and the Cabinet minute of the 12th instant “to examine the economic and budgetary position of the Dominion and submit a report to the Government thereupon,” your Committee met in Wellington the 13th and on each successive day up to date, and now respectfully submits its Report, attached hereto, for your consideration.

We draw your attention to the fact that certain sections of the Report—viz., VI and XII, and Table VIII—contain quotations of figures and other information which have been handed to us in confidence.

The other members of the Committee desire to express their appreciation of the degree to which the investigations of the Committee were facilitated by the assistance rendered by their colleague Mr. Park, Secretary to the Treasury. The Committee would also express its thanks to Mr. Ashwin of the Treasury who was constantly in attendance, as well as to the permanent heads of Government Departments who provided the information required with promptitude and care.

Yours faithfully,

JAMES HIGHT, Chairman.

H. BELSHAW.

D. B. COPLAND.

A. D. PARK.

A. H. TOCKER.

## CONTENTS.

SECTION I.—THE BASIS OF PAST PROSPERITY IN NEW ZEALAND.							
Para.							Page
1.	Influence of Export Prices	..	..	..	..	..	6
2.	Influence of Overseas Borrowing	..	..	..	..	..	6
3.	The Post-war Period	..	..	..	..	..	6
SECTION II.—CAUSES OF DEPRESSION IN NEW ZEALAND.							
Para.							Page
4.	Economic Conditions, 1928–29	..	..	..	..	..	6
5.	Capital Expenditure	..	..	..	..	..	6
6–7.	Lack of Balance	..	..	..	..	..	7
8.	Fall in Prices	..	..	..	..	..	7
9–10.	Price Disparities	..	..	..	..	..	7
11.	Changed Purchasing-power of Exports	..	..	..	..	..	8
12.	Farm Costs and Prices of Farm Products	..	..	..	..	..	9
13.	Fall in Net Farm Income	..	..	..	..	..	9
14–15.	Indirect Effects	..	..	..	..	..	9
SECTION III.—THE LOSS OF NATIONAL INCOME.							
Para.							Page
16.	National Income	..	..	..	..	..	9
17.	Direct Loss of Money Income	..	..	..	..	..	9
18.	Total Loss of Money Income	..	..	..	..	..	10
19–20.	Loss of Real Income	..	..	..	..	..	10
21–23.	Present Loss of Money Income	..	..	..	..	..	10
24.	Summary	..	..	..	..	..	12
SECTION IV.—THE DISTRIBUTION OF THE LOSS OF INCOME, MONEY AND REAL.							
Para.							Page
25.	Export Producers' Loss of Real Income	..	..	..	..	..	12
26.	The Unemployed	..	..	..	..	..	12
27.	Wage-earners and Salaried Workers	..	..	..	..	..	12
28.	Recipients of Fixed Incomes	..	..	..	..	..	12
29.	Necessity of Speedy Adjustment	..	..	..	..	..	12
SECTION V.—GENERAL EFFECTS OF THE DEPRESSION ON PUBLIC FINANCE.							
Para.							Page
30.	Post-war Movement on Public Finance	..	..	..	..	..	13
31.	Increases in Debt, Expenditure, and Taxation	..	..	..	..	..	13
32.	Analysis of Expenditure and Revenue	..	..	..	..	..	13
33.	Revenue and National Income	..	..	..	..	..	13
34–35.	Burden of Fixed Charges	..	..	..	..	..	14
36.	Local-body Finance	..	..	..	..	..	14
37.	Position of the Taxpayer	..	..	..	..	..	14
SECTION VI.—THE BUDGET DEFICIT.							
Para.							Page
38.	The Budgetary Problem	..	..	..	..	..	14
39.	Decline in Revenue	..	..	..	..	..	15
40.	Expenditure	..	..	..	..	..	15
41.	The Deficit	..	..	..	..	..	15
42.	Hoover Moratorium	..	..	..	..	..	15
SECTION VII.—THE GENERAL PROBLEM OF READJUSTMENT.							
Para.							Page
43.	Fall in the Standard of Living	..	..	..	..	..	16
44.	Level of World Prices	..	..	..	..	..	16
45.	Overseas Borrowing	..	..	..	..	..	16
46.	Summary of Assumptions	..	..	..	..	..	16
47.	The Fundamental Problem	..	..	..	..	..	16
48.	Absorbing the Unemployed	..	..	..	..	..	17
49.	Spreading the Loss	..	..	..	..	..	17
50.	Equality of Sacrifice	..	..	..	..	..	17
51.	Inadequacy of Adjustments already made	..	..	..	..	..	17
SECTION VIII.—EXCHANGE AND ECONOMIC ADJUSTMENT.							
(A) <i>The Mechanism of Exchange in New Zealand and its Working.</i>							
Para.							Page
52.	The New Zealand Exchange System	..	..	..	..	..	18
53.	Dealings in Exchange	..	..	..	..	..	18
54.	How Money is transferred	..	..	..	..	..	18
55.	Changes in Bank Funds	..	..	..	..	..	18
56.	Balance of Payments	..	..	..	..	..	18
57.	Exchange Funds Overseas...	..	..	..	..	..	18
58.	Determinants of Exchange Rate	..	..	..	..	..	19
59–61.	Periodic Changes in Funds	..	..	..	..	..	19
62–63.	Other Influences on Rate	..	..	..	..	..	19

SECTION VIII.—EXCHANGE AND ECONOMIC ADJUSTMENT—*continued.**(B) Consideration of the Restoration of the Gold Standard.*

Para.		Page
64.	Exchange and National Income .. .. .	20
65.	Alternative Exchange Policies .. .. .	20
66-72. (i)	Return to Parity with Gold .. .. .	20
68.	Effects of Deflation .. .. .	20
69.	Balance of Payments .. .. .	21
70.	Effects on the Budget .. .. .	21
71.	National Income at Parity with Gold .. .. .	21
72.	Conclusion .. .. .	22

*(C) Consideration of the Present 10-per-cent. Rate.*

73. (ii)	Maintenance of Present Position : 10 per Cent. above Sterling .. ..	22
----------	---	----

*(D) Consideration of the Effects of a High Rate—say, 40 per Cent.*

74. (iii)	A High Premium— <i>e.g.</i> , 40 per Cent. .. ..	22
75.	Adjustment of Export Prices and Costs .. ..	23
76.	Additional Costs of Imports .. ..	23
77.	Effects on Costs .. ..	23
78.	Effects on Security Values .. ..	24
79-80.	Effect on National Credit .. ..	24
81-82.	Alternative : Primage Duty and Export Bounty .. ..	24

## SECTION IX.—THE FUTURE OF NEW ZEALAND CURRENCY.

83.	The Legal Basis of Currency .. ..	25
84.	Future Legal Basis .. ..	25
85.	Factors determining Exchange Rate .. ..	25
86.	Temporary Stability .. ..	25
87.	Stabilizing the Rate .. ..	26

## SECTION X.—FIXED CHARGES : INTEREST AND RENT.

88.	Fixed Charges and Price-movements .. ..	26
89.	Fixed Charges and National Income .. ..	26
90.	Increasing Burden of Debt Charges .. ..	26
91.	Real Income from Fixed Charges .. ..	26
92-93.	Extension of Mortgages Relief Act .. ..	27
94.	External Interests .. ..	27
95.	Rents .. ..	27
96.	Contract .. ..	27
97.	The Rate of Reduction .. ..	27

## SECTION XI.—THE REVISION OF WAGES.

98.	Fall in Real Income .. ..	28
99.	Fall in Wages .. ..	28
100.	Wages and Spending-power .. ..	28
101.	Restriction in Respect of Working-conditions .. ..	28
102.	Restatement of Reason for Fall in Wages .. ..	28

## SECTION XII.—BALANCING THE BUDGET.

103 and 118.	The Deficit .. ..	28 and 31
104.	Adjustable Expenditure .. ..	29
105.	Non-adjustable Expenditure .. ..	29
106.	Exchange .. ..	29
107.	Interest .. ..	29
108.	Special Stamp Duty on Interest .. ..	29
109.	Effects of such Taxation .. ..	30
110.	Special Income-tax on Investment Interest .. ..	30
111.	Voluntary Conversion Loan .. ..	30
112.	Effects of Voluntary Conversion and Relation to Maturities .. ..	30
113.	Net Effects of Economies .. ..	30
114.	Increase in the Revenue .. ..	30
115.	Special Sales-tax .. ..	30
116.	Other Revenue .. ..	30
117.	Benefit from Economies and New Revenue .. ..	30
119.	Urgency of the Problem of Balancing .. ..	31

## SECTION XIII.—LOCAL-BODY FINANCE.

120.	Basis of Local-body Revenue .. ..	21
121-122.	Revenue and Expenditure .. ..	31
123.	Adjustable Expenditure .. ..	31
124.	Interest Adjustment .. ..	31
125.	Varying Incidence of Proposals .. ..	32
126.	Review of Local-body Finance .. ..	32

## SECTION XIV.—BANKING POLICY AND TREASURY BILL FINANCE.

Para.	Page
127. Bank Credit in the Depression .. .. .	32
128. Bank Deposits and Business Conditions .. .. .	32
129. Bank Rates .. .. .	32
130. Financing Deficits: Treasury Bills .. .. .	32
131. Effects of Treasury Bills on Bank Deposits .. .. .	33
132. Loan Expenditure through Treasury Bills .. .. .	33
133. Treasury Bills for External Requirements .. .. .	33
134. Treasury Bills and the Public Debt .. .. .	33
135. Necessity of Co-operation .. .. .	34

SECTION XV.—SUMMARY .. .. .	34
-----------------------------	----

SECTION XVI.—ADDENDUM BY MR. A. D. PARK .. .. .	38
---	----

## APPENDIX.

## TABLES.

	Page
I. Index of Prices in New Zealand .. .. .	40
II. Comparison of Wholesale and Retail Price Index Numbers in Great Britain, Australia, and New Zealand .. .. .	40
III. Monthly Export Prices of Five Principal Export Items, 1929-31, expressed in Terms of New Zealand Currency, Sterling, and Gold, and Graphs of these Items .. .. .	41
IV. New Zealand External Trade .. .. .	47
V. Estimates of Value of Production and National Income .. .. .	47
VI. Indices of Prosperity and Depression .. .. .	48
VII. Numbers on Unemployment Register of Labour Department, 1926-31 .. .. .	48
VIII. Revenue and Expenditure, 1929-30 to 1932-33 .. .. .	49
IX. Public Debt .. .. .	49
X. Public Finance and the National Income .. .. .	50
XI. Public Debt, Amount and where held, with Average Interest Rates .. .. .	50
XII. Annual Interest Payments in London, Australia, and New Zealand .. .. .	50
XIII. Comparison of Taxation per Capita, 1921-31 .. .. .	50
XIV. Comparison of Expenditure per Capita, 1921-31 .. .. .	51
XV. Local-body Debt in New Zealand .. .. .	51
XVI. Local Bodies: Receipts and Payments .. .. .	51
XVII. Holdings of Local-body Debt, 31st March, 1930 .. .. .	52
XVIII. Concessions to Primary Producers, borne by the General Taxpayer .. .. .	52

## REPORT.

### INTRODUCTION.

1. The limited time at its disposal enabled the Committee to deal only with the more urgent questions arising from the effort to readjust the economic activities of New Zealand to the new conditions resulting from the severe depression. These questions, which are the immediate concern of the Dominion, we examined from several points of view as thoroughly as the time and data at our disposal allowed. The more the conditions affecting each are analysed the more numerous appear the factors that go to influence a very complicated situation and the more clearly emerge certain considerations, such as the dependence of the prosperity of New Zealand on world conditions. Each economic fact, even in a country such as ours, of relatively simple economic structure, is the result of the action and interaction of an intertwined set of factors. The rapidly increasing complexity of the problems renders the formation of any judgment peculiarly difficult even after careful analysis since the factors combining to produce a given result are constantly changing in different ratios to one another and in different directions and may be supplemented by entirely new factors.

2. Moreover, forces governing economic processes are always so numerous and interwoven with one another that no adequate discussion of any practical problem, if it is to be of use, can be presented in a form free from a certain complexity of argument inseparable from the complexity of the data and the forces at work. There are various aspects of the same problem to be considered; distinctions must be drawn between immediate and ultimate results, between direct and indirect effects, between money and the realities it measures, &c. A treatment of such a subject as foreign exchange, for example, necessarily demands some brief preliminary exposition of elementary facts and principles, if a discussion tracing the nature and the effects of the various policies possible is to be followed with full understanding.

3. We have made no specific recommendations in this report, our function being to attempt to collect and assess the facts relevant to the critical situation of the Dominion and trace out as clearly as possible the effects of different courses of action so as to assist the Government in deciding between different competing policies that may suggest themselves.

4. Care has been taken to examine only the economic aspects of the questions mentioned in this report, and, whilst necessarily confining itself to those questions which are of most practical importance at the moment, the Committee has refrained from examining them from the point of view of politics or political expediency, or in any way other than that leading to economic readjustment in the national interest.

5. The report falls into more or less clearly marked divisions. We cannot hope for success in treating any disturbance of social conditions unless we know the causes that brought it about and its essential nature. Therefore the earlier part of the report (Sections I to VI) discusses the causes and the nature of the economic troubles afflicting the Dominion. The next section attempts a general discussion of the problem of remedies and ultimate adjustment. The following five sections develop this problem in detail.

6. The Committee feels it necessary to stress the point that the discussion of the means and methods of adjustment should be considered as a whole and due attention given to the fact that in most cases its findings cannot be taken and applied in isolation without regard to the implications and conditions specified in the Report.

7. The Summary in Section XV is a résumé of the chief conclusions found by the Committee in respect of the various methods of adjustment it has examined. These, of course, are based on the data and the arguments of the text in the main sections, but none of them can be properly understood, interpreted, or applied without careful reference to the detailed treatment of the topic in question to be found in the text itself, with the appropriate limiting conditions and the many related conclusions that cannot be even hinted at in a summary.

8. The statistics used in the text and tables in the appendix have been supplied and checked for the most part by the Government Statistician. They are part of the official statistics of the Dominion, and therefore as accurate as can be obtained. It is important to note that in respect of statistics, particularly in cases like index numbers of changes in rents, wholesale or retail prices, cost of living, and wages, care must be taken to note the exact meaning of the particular figures used as a basis or assumption at the outset of the argument.

9. It is also important to note that when the Committee uses figures by way of illustration—as, for example, a particular per cent. in respect of exchange—the use of such figure should not be interpreted as a suggestion that it be adopted in practice.

## REPORT OF THE ECONOMIC COMMITTEE.

## SECTION I.—THE BASIS OF PAST PROSPERITY IN NEW ZEALAND.

Influence of  
Export Prices.

1. The prosperity of New Zealand has been closely dependent on two main factors—the movement of export prices and the volume of overseas borrowing. When export prices rise, New Zealand tends to benefit, for several reasons. When it is remembered that pastoral and dairy products alone account for nearly half the total national income and 94 per cent. of the total value of exports, the significance of changes in the prices of primary products will be readily appreciated. It is a well-known fact that farm costs, and the expenses of placing farm products on the market, move much less readily than market prices. Hence, when export prices rise, there tends to be a proportionately greater rise in prices at the farm. Owing to the relative fixity of farm costs, the net income of the farmer tends to rise in even greater proportion. Thus, pending an internal adjustment to the higher prices, the farmer has a net gain over the rest of the community. The expansion of farm production is thereby stimulated, and the farmer's demand for other goods is increased. In this way the prosperity in farming industries stimulates prosperity in other industries. Furthermore, when export prices rise, New Zealand benefits because it is a debtor country. Overseas obligations are fixed in terms of overseas currencies. Hence, with higher prices expressed in such currencies, a smaller quantity of exports is required to meet external interest obligations. In other words, the amount of revenue required to pay interest on external loans remains unchanged, while the money income of the community is rising. There is also a tendency for import prices to lag behind export prices, because imports are, in the main, manufactured products, the prices of which fluctuate less than the prices of foodstuffs and raw materials. A rise in export prices then benefits the community as a whole, because a given volume of exports will exchange for an increasing volume of imports.

Influence of  
Overseas  
Borrowing.

2. Borrowing abroad is conducive to at least temporary prosperity, because the money thus obtained is used to buy materials and pay wages on public works, to finance land-settlement, or to increase production in other ways. Not only does it lead to a direct increase in spending-power, but also it results in additional production and a further increase in the national income, because the money spent in the first instance on public works or land-settlement is used by the wage-earners and others to buy other goods and services, the production of which is thereby encouraged. Hence borrowing abroad has exerted an important influence in stimulating economic activity within New Zealand.

## Post-war Period.

3. The history of New Zealand abundantly demonstrates the importance of rising export prices and overseas borrowing as factors influencing economic prosperity. During the period from about 1895 to about 1921 export prices rose continuously while the practice of overseas borrowing was followed by successive Governments. So the country was carried forward on a wave of almost unbroken prosperity. The post-war boom marked the end of an era. The sharp fall in export prices in 1921 revealed extravagant over-capitalization in many industries, but particularly in farming. The years which followed were years of difficulty. Gradually capital values were being brought down to an economic level, and productive efficiency increased appreciably. This applied particularly to farming, in which the increased use of artificial fertilizers and improvements in farm-management led to a marked increase in productivity per head. Although export prices showed considerable fluctuations, they recovered to a high average level for the years 1923-1929, and it appeared as if the farm economy was becoming adjusted to the new situation. By 1929 the post-war over-capitalization in farming had been for the most part liquidated. Heavy overseas borrowing, involving a continuous over-capitalization of public works, helped to sustain the national income, but at the same time it added to the difficulties which faced the country when export prices again collapsed in 1930.

## SECTION II.—CAUSES OF THE DEPRESSION IN NEW ZEALAND.

Economic  
Conditions,  
1928-29.

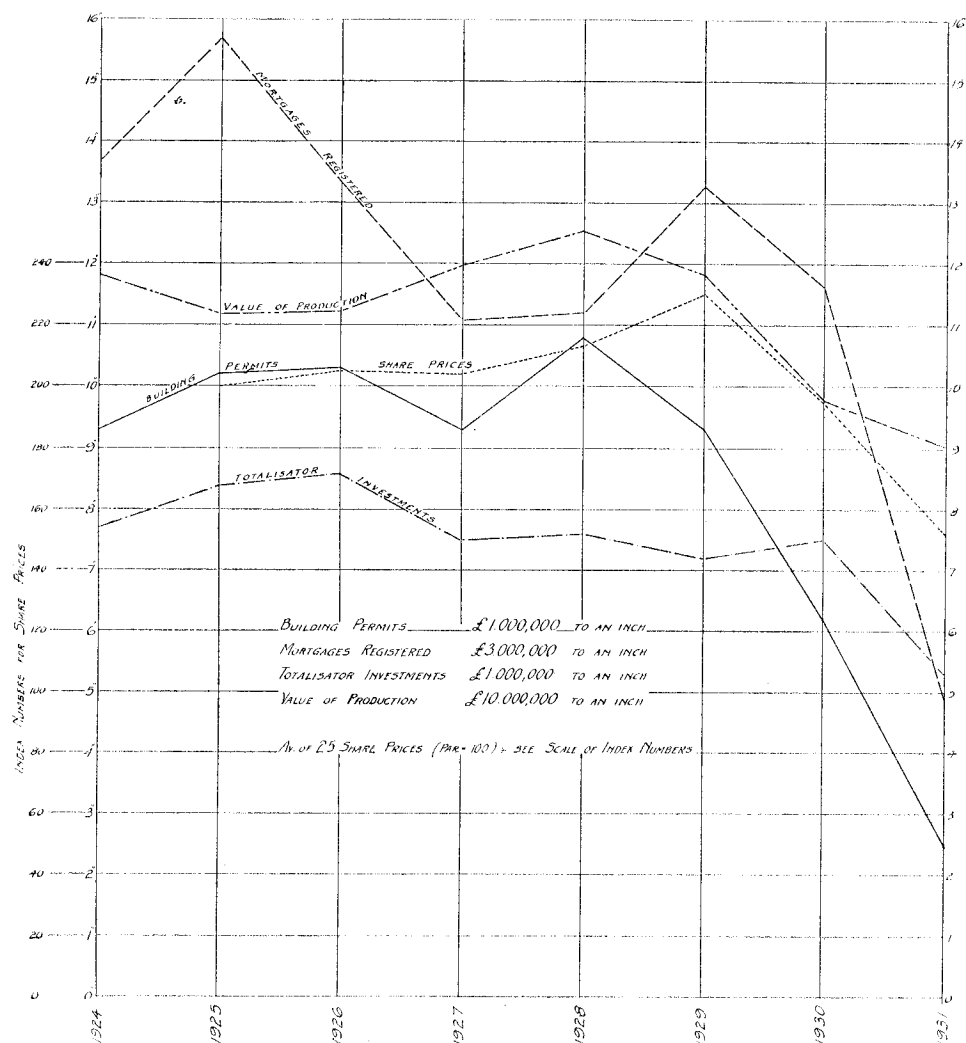
4. When measured by present standards the years 1928 and 1929 are now beginning to be regarded as years of prosperity, though at that time business men were looking forward to a recovery from what they believed to be a trade depression. In certain important respects the situation in 1928-29 was markedly different from the situation at the present time. Reference to Table 1, paragraph 9, below, will show that in those years export prices were comparatively high, while import prices were lower than in any previous period since the war and were still falling. Hence a unit of exports represented purchasing-power over a high volume of imports. The banking position was sound and the ratio of deposits to advances was high. The stage appeared to be set for a continuance of prosperity, but a change of scene was already preparing. The movement of farm expenditure in relation to prices was far from favourable; compared with wholesale prices, nominal wages were rising and retail prices had remained high for several years, thus suggesting an unfavourable movement between industrial costs and selling-prices. Unemployment was increasing despite a fall in immigration and despite the record level of export values attained in 1928-29.

## Capital Expenditure.

5. The level of business activity in those years was sustained only by the continuance of the policy of expanding public works with borrowed money. There was injected into the country from abroad during the few years preceding 1929 added

spending-power amounting to about £5 m. net per annum. Changes in the transport system and the demand for hydro-electric development resulted in considerable expenditure on high-class roads and electric-power schemes. It was already evident that the country was becoming over-capitalized in regard to public works. Even apart from the depression of the succeeding two years, some reduction of capital expenditure on public works would have been necessary. If the volume of capital works undertaken by the Government and by local bodies is considered in relation to existing population, there can be no doubt that much of this work was greatly in advance of its time. This condition may be remedied gradually as population increases, but it adds appreciably to the problem of readjustment on account of the additional burden of debt and maintenance which it has necessitated.

6. In effect, this means that even prior to the depression 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 and 1931, we should have been faced with a problem of readjustment. A slowing-down of the public and private capital expenditure was necessary to bring about economic equilibrium, and was, indeed, already taking place, as was exemplified in the decline in the values of building permits, mortgages registered or discharged, land transfers, totalizer investments, and railway freights. This is shown by the following graph:—

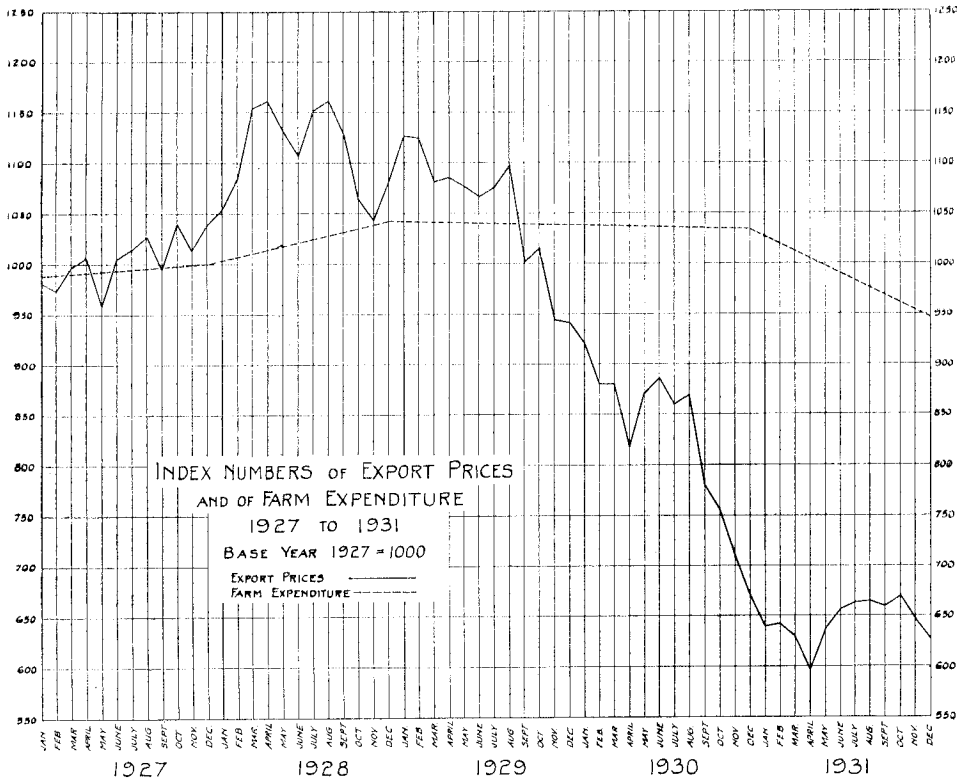


7. The increase in unemployment from 1926 to 1929 is partially explained by the recession in capital expenditure. This recession would have raised a problem of economic adjustment and of labour transfer in New Zealand, whatever had happened outside the Dominion.

8. At a time when the economic machine was thus out of adjustment it was subjected to the terrific strain of rapidly falling prices. This raised a new and more serious problem.

9. The fundamental cause of the depression in New Zealand is the fall in export prices, combined with the failure of other prices, including interest, rents, wages, fees, taxes, and other payments for services, to fall in sympathy. These differences in price movements are due, in the main, to the retarding influence on some prices of contract, agreement, or custom. Thus the farmer or business man whose products are falling in price is faced with interest payments or rent which are fixed for a considerable period, while the wages and salaries paid to his employees tend to lag behind the

prices of his goods. Hence profit margins shrink rapidly and may disappear. This leads to a further curtailment of demand, so that a further fall in prices is necessary if output is to find a market. Since profit is the mainspring of enterprise and productive effort, production must fall off and unemployment increase. Hence the only



way in which economic recovery can take place is to cause the profits of enterprise to emerge or increase. Practically this means that a readjustment must occur between selling-prices and costs. The price disharmony, which is responsible for our troubles, is revealed by the following table :—

TABLE 1.—INDEX OF PRICES IN NEW ZEALAND.  
(Year 1914 = 1000.)

Year.	Wholesale.	Imports.	Exports.	Farm Expenditure.	Retail Prices.	Nominal Wages (Male).
1914 .. ..	1000	1000	1000	1000	1000	1000
1919 .. ..	1703	1941	1671	1511	1567	1304
1924 .. ..	1584	1555	1597	1586	1604	1533
1928 .. ..	1417	1360	1520	1642	1618	1656
1929 .. ..	1413	1355	1456	1636	1607	1658
1930 .. ..	1376	1345	1144	1628	1562	1665
1931 .. ..	1270	1322	874	1490	1447	1542

10. Since 1928, wholesale prices as a whole have fallen by about 10 per cent., wholesale prices of imports by about 3 per cent., retail prices by about 11 per cent., and money wages by about 12 per cent. During the same period export prices have fallen by about 43 per cent.; but the fall in the index number of farm expenditure, which provides an approximate measure of the movement of farm costs, is only about 10 per cent. Meanwhile, despite some economies in public expenditure, it has been found necessary to increase the rates of taxation and levy additional taxes.

11. The first effect of the disparity between the movements of different prices has been a substantial fall in the volume of imports that can be purchased by a given quantity of exports. Expressed in sterling, the fall in export prices has been of the order of 47 per cent., while the fall in imports has been of the order of 12½ per cent. Hence 60 per cent. more exports must be sent abroad at the present time to pay for a given quantity of imports. Further the sum due for services of Government and local-body debts payable overseas, which amounts approximately to £9 m. annually\*, is fixed in terms of money, and this must be paid out of the proceeds from

\* In the event of the Hoover moratorium on inter-governmental war debts and reparations, &c., being continued, this sum will be reduced by a net amount of about £1,300,000.

Changed  
Purchasing-power  
of Exports.



the sale of exports. Owing to the fall in export prices, about 80 per cent. more exports must be sent abroad to pay this interest than were required in 1928. This means that if the total volume of goods and services produced remains the same the community as a whole is able to consume a smaller quantity of goods than formerly.

12. A serious disparity has occurred between farm costs and farm selling-prices. This raises the crucial problem in New Zealand. Before we can recover from the present depression primary industries must be placed on a satisfactory basis that will show a profit. No other measures will be adequate to restoration. The serious nature of the crisis in farming is further revealed by statistics showing the value of farm production. The following estimates are in New Zealand currency, and so allow for the increased values due to the higher exchange during the past year :—

**Farm Costs and  
Prices of Farm  
Products.**

TABLE 2.—VALUE OF FARM PRODUCTION.

Year ended			Exports. £ m.	Total. £ m.
June, 1929	..	..	55.2	82.1
June, 1930	..	..	46.2	72.2
June, 1931	..	..	36.8	56.0*
December, 1931	..	..	35.1	54.2*

\* Estimated.

13. On the basis of the above figures, it is clear that the gross income of the farmer is likely to be between 30 and 40 per cent. less for the season 1931-32 than for the season 1928-29. Since costs from the farm to f.o.b. are very rigid, and since costs on the farm have not fallen, according to the index of farm expenditure, by more than about 10 per cent. during the period, it is clear that the net income of the farmer has fallen by much more.

**Fall in Net Farm  
Income.**

14. A shrinkage of such magnitude in the farmers' spending-power will not only be reflected in reduced demand for the goods of importers, traders, and local manufacturers, but also weaken the security of mortgagees and embarrass financial institutions. The removal of the disparity between farm costs and selling-prices is the only way in which farm production is likely to be increased or even maintained.

**Indirect Effects.**

15. The depression in farming industries has affected other types of business in a similar way. Although retail prices and wholesale prices as a whole have fallen by about 10 per cent. since 1928, and although reductions in wages and salaries have afforded some relief to costs, the shrinkage in demand has meant that overhead costs, which are very rigid, have been spread over a smaller volume of output, so that in many instances unit cost has actually increased. The increase in taxation has also imposed some additional burden. It is clear that, if demand is to be sustained, prices must fall still further, and, unless this fall is associated with an appreciable fall in costs, profits will be further curtailed and the depression intensified. Hence in industry and trade, as well as in farming, it is necessary, if the depression is to be relieved, to remove the price disharmony between costs and selling-prices, so that some profits may emerge.

SECTION III.—THE LOSS OF NATIONAL INCOME.

16. We have estimated the national income in 1928-29 to be £150 m. This estimate is arrived at as follows : In 1925-26 the Census and Statistics Office estimated national income at about £136 m. In the same year production was estimated at £112 m. Thus national income was approximately 20 per cent. greater than production. This would give a national income of a little more than £100 per head of the whole population in a period of prosperity. A comparison with the national income per head in other countries enables us to arrive at the conclusion that the estimate of a little more than £100 per head is reasonable in the circumstances.

**National Income.**

17. From 1929 to 1931 export prices fell continuously and are now approximately 40 per cent. below their level in the period 1928-29. These are prices in New Zealand currency. When converted into sterling the fall in export prices amounts to over 45 per cent. This fall has cut deeply into the income received from exports. For these years the sterling value of New Zealand exports was approximately £55 m. In 1931 it was £32 m., and with present export prices it cannot rise appreciably above this figure. There is consequently a direct loss of £23 m. in the income from exports. In the period of prosperity overseas borrowing formed part of the national income, because it supported production and employment for a large number of people. The net amount of overseas borrowing for the period 1926-30 was about £5 m. per annum. If this is discontinued a further loss of £5 m. is involved. This would make a total direct loss of income from abroad of £28 m. During the period of readjustment overseas borrowing of a diminishing amount would ease the difficulties of New Zealand. We must, however, assume the ultimate cessation of overseas borrowing. When this position has been reached, then the loss estimated on present export prices will be £28 m. In the meantime, however, some recovery in export prices might reduce this direct money loss.

**Direct Loss of  
Money Income.**

**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

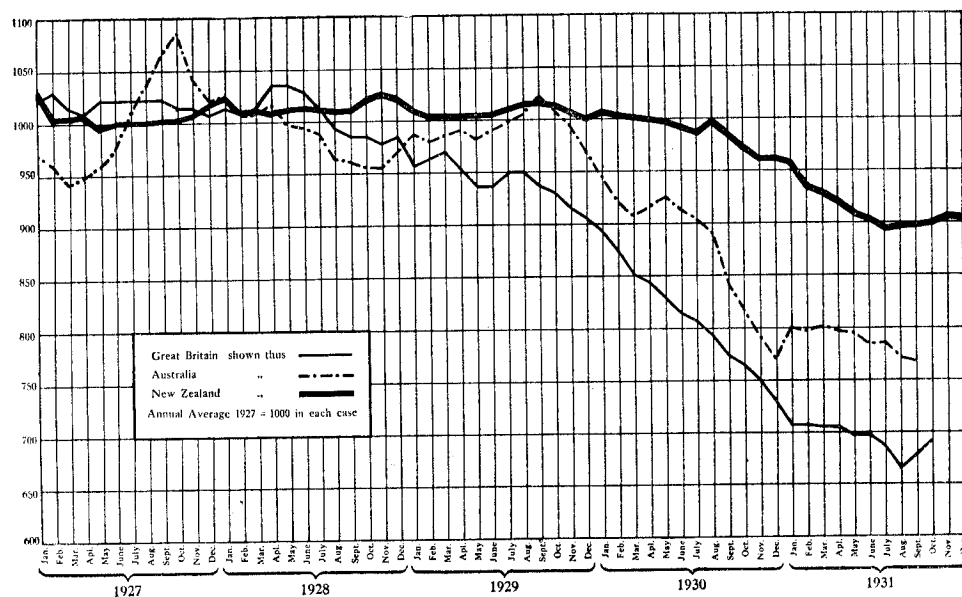
\* Apart from the reduction in costs the primary producer has been assisted to the extent of an increase of approximately £1,000,000 between 1928–29 and 1931–32 through special concessions in taxation and additional subsidies, including unemployment expenditure. See Table XVIII in Appendix.

† See note to paragraph 11, page 8.

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.

of £90 m. This gives a further reduction of £11 m. It is well known that the building industry alone has suffered severe contraction, and we may put its loss at £6 m., which amounts to 60 per cent. of its operation in 1929. For all other industries, including factory production, transport and professional services, a loss of £6 m. would not be an excessive estimate. The total of these losses is £41 m., thus bringing national income down to approximately £110 m.

**Summary.**

24. We conclude, therefore, that national income has fallen from £150 m. in 1929 to £110 m. at the present time, that the fall is still proceeding, and will reach approximately £90 m. if adjustment is made on an exchange rate of 10 per cent., unless export prices rise or there is a substantial expansion of internal production. The gravity of the situation as portrayed by these figures demands a consideration of the distribution of the loss of income. We proceed in Section IV to consider this problem.

**SECTION IV.—THE DISTRIBUTION OF THE LOSS OF INCOME, MONEY AND REAL.**

**Export Producers' Loss of Real Income.**

25. We have found that export producers have incurred a money loss of overseas income of £23 m. in sterling prices and £20 m. in New Zealand currency. This is not their only loss. In paragraph 12 (Section II) it was shown that the total value of farm production in 1929 was £82 m., while the estimated value at the end of 1931 was £54 m. This is a loss of £28 m. in New Zealand currency. It is not, however, the loss of real income to export producers. Costs and wholesale prices have fallen by approximately 10 per cent. Therefore export producers could have suffered a reduction in money income from £82 m. to £74 m.—that is, a loss of 10 per cent. without suffering any real loss. It follows that the loss of real income now borne by export producers is expressed by a purchasing-power of £20 m.

**The Unemployed.**

26. We have estimated the total loss of money income at the present time as £40 m., of which £28 m. has fallen on export producers. Another section of the community severely hit by the loss of income is the unemployed, the total amount of whose loss it is difficult to assess. A rough measure can be devised if we assume that no fewer than thirty thousand additional workers have been thrown out of employment on account of the economic depression. This is approximately 60 per cent. of the total unemployed at present. These thirty thousand unemployed are being supported to the extent of about £1·5 m. from the rest of the community. Normally their combined income would be not less than £5 m. Hence at least £3·5 m. of the loss of income has fallen upon the unemployed.

**Wage-earners and Salaried Workers.**

27. The reduction in wages, the decline in profits, higher taxation, and the contraction of output account for the balance of the loss. In many of these cases, however, the money loss has been insufficient to impose any appreciable loss of real income. As the cost-of-living index has fallen 11 per cent., a reduction of money income of anything less than 10 per cent. may leave the recipient in much the same position as in 1929. This is true of most wage and salary earners in full work. For the most part the reduction in money income in these groups has been less than the fall in the cost of living. These statements must be qualified in so far as wage earners and salaried workers require to meet interest and other fixed charges on house property.

**Recipients of Fixed Incomes.**

28. We have been unable to make a close estimate of the total amount of the national income that is paid in fixed money claims, which include rents on long-term leases, interest on the public and local-body debt held internally, interest on mortgages, interest on banks and saving-banks deposits, and interest on debentures and preference shares. Nor have we been able to estimate the reductions that have taken place in the interest paid on these several classes of investments. Apart from renewal of securities at lower rates, no reduction has taken place in interest on the public and local-body debt held internally and amounting to £9 m. per annum. This is a substantial proportion of the total interest burden, probably not less than one third. In many cases interest on mortgages is not being fully paid or concessions have been granted by the mortgagee. Some reductions have also taken place in bank-deposit rates, and as existing contracts expire the total amount of interest paid on bank deposits will decline by from 10 per cent. to 15 per cent. Reduction of interest by  $\frac{1}{2}$  per cent. on public borrowing was arranged from the 1st August, 1931. Additional taxation to the extent of £0·5 m. was imposed on recipients of investment income, which includes incomes from dividends on shares as well as fixed interest. But over the whole field of interest the reductions at present have been far from sufficient to relieve industry from the additional burden of fixed charges imposed by the fall in prices and contraction of output. It is part of the problem of the distribution of the loss of income to spread the burden as equitably and rapidly as possible over this element of income as well as other elements. When this process has been completed costs will be reduced, the loss of national income will be distributed over the whole people, and unemployment will be relieved.

**Necessity of Speedy Adjustment.**

29. We return to this problem in Section VII. The greater the total money loss of national income the more difficult it will be to secure a speedy and equitable distribution of the loss. Thus, if parity\* of exchange were restored, the money loss

\* See Addendum by Mr. Park.

of export producers would be increased and the degree of adjustment required in all prices, wages, incomes, and fixed charges would be greater. The higher the money value of the national income the lower is the loss and the less the magnitude of the adjustments to be made.

SECTION V.—GENERAL EFFECTS OF THE DEPRESSION ON PUBLIC FINANCE.

30. The depression found New Zealand public finance, like that of other debtor countries, in a condition ill fitted to withstand any severe shock. For years past the volume of taxation, expenditure, and debt, both State and local, had been expanding, until by 1929 they had reached levels which imposed severe burdens even in times of abundant prosperity. The following tables summarize the changes since 1914 :—

Post-war  
Movement in  
Public Finance.

TABLE 3.—TAXATION AND RATES.

Year ended March,	State.			Local Body.		
	Total.	Per Head.			Total.	Per Head.
	£ m.	£	s.	d.	£ m.	£ s. d.
1914 .. ..	5.9	5	5	2	2.3	1 18 10
1929 .. ..	17.8	12	4	3	6.3	4 6 11
1930 .. ..	19.5	13	3	7	6.5	4 8 7
1931 .. ..	18.9	12	12	1	..	..

TABLE 4.—PUBLIC DEBTS.

Year ended March,	State.			Local Body.		
	Total.	Per Head.			Total.	Per Head.
	£ m.	£	s.	d.	£ m.	£ s. d.
1914 .. ..	99.7	87	10	2	23.8	20 17 3
1929 .. ..	264.2	179	12	10	69.3	47 2 4
1930 .. ..	267.4	179	12	5	71.2	47 16 8
1931 .. ..	276.0	182	13	10	..	..

31. Allowing for a duplication of £7 m. lent to local bodies by State Departments, the total debt in 1931 was not less than £340 m. and the debt per head at least £220 State and local-body taxation combined amounted to over £25 m., or nearly £16 per head, being probably one-sixth of the total national income. This heavy burden of taxation and rates was a factor in maintaining costs at levels that hampered industry. High costs were a direct cause of unemployment, which, in turn, demanded even higher public expenditure, and consequently higher taxation and rates. A further weakness lay in the fact that a high proportion of the expenditure consisted of fixed charges, while on the revenue side the greater part of the income was very sensitive to changes in the taxpayers' prosperity, and was likely to decline heavily in time of depression.

Increases in Debt,  
Expenditure, and  
Taxation.

32. Out of total expenditure from the Consolidated Fund of £24.7 m. in 1930-31, £11 m. was for debt service, and a further £6 m. was included in permanent appropriations, which left the amount subject to annual vote, and therefore more readily reducible, approximately £7.5 m. Of the revenue, 43 per cent. was from Customs, which depended on imports. But imports normally expand and decline following upon similar changes in exports and in public borrowing abroad. The depression of prices has meant not only a drastic reduction in exports and imports, but also a reduction of public borrowing abroad, which has further decreased imports. Moreover, the decline tends to be heavy in semi-luxury items on which taxation is highest, so that the yield of Customs while duties are unchanged may decline even more than imports. The remainder of the taxes—income-tax (21 per cent.), death duties (9.5 per cent.), land-tax, totalizator-taxes, &c.—were directly or indirectly dependent largely on the profits of industry and endeavour, and the bulk of them were graduated. Since depression hits profits first, the decline in revenue from such taxes is likely to be much steeper and heavier than the decline in national income. Interest-earning assets, too, were represented largely by advances to farmers and others and by capital invested in transport, &c. All these sources have suffered heavily, and a decline in this revenue is inevitable.

Analysis of  
Expenditure and  
Revenue.

33. As the result of falling export prices, reduced overseas borrowing, and the consequent depression, the Dominion's national income has been reduced, between 1928-29 and 1931-32 by round about 27 per cent. But the decrease in taxable capacity

Revenue and  
National Income

has been far greater. For taxable capacity consists not of the total income, but of the surplus of income above the bare necessities of production and of living, and this surplus has suffered a reduction much greater than the total income of the country. This is illustrated by the drastic change in the Budgets for 1931–32. With the total Consolidated Fund expenditure under £25 m. in 1930–31, a prospective deficit of £6·8 m. estimated for 1931–32 had to be covered. In the supplementary budget issued in September a further £1·6 m. had to be provided for. Even with the adjustments made to cover these prospective deficits, the expenditure for the year 1931–32 is likely to exceed revenue by a substantial amount. A factor contributing largely to this position is the new expenditure imposed upon the Consolidated Fund for unemployment relief.

**Burden of Fixed Charges.**

34. A further effect of depression is found in the increased burden of fixed charges on the real income of the community in times of falling prices. It is commonly stated, and is roughly true, that in recent years of high prices the returns from New Zealand wool exports have been sufficient to pay the overseas interest bill twice over. In 1930–31 and 1931–32 the proceeds of a similar volume of wool exports would pay only about half of the interest bill. Expressed more precisely in terms of average exports of all kind, whereas 1,000 units of exports paid for certain amounts due as overseas interest in 1928–29, 1,600 units were required in 1930–31, and 1,630 units were required in 1931–32 to pay the same amounts. The fall in export prices during the past two years has therefore meant an increase of 60 per cent. in the burden of the national debt held abroad, and this extra burden of interest can be reduced only by an upward movement of export prices, or by conversion at lower rates. Similar reasoning can be applied to locally held debt, but the increase in burden is less because internal prices have as yet fallen much less heavily than export prices.

35. Over recent years the burden of interest payments on the taxpayer has been increasing in four separate ways, which are cumulative in their effects. This burden has increased—

- (i) By the rapid increase of debt :
- (ii) By renewals of debt at higher rates of interest not wholly offset by other renewals at lower rates :
- (iii) By the declining interest-earning capacity of public works, due in part to the recent expenditure of heavy sums on new works which fail to meet their interest bill :
- (iv) By the fall in prices, which means that more produce must be sold to meet the interest bill.

**Local-body Finance.**

36. In local-body finance also problems similar in nature though as yet less in degree, occur when prices fall. Revenue is likely to fall off and to be increasingly difficult to collect. Earning assets find their income decreasing, while their fixed charges remain rigid. The field of reducible expenditure is found to be limited, while the demand for expenditure on social relief increases. Thus, while the ratepayers' capacity is reduced by depression, it is often found difficult to reduce rates, especially where debt is heavy ; and, as prices rise and incomes are reduced, the real burden of rates is increased.

**Position of the Taxpayer.**

37. In times of depression, when much public attention is directed to public finance, it is apt to be forgotten that the average individual taxpayer faces difficulties similar to those of the taxing authorities. The State, the local body, and the taxpayer alike find themselves obliged to meet fixed charges out of reduced incomes. If the price level and the national income are reduced more than taxation and rates are reduced, then the average taxpayer finds that he has to bear not only the burden and difficulties imposed on him by the general cut in his own income, but also the additional burden imposed by the taxing authority, which takes perhaps a less amount, but still a greater proportion, of that reduced income. This extra burden is well illustrated in New Zealand, where in 1928–29 from an estimated national income of £150 m. the State and local bodies took £24 m. in taxation, or 16 per cent. In 1931–32 the national income is estimated to total £110 m., and the average taxpayers' income has been reduced in proportion—that is, by 26 per cent. But State and local taxation budgeted for sums amounting roughly to £26 m., which is nearly 25 per cent. of the national income. The difficulty found in realizing such Budget estimates suggests that the limit of taxable capacity is very near.

## SECTION VI.—THE BUDGET DEFICIT.

**The Budgetary Problem.**

38. The fall in national income has already made serious inroads on the public revenues. They will be even more serious for 1932–33. On the expenditure side the provision for unemployment and for exchange on the external debt is increasing the total expenditure. This has already become evident and will be more pronounced in 1932–33. This critical situation was brought about by the fall in national income and the necessary increase in expenditure to provide relief.

39. We append to this report (Table VIII) a detailed statement of the Budget position for recent years, with preliminary estimates for the current year and next year. It is necessary here only to summarize the information. The revenue position is as follows :—

The Decline in Revenue.

PUBLIC REVENUES (PRELIMINARY ESTIMATES).

(Figures in £ m.)

	1929-30.	1931-32 (estimate).	1932-33 (estimate).
Taxation .. ..	19.48	15.77	13.58
Interest .. ..	4.41	2.76	2.46
Other receipts .. ..	1.46	3.80	1.42
Total revenue .. ..	25.35	22.33	17.46

The decline in revenue from 1929-30 to 1932-33, despite increased taxation, is thus estimated at approximately 30 per cent. This is not surprising. We have estimated a fall in the national income at the present time of 27 per cent., and during the process of readjustment to lower prices this fall will go on. As some taxation—for example, Customs revenue and income-tax—falls in greater proportion than the fall in national income, it is only to be expected that the revenue should suffer heavily.

40. On the expenditure side of the Budget the position, based on current operations, is as follows :—

Expenditure.

PUBLIC EXPENDITURE (PRELIMINARY ESTIMATES).

(Figures in £ m.)

	1929-30.	1931-32 (estimate).	1932-33 (estimate).
Debt charges .. ..	10.73	10.57	11.07
Exchange .. ..	..	0.37	1.10
Other permanent appropriations ..	6.50	7.46	7.72
Annual votes .. ..	7.97	6.83	6.83
Total expenditure .. ..	25.20	25.23	26.72

41. In the expenditure for other permanent appropriations increasing provision has been made for unemployment subsidies. On the basis of present legislation these are estimated to amount to £1.45 m. in 1932-33. They are a charge on the Consolidated Fund, and must therefore be provided from the public revenues. But this is not the only expenditure on unemployment. The contribution from the Consolidated Fund is a pound-for-pound subsidy upon the expenditure of the Unemployment Board. Apart from this subsidy, the revenue of the Board is derived from special taxation, which is estimated to amount to £1.45 m. in 1932-33. Strictly speaking, therefore, both revenue and expenditure of the Budget should be increased by this amount. Hence the position in 1932-33 is estimated to be as follows :—

The Deficit.

			£ m.
Public expenditure .. ..	..	..	28.17
Public revenue .. ..	..	..	18.91
Deficit .. ..	..	..	£9.26

Since 1929-30 a net expansion of expenditure, including a large provision for unemployment and assistance to the farming industry, of approximately 12 per cent., and a reduction of revenue of 30 per cent., have brought about an estimated deficit of £9.26 m.

42. It should be added that this deficit includes the net payment of interest on the war debt after allowance has been made for reparations receipts. Should the Hoover moratorium be extended from the 30th June next a further relief to the extent of £600,000 would be available. Even then, however, the estimated deficit will be £8.66 m. It is clear that drastic action must be taken to deal with this sum and to place the public finances upon a sound basis.

Hoover Moratorium.

## 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.



When this happens the export producers will be able to purchase with their diminished money income the same quantity of goods and services as before, and industrial output will therefore be restored to its former level. Without this adjustment, how can the community deal effectively with the problem of unemployment, balance the Budget, and restore and maintain sound financial conditions?

48. There will also be the problem of absorbing in profitable enterprise the workers and employers formerly dependent upon the expenditure of overseas loan-money. For this purpose a further reduction in costs must be achieved in order that export production and internal production competing with imports can be expanded. As this happens, the volume of employment will be increased and the community will come down to a lower level of real income consistent with the loss of national income caused by the depression.

**Absorbing the Unemployed.**

49. This real loss must be spread over the community as a whole. If it is borne mainly by two sections of the community—namely, export producers and the unemployed—national income must suffer. The contraction of output in secondary production will be severe, and it is doubtful whether export production can be maintained on its present returns. Thus the spreading of the loss of income is essential to the process of readjustment. The more rapidly it is spread, the quicker will be the recovery and the smaller will be the loss during the process of readjustment. It is, therefore, important to consider how the adjustment can be made expeditiously and equitably whilst sustaining enterprise.

**Spreading the Loss.**

50. If the adjustment is made on parity of exchange a fall in many cases of the order of 40 per cent. is required. A cut of 10 per cent. in income accompanied by a reduction of 10 per cent. in the cost of living certainly contributes substantially towards the monetary adjustment. It does not, however, involve the spreading of the real loss to the recipients of the incomes cut by 10 per cent. Thus to-day average wages have fallen by approximately 11 per cent., compared with a reduction in the cost of living of 11 per cent. Similarly the recipient of interest, unless he be specially taxed, has a higher real income if he continues to receive the same amount as formerly. If the loss of real income is to be spread evenly, no section of the community can be left with a greater real income than before the crisis. An all-round sacrifice is required. Resistance to the sacrifice by any section of the community will only delay the process of recovery, dampen down enterprise, and react ultimately upon the interests of the particular section in question, together with the interests of the whole community. It should be recognized that any measures of readjustment involve sacrifices by those sections of the community that have escaped any real loss of income or have hitherto been asked to accept a minor real loss. The total loss is so great that it must be spread evenly over the whole community if an ill-balanced economic structure is to be avoided.

**Equality of Sacrifice.**

51. Some progress towards readjustment has already been made. The following are the measures of adjustment in operation to date:—

**Inadequacy of Adjustments already made.**

- (i) A fall in internal prices and in the cost of living of the order of 10 per cent.
- (ii) A rise in the exchange rate to 10 per cent., bringing relief to export producers.
- (iii) A contraction of imports from £45 m. to £24 m.
- (iv) A reduction in wages of 10 per cent. ordered by the Arbitration Court.
- (v) A reduction of 10 per cent. in wages and salaries in the Public Service, and other economies in public expenditure.
- (vi) The passage of legislation to enable mortgagors to secure relief from both interest and principal under certain conditions, and special consideration to mortgagees by all State lending Departments.
- (vii) Taxation relief and increased subsidies to the farming industry.
- (viii) A reduction of interest on Government and local-body loans for new issues, and on bank overdraft and deposit rates.
- (ix) Special taxation on gilt-edged income.
- (x) Increased land development and settlement, and unemployment relief.
- (xi) Legislation for a co-ordination of transport to limit unnecessary and wasteful competition, and the placing of the railways under a non-political Board.
- (xii) The utilization of reserve funds.
- (xiii) The conduct of special investigations—viz., into Government expenditure, by a Royal Commission; into banking and currency, with special reference to a central bank for New Zealand; and into the whole incidence of local-body taxation and the expenditure of all local bodies, including Hospital and Charitable Aid Boards.

Whilst helpful, these measures are inadequate to deal with the situation. We now proceed to consider in detail what other measures are possible, and what effect they will have if adopted.

## SECTION VIII.—EXCHANGE AND ECONOMIC ADJUSTMENT.\*

## (A) THE MECHANISM OF EXCHANGE IN NEW ZEALAND AND ITS WORKING.

**The New Zealand Exchange System.**

52. The monetary system of New Zealand is best described as a sterling exchange standard. This system has evolved over a long period of years in response to the needs of the Dominion's industry and trade. Under this system exchange has been kept stable in comparison with other exchanges, despite wide fluctuations in the factors that usually determine exchange rates. During the war period, for instance, when many exchange rates fluctuated very widely, New Zealand exchange on London was kept stable. In 1921, despite the heavy unfavourable balance of payments, the exchange moved only about 3 per cent. above par. It dropped about 3 per cent. below par in 1924, when the balance swung in the other direction, but returned to parity again. In 1927, when the balance of trade was against New Zealand, the exchange rate moved by only  $\frac{1}{2}$  per cent.

**Dealings in Exchange.**

53. Dealings in exchange consist in the provision of money overseas in exchange for money in New Zealand, and *vice versa*. The exchange-dealer must therefore be in a position to supply money overseas, or, alternatively, money in New Zealand, when called upon to do so. Most of the exchange work is done by the banks, and the operations can best be described by reference to their methods, taking transactions between New Zealand and its chief market—London—for purposes of illustration.

**How Money is transferred.**

54. All the six banks operating in New Zealand have offices in London and are accustomed to hold there considerable liquid funds for exchange purposes. When New Zealand goods are exported to Britain the proceeds are paid into these London funds and held there. They are transferred to New Zealand not usually by shipping money in any form, but by crediting exporters' accounts in New Zealand with the amounts due to them. Thus payments for exports will increase bank funds held in London, and increase bank liabilities to customers, mainly depositors in New Zealand. Generally speaking, the same procedure is followed in regard to all payments from overseas countries to New Zealand. The money is paid into funds held in overseas centres and at the same time is credited to customers' accounts in New Zealand. When imports are paid for or when money is paid out from New Zealand for any other purpose, the process is reversed. Actually payment is made from the banks' funds held in London or other overseas centre and the amount of the payment, with adjustment for bank charges, is debited to the customer's account in New Zealand.

**Changes in Bank Funds.**

55. It follows, therefore, that all payments made to New Zealand will tend to increase bank funds held for exchange purposes overseas, and will at the same time tend to increase the bank's liabilities, chiefly customers' deposits in New Zealand. On the other hand, all payments made by New Zealand will tend to decrease bank funds held overseas and will tend to decrease similarly bank liabilities in New Zealand. If, therefore, over any period payments made by New Zealand exceed payments made to New Zealand, more will be paid out of overseas exchange funds than is paid in, and more will be debited to customers' accounts in New Zealand than is credited to them. In these conditions there is a diminution both of bank funds held in London and bank liabilities in New Zealand. On the other hand, if payments made to New Zealand for exports, &c., exceed payments made by New Zealand for imports, &c., the payments into bank funds held overseas will exceed payments made from those funds, and the credits to customers' accounts in New Zealand will exceed the debits. A favourable balance of payments, therefore, means an expansion both of bank funds held overseas and of bank liabilities in New Zealand. The overseas fund is thus the real reserve held against bank liabilities in New Zealand, and automatically fluctuates with these liabilities.

**Balance of Payments.**

56. This balance of payments is determined by the total payments to New Zealand on the one side, which may be regarded as credits, and by the total payments by New Zealand on the other, which may be regarded as debits. On the credit side are the proceeds of exports, of loans raised abroad on public or private account, the expenditure of overseas tourists in New Zealand, immigrants' capital, &c. On the debit side are payments made for imports, for interest and debt-redemption abroad (whether public or private), for dividends payable abroad, New Zealand tourists' expenditure in overseas countries, capital taken out by emigrants, &c.

**Exchange Funds Overseas.**

57. It is not possible to determine the total amount of funds held on New Zealand account abroad. This depends on the varying amount of bank capital devoted to New Zealand business: but it is possible to estimate the variations in these funds due to changes in the New Zealand balance of payments. The banks publish quarterly details and totals of their average assets and liabilities in New Zealand. The excess of liabilities over assets in New Zealand must necessarily be balanced by an excess of assets over liabilities overseas if the total banks' balance-sheets are to balance. A favourable balance of payments to New Zealand will increase these surplus assets overseas and similarly increase the surplus liabilities in New Zealand, while a favourable balance of payments will have the opposite effect. Hence variations in the margin between bank liabilities and assets in New Zealand must necessarily reflect changes in the volume of funds held mainly for exchange purposes on New Zealand's account in overseas centres.

\* See Addendum by Mr. Park.

58. It is generally considered that in conditions of free competition exchange rates will be determined solely by the supply and demand for exchange funds held in overseas centres. In centres where competition is keen, and there are many operators, the exchange rate may fluctuate from hour to hour and from dealer to dealer. Under normal conditions the fluctuations are kept narrow by the willingness and ability of certain large dealers to add considerable sums to the exchange funds available when the demand is greater than the supply, and to hold large sums off the market when the supply is greater than the demand. Such stabilization of the exchange market is a part of normal exchange business in every country in the world. For New Zealand this stabilization was provided because the banks could hold varying amounts of overseas funds knowing that they had a stable value in New Zealand in New Zealand currency. They provided this through the sterling exchange standard. In a normal year exports are very heavy in the first half of the year, when they may exceed imports by many millions. In addition, Government loans have usually been raised in London about May. In these circumstances the supply of funds in London may exceed the demand over the first half of the year by between £10 m. and £20 m. An impossible position would arise if the exchange fluctuated in response to these changes. In the latter part of the year imports normally exceed exports, and the demand for funds overseas may be greater than the supply. If the exchange rate responded sensitively to changes in London funds, therefore, we might expect the rate to be abnormally low during the first half of the year and abnormally high during the second half. In practice the banks allow funds to accumulate in London during that part of the year when the balance of payments is favourable and allow these funds to become reduced in the latter part of the year without changing the exchange rate.

**Determinants of  
Exchange Rate.**

59. This involves a considerable measure of control; but that control is customary and necessary, and would require to be maintained under any system of exchange operations. But New Zealand's exchange funds are affected by causes other than normal seasonal variations in the balance of payments. It is recognized that prices of New Zealand exports are subject to much wider price fluctuations than prices of New Zealand imports. When export prices rise, the country's national income is increased, more is spent, and imports tend to increase some time after an expansion of exports. When export prices fall, the country's national income is decreased and the community cannot then buy as many imports; but the import figures do not respond to the change in the community's purchasing-power until some time after, often about a year after the fall in export prices.

**Periodic Changes  
in Funds.**

60. There are thus periods during which payments made to New Zealand substantially exceed payments made by New Zealand. These are usually periods of prosperity. There are also periods during which the payments made by New Zealand substantially exceed the payments made to New Zealand, and these are usually times of financial restriction and depression.

61. It has been shown that it is possible to estimate from the banks' assets and liabilities published in New Zealand the variations in the amount of their funds held on New Zealand's account overseas. Let us consider the figures for the March quarter during recent years. In 1925, a season of high export prices, funds held overseas were substantial. Export prices then fell and the balance of payments became unfavourable. By March, 1927, these funds had been reduced by nearly £11 m. Then export prices turned upwards, export values increased, and imports fell. By 1929 an additional £14 m. had accrued in funds held overseas. At this point prices fell heavily and the balance of payments became again unfavourable. By the December quarter of 1930 funds overseas had been reduced by £12.5 m. By the December quarter of 1931 imports had been reduced very heavily, the balance of payments had become favourable, and the funds had increased by £1 m. The funds held overseas in the December quarter last were about £2.5 m. greater than in the March quarter of 1927, and £11.5 m. less than in the March quarter of 1929. In these circumstances it might be expected that the exchange rate would not be depreciated more than in 1927, when it moved only  $\frac{1}{2}$  per cent. from par. On this occasion, however, the fall in export prices has been heavier and more substantial.

62. But conditions other than the existing supply of funds influence the rate. The prospective supply and demand have also to be taken into account. It is probable that the New Zealand rate was raised to 10 per cent. largely because the banks anticipated heavy depletion of their overseas funds if the rate had remained lower. Two influences might have caused such depletion. First, at lower rates imports would undoubtedly have been heavier and the drain on their funds greater; secondly, no country can consider its exchange market in complete isolation from other markets which may influence it.

**Other Influences  
on Rate.**

63. In addition, the liquidity, and not merely the supply, of such funds must be considered. Events in the money world in times of depression may freeze bank assets which previously were regarded as perfectly liquid, and it is possible that funds held overseas and normally available for New Zealand exchange purposes may be invested in securities at the moment less liquid than they were expected to be. In this complex of influences, therefore, it is difficult to determine from a mere estimate of funds what should be the exchange rate.

## (B) CONSIDERATION OF THE RESTORATION OF THE GOLD STANDARD.

**Exchange and  
National Income.**

64. We have given a general description of the working of the exchanges. New Zealand is now 10 per cent. off parity with sterling. Whatever the circumstances determining this rate, it checks imports and thus helps to safeguard London funds. It also encourages exports by raising the gross income of the exporter by 10 per cent. above what it would be at sterling figures. At parity of exchange with sterling, national income will tend to be adjusted on the basis of an overseas income of £32 m. On this basis we found in Section III (paragraph 18) that, after the process of economic adjustment was completed, the national income would tend to fall to £80 m. If, however, the rate of exchange moves and remains away from parity, the money value of the national income will be different.

**Alternative  
Exchange Policies.**

65. The rate of exchange thus has an important bearing upon the money value of national income. We proceed to consider typical examples of three possible exchange objectives: First, a restoration of parity with gold; secondly, the maintenance of the existing 10 per cent. rate of exchange; and, thirdly, the adoption of a high premium, illustrated by taking a rate of 40 per cent. Normally, the exchange mechanism of New Zealand keeps the New Zealand exchange very close to parity with sterling. Before the war, and between 1925 and 1931, Great Britain was on the gold standard; hence New Zealand currency was then closely linked to gold through the exchange relationship with sterling. When Great Britain moved from the gold standard, in 1931, British exchange depreciated in terms of the currencies of countries such as the United States and France. The New Zealand exchange, which had already depreciated 10 per cent. in terms of sterling, maintained its relationship with sterling, so that the depreciation of sterling on gold-standard countries resulted in a similar but additional depreciation of New Zealand currency.

**(i) Return to  
Parity with Gold.**

66. The present adverse exchange of 10 per cent. on sterling causes export prices expressed in New Zealand currency to be approximately 10 per cent. higher than the prices expressed in sterling. The money receipts of the farmer are therefore increased. If New Zealand currency had remained at parity with gold, the New Zealand exchange in London would have been below parity with sterling. Hence the effects on export prices would have been the reverse of those at the present rate of 10 per cent. New Zealand export prices expressed in sterling would have remained the same as at present; but export prices in New Zealand currency would have been lower than sterling prices by approximately the amount of the depreciation of sterling in terms of the gold parity, or parity with the dollar. The following table shows the level of export prices and the estimated value of exports in New Zealand, at the present 10 per cent. rate, at parity with sterling, parity with gold, and at a 40 per cent. exchange.

	Export Prices, December, 1931.	Exports, Estimated Value, Current Year. £ m.
At present rate .. ..	95.0	35.1
At parity with sterling .. ..	86.5	32
At parity with gold .. ..	61.0	23
At 40 per cent. above sterling .. ..	121.10	45

67. In order to demonstrate the probable effects which would follow from maintaining the pre-war parity with gold, let us assume that the exchange between London and New York is established at 3.60 dollars to £1 sterling, instead of the normal gold parity of 4.86 dollars = £1 sterling. In other words, let us assume that Great Britain stabilizes her currency at a level which is depreciated 25 per cent. in terms of the gold parity. In fact, sterling at the moment has depreciated by 27 per cent. If New Zealand currency were maintained at parity with gold, this would mean that export prices in New Zealand would fall 25 per cent. below export prices expressed in sterling. The value of exports is now round about £32 m. expressed in sterling. Hence the value of exports expressed in New Zealand currency would fall to about £24 m. As a consequence, the national income would fall from the 1928-29 level of about £150 m. to about £60 m. It will be apparent at once that the problem of readjusting our economic life to a national income of £60 m. would be very difficult indeed—much more so than the problem of adjusting it to a national income of £80 m., to which the national income would tend to fall at parity with sterling. But it is never assumed that New Zealand should return to the old parity with gold. There is general agreement that parity of exchange with a depreciated sterling has economic advantages over parity of exchange with gold currency at the old rate. The main reason for this view is the higher level of export prices when these prices are measured in a sterling currency depreciated in terms of gold.

**Effects of  
Deflation.**

68. We now discuss briefly the economic arguments for and against this view. Maintaining the exchange at parity with sterling does not bring any additional real income into New Zealand, over the amount at parity with gold. But on the assumption that sterling is depreciated 25 per cent. in terms of the gold parity, it does support the money income in New Zealand at a level 25 per cent. higher. By holding export prices above their level in gold it lessens the magnitude of the necessary

adjustment between farm costs and farm prices. It also lessens the extent to which all values will fall. This is important. Debts are created against securities, the value of which is determined largely by the average level of prices and the long-term profits of enterprise. If prices fall rapidly and profits are destroyed, security values also fall; but they fall in greater proportion than the fall in prices, because their value is dependent upon the profit margin. This is quickly destroyed in a period of acute deflation. Hence the value of securities upon which debts have been arranged falls rapidly until profits are restored by rising prices. All individuals and all institutions dealing in these debts must then experience difficulties in maintaining a proper balance between assets and liabilities, unless they have available liquid reserves. Liabilities of financial institutions are expressed in fixed money terms, and they do not respond to a fall in prices. Hence a rapid fall, by destroying part of the current value of assets, is likely to embarrass such institutions. The lower the new price level the greater will be the embarrassment. This is one important reason why parity with the depreciated sterling is preferred to parity with gold.

69. Though exporters reap the benefit of higher prices in terms of depreciated sterling, the addition to price is paid to them by the rest of the community. At parity with gold, exports would realize £24 m. Parity with sterling places this value at £32 m. Who pays the additional £8 m.? Consideration of the value of exports, expressed in gold, and of the effect of exchange upon the New Zealand value of these exports supplies the answer. Out of £24 m. of exports, expressed in gold, New Zealand would have to meet about £9 m. of overseas interest in sterling values.\* This would require only £6.75 m. of exports expressed in gold, leaving a margin of £2.25 m. of relief to the Budgets of State and local bodies compared with 1929. With exports at £24 m. and debt services at £6.75 m. the value of the amount available for imports would be £17.25 m. in terms of gold. When, however, parity with sterling is the basis of the currency, the debt services are £9 m., and the sterling value of exports £32 m. This leaves £23 m. for imports in terms of sterling. Hence imports cost £5.75 m. more at parity with the depreciated sterling than at parity with gold. In addition, the interest on the overseas debt is £2.25 m. more, making up the total of £8 m. This sum of £8 m. comes from the taxpayer and the consumer of imported goods in the first instance. It is well to bear this in mind. Both imports and the overseas debt service cost more in money on a depreciated sterling basis. This cost comes from the rest of the community, and is paid over to the exporters, who receive a higher price in sterling for their exports.

**Balance of  
Payments.**

70. With regard to the debt service on the Budget, we have shown that on a gold basis only £6.75 m. would be required to meet the external debt service. Thus parity with gold would actually involve a saving to the Budget of this sum in terms of gold. Would this be a net saving to the budget? If a bonus of £2.25 m. accrues to the Budget on account of a restoration of gold parity, why should New Zealand not proceed independently to maintain her currency on a parity with gold? The answer is to be found in the effects that a return to parity with gold will have upon export prices, the money value of the national income, and the burden of the internal debt. First, we consider the internal debt. For public and local-body debt the total debt service is £18 m. Approximately half of this debt service is internal and the remainder external. The internal service is £9 m. in New Zealand currency, whether on a gold basis, parity with sterling, or a rate depreciated in terms of sterling. The external debt service is £9 m. in terms of sterling. It is less in gold values when sterling is depreciated in terms of gold. The real burden of the internal debt service depends upon changes in the internal price level. When prices fall the burden increases, and the greater the fall in the internal price level the heavier the burden. Thus at parity with sterling a fall in internal prices of over 40 per cent. on the 1929 level may be necessary to bring about an adjustment of conditions to the lower level of export prices. The real burden of the internal debt service is accordingly increased. Thus the interest on the internal debt would represent two-thirds more goods and services than it did at the higher price level in 1929. If parity with gold were restored, the price level would fall still further—namely, by approximately 60 per cent. from 1929. This would be necessary to enable an economic adjustment to be made on the basis of the gold value of exports. A fall of 60 per cent. brings the price level down from, say, 100 to 40. Thus goods which formerly were worth £100 would then be worth £40. Hence internal interest charges would represent two and a half times as many goods and services as at the higher price level in 1929. They would, in fact, become an intolerable burden. The return to gold parity reduces the money value of the external interest payments from £9 m. to £6.75 m., as we have shown above. It does not, however, reduce the real burden of these payments, because export goods are lower in price and the same quantity at this lower price is required to pay £6.75 m. as is required to pay £9 m. at parity with sterling. The internal interest burden, however, would be greatly increased by a return to gold.

**Effects on the  
Budget.**

71. With regard to the size of the national income, we have pointed out that the restoration to parity with gold would tend to lower the income to £60 m. as compared with £150 m. before the war. This would result from the catastrophic fall in gold

**National Income at  
Parity with Gold.**

\*This is the approximate figure, including the interest and sinking fund on the funded debt to Great Britain, payments of which are now suspended under the Hoover moratorium, representing a net saving of £1.3 m. a year.

prices that has taken place throughout the world. Countries that have a depreciated currency might claim that it is the value of gold currencies that has increased, and not the value of their currencies that has decreased. With such a low money value of national income it would be impossible to meet the expenditure of local bodies and the Government without the most drastic scaling-down of all payments. It would certainly be more difficult to balance the Budget at parity with gold than at parity with sterling, despite the fact that the budgets of local bodies and the Government would derive an advantage in terms of money of £2·25 m. on account of the lower gold value of external interest payments. This may appear a surprising conclusion, but it is not less surprising than a view that it might be to the advantage of the country to have a rate of exchange above parity with sterling, despite the fact that the external debt charge will increase the cost of exchange on external interest. We consider this view below. (Paragraph 74.)

**Conclusion.**

72. We have no hesitation in coming to the conclusion that, in view of the present level of gold prices, parity with sterling is preferable to parity with gold. It means a higher money income, a readjustment of less magnitude, the maintenance of the values of securities, less financial disturbance, and, finally, a less disturbing budgetary situation. Having reached this conclusion, we now consider the economic effects of a rate above sterling.

**(C) CONSIDERATION OF THE PRESENT 10-PER-CENT. RATE.**

**(ii) Maintenance of Present Position : 10 per Cent. above Sterling.**

73. At present the exchange is 10 per cent. above parity with sterling. This increases export values in New Zealand currency and sustains the New Zealand price level above what it would otherwise be. If export prices in sterling remain at their present level, the money value of the national income will tend to be adjusted to an export income of £35 m. in terms of New Zealand currency, instead of £32 m. at parity with sterling. In Section III we estimated the national income as settling at approximately £90 m. at the present 10 per cent. and present export prices. From the point of view of farm production the exchange rate raises export prices approximately 10 per cent. above the sterling figure and reduces the decline in costs required to make farm production profitable. In other words, the general adjustment in money income and in all fixed charges in the community is lessened. For the same reason, it helps to sustain the values of securities against which debts have been created, and thus lessens the financial disturbances associated with the problem of readjustment. Further, it sustains revenue at a higher money level than would be possible at parity of exchange. On the other hand, it increases the money cost of the external debt service when expressed in terms of New Zealand currency. If the budgets of local bodies and the Government as a whole be taken, the external debt charges are approximately £8·2 m. in sterling and £0·76 m. in Australian currency. On the latter there is at present an advantage on account of the higher level of the Australian exchange. This advantage is approximately £0·1 m. The additional cost on the sterling interest is approximately £0·8 m. The net cost is therefore £0·7 m. To meet this it would be necessary to collect only £0·7 m. additional revenue upon an additional national income of approximately £10 m. Thus, if the total revenue is only 7 per cent. on national income, the Budget should not suffer any loss from the higher rate of exchange on account of exchange charges on the debt service.\* Before the crisis, local-body and Government revenue amounted to about £40 m. on a national income of £150 m.—that is, more than 25 per cent. If this percentage is maintained on the lower national income, the additional revenue on £10 m. of national income would be £2·5 m. against a cost of £0·7 m. There is a balance of £1·8 m. to meet any increases in the cost of stores and goods on account of the higher exchange rate. The total of these costs should not increase more than 10 per cent., and the internal debt service would not increase at all. It is clear, therefore, that the 10-per-cent. exchange involves a net gain to the budgets of local bodies and the Government as a whole.\* This benefit is not immediate. It accrues as economic adjustment proceeds, and the full benefit is not realized until the process of adjustment is completed. During the transition period the additional exchange cost on the Budget is stabilized at £0·7 m. The 10-per-cent. exchange rate, however, prevents the national income from falling as much as it otherwise would. Therefore from the outset it sustains revenue at a higher level than would otherwise be possible. The additional revenue, however, is not immediately £2·5 m., but substantially lower than this sum.

**(D) CONSIDERATION OF THE EFFECTS OF A HIGH RATE—SAY, 40 PER CENT.**

**(iii) A High Premium—e.g., 40 per Cent.**

74. We now proceed to consider the case of a high premium on exchange—say, 40-per-cent. exchange. In this case the additional cost of the sterling interest would be approximately £3·3 m. in New Zealand currency. The Australian interest would cost £0·09 m., making a total of £3·4 m. But the additional money value of the national income would be about £32 m. Hence the exchange charges on external interest would amount to about 10 per cent. of the additional national income, compared with a 25 per cent. ratio of revenue to national income before the depression. If this rate is maintained, the additional revenue possible from £32 m. of income will amount to £8 m. against which is to be set the additional cost of exchange on the external debt charges

\* See Addendum by Mr. Park.

amounting to £3.4 m. and any increase in the cost of goods and stores as before. Even though these costs increased by the full 40 per cent., the internal debt service would remain the same. Thus there would similarly be a net gain to the budgets.\* If the Hoover moratorium were continued, the external debt charge in terms of sterling would be reduced by £1.3 m. In this event the additional cost of exchange would amount approximately to £2.9 m.

75. An exchange rate of 40 per cent. would raise the values of export prices from their present basis of 40 per cent. below 1928-29 levels to approximately 24 per cent. below the 1929 level. At the present time export prices have fallen from, say, 100 in 1928-29 to 60. This is the position at a 10-per-cent. exchange. At a 40-per-cent. exchange export prices in New Zealand currency would tend to rise in the ratio of 140 to 110—that is, to 76. The rise would, therefore, be from 60 to 76—namely, 27 per cent. This would give an addition of this order to the gross income of the exporter and place him in a better position to meet costs which had not fallen in conformity with the fall in export prices. The adjustment in costs required to make export production profitable at the lower level of real income would be less than 24 per cent. from the 1929 level. If the farmer is sharing in the loss of real income proportionately to the rest of the community, a reduction in costs of the order of 20 per cent. might suffice at 40-per-cent. exchange rate, compared with 35 per cent. at 10-per-cent. rate and over 40 per cent. at parity of exchange. Hence the revision of fixed charges and other costs that tend to stick would be a less formidable task at a 40-per-cent. exchange than at parity of exchange or at a 10-per-cent. exchange.

**Adjustment of  
Export Prices and  
Costs.**

76. It has been shown above (paragraphs 73-74) that the higher rate of exchange would not involve an additional net burden to the budgets of local bodies as a whole or of the Government.\* Hence it cannot be regarded as a net burden on the taxpayer. It would, however, increase the prices of imports when measured in New Zealand currency. With exports of £32 m. in sterling and an external interest burden of £9 m. sterling, imports would be approximately £23 m. A 40-per-cent. exchange rate would add nearly £9 m. to the cost of these imports in New Zealand currency. We have to consider (i) whether this is a net cost to the community, (ii) whether it is inequitable to importers, and (iii) whether it would tend to put up costs to the farmer and thus to destroy part of the benefit he receives from the higher prices of his exports. We shall consider these questions apart from any other adjustments that may be made. (i) With regard to the first, it is clear that there is no net cost to the community as a whole. Income is transferred from some sections of the community to exporters. This transfer is a matter of adjustment within the community itself. If economic conditions are to be adjusted to the lower level of export prices a transfer of this order must, in any case, take place eventually. It may be done through the exchange rate, or through drastic cuts in money incomes for the purpose of reducing the costs of export production, or by other measure of relief to exporters at the expense of the community. On this point any measures adopted involve a loss of present real income to some sections of the community in order to restore part of the loss of income that exporters have suffered. In other words, the problem of adjustment is to spread more evenly throughout the community the loss of national income that now falls with special severity upon exporters. It is not a valid argument against the high exchange rate, or any other measure of relief that it imposes a burden upon the rest of the community for the benefit of farmers who are suffering from price disparity. (ii) Hence we reach our second question—namely, whether it is inequitable to importers. The additional cost of imports in New Zealand currency will be passed on to the rest of the community. The high rate will not reduce imports below what the community can afford to buy, though its immediate effect would be to bring down the value of imports in sterling rapidly to this position. This amount is determined by the sterling value of exports, less the debt service. Since the high rate maintains a higher internal price level, it will be possible for importers to sell imports at higher prices, when stabilization is reached at the exchange rate agreed upon.

**Additional Costs of  
Imports.**

77. (iii) The third question is that of costs. We distinguish money costs from real costs. It is true that by adopting the rate of exchange at 40 per cent. prices will be higher than at parity of exchange, and therefore money costs will be higher. This does not, however, apply to all money costs. Fixed charges, such as rent and interest, will not necessarily be higher. They will tend to remain the same. They will be a less real burden at 40-per-cent. exchange than at parity, because the gross income of producers will be raised by 40 per cent., while their fixed charges are less subject to variation. Similarly, money wages and incomes will be higher at 40 per cent. than at parity of exchange, but real incomes and real wages will be lower. The reduction in money wages required to bring about a reduction in real wages at parity of exchange is of such a magnitude that the adjustment cannot be made without difficulty and delay. It is true that the price level would settle at a figure substantially above the ultimate position at parity of exchange. But we have not yet reached that ultimate position. Indeed, our cost of living has fallen only 11 per cent. compared with a fall of 40 per cent. in export prices. At a 40-per-cent. exchange rate export prices would be 24 per cent. below 1929, and the additional adjustment in the cost of living would

**Effect on Costs.**

\* See Addendum by Mr. Park.

thus be of the order of 15 per cent. At parity of exchange it would be over 30 per cent. Clearly, it is much easier to get an adjustment of 15 per cent. than one of 30 per cent. Despite a 10-per-cent. exchange rate, import prices have fallen in New Zealand currency. According to the index number published by the Government Statistician, import prices have fallen by 3 per cent. in New Zealand currency. This fall is due to a decline in the prices of imports of at least 12 per cent. in terms of sterling. It may be expected that the adjustment of the prices of secondary production throughout the world to the lower level of raw materials and foodstuffs will gradually increase this figure. As the sterling prices of imports fall, the cost of imports in New Zealand currency will tend to approximate to the 1929 level, despite a 40-per-cent. exchange rate.

**Effect on Security  
Values.**

78. A higher rate of exchange will sustain security values and ease the process of financial adjustment. The credit structure cannot easily withstand the shock of a sudden and drastic fall in all security values. As mentioned before, liabilities tend to be fixed in terms of money claims that are not easily adjustable to a rapid and heavy fall in prices. Assets, however, are vitally affected by such a fall. They shrink or become frozen, and it becomes difficult to meet obligations in terms of fixed money claims. Over a period of years an adjustment to a lower level of prices can be made without undue financial disturbance. This is not the case if the fall in prices is rapid and severe. The price level is, indeed, a central feature of the economic system. Any sudden disturbance of it transmits a shock to the whole system that may have serious consequences. A high exchange rate by preserving the higher level might prove economically beneficial.

**Effect on National  
Credit.**

79. There is the question whether a high exchange rate would damage the credit of the Dominion overseas. This is a question upon which opinion varies.\* In the immediate future, the Dominion's credit abroad would be adversely affected, because the rise in the rate would draw attention to the gravity of the economic situation in New Zealand. This is a point for consideration in connection with necessary loan operations overseas. (Section XIII.) If, however, the situation was being met with courage and determination, and the country demonstrated its capacity to restore sound trading conditions and meet its external obligations, national credit would recover even if the higher rate be maintained and if the currency be devalued. (See Section IX.)

80. In present circumstances there is a net gain to the community from an exchange rate above parity.\* The analysis of the problem given in this section may lead people to believe that a complete readjustment could be made through the exchange policy alone. This is a wrong conclusion. The mere raising of the exchange rate will not set in motion all the necessary adjustments. A very high rate might lead to lack of confidence in the currency and cause considerable financial disturbance. This would delay rather than expedite the process of economic recovery. It is therefore undesirable to place too much strain upon the currency and exchange mechanism. An exchange rate above parity should be associated with other economic adjustments. These are considered in Sections X to XIII. Even with a rate of 40 per cent., which has been taken for the purposes of illustration, some adjustments in fixed charges, rent, wages, and public finance would be required. At a 10-per-cent. rate the adjustments required would be greater.

**Alternative :  
Primage Duty and  
Export Bounty.**

81. The general effects of a rise in exchange rates might be illustrated by reference to a possible alternative method of attaining to a similar end. Supposing that New Zealand's payments abroad balanced with exports at £35 m., imports £25 m., and interest payable £10 m. These prices are in sterling, and sterling prices are beyond New Zealand's control. A 20 per cent. rise in exchange would add that proportion to all items in the balance of payments expressed in New Zealand currency. Exporters would receive £7 m. more ; importers would pay £5 m. more, and £2 m. would have to be found by taxpayers to meet additional interest. Thus £7 m. paid by importers and taxpayers would be received by exporters.

82. A similar result might be achieved in another way. Let a primage duty of 20 per cent. be placed on all imports, to yield £5 m., and the extra £2 m. be raised from the taxpayer as under the higher exchange proposal. There would then be £7 m. available with which to pay a bounty on export. In these conditions all the effects would be similar to those caused by a higher exchange. The prices in New Zealand currency of export and import goods would tend to be 20 per cent. higher, taxation for interest 20 per cent. higher, the money value of the national income and the taxable capacity of the people would in the long-run be raised in similar degree, and the same transfer to exporters from other sections of the community would be made. The higher exchange has the advantage that it would be automatic, more certain in its working, and, if necessary, easily capable of permanent adoption by devaluation.\* On this question see Section IX. The primage duty would be less certain, more difficult to administer, and open to political interference, but it would enable the bounty to be distributed according to need. If the primage duty were regarded as a temporary measure it might not sustain security values. But the far-reaching effects of allowing matters such as these to become the subject of political pressure points to the danger of deciding them on grounds of political expediency.

\* See Addendum by Mr. Park.



## SECTION IX.—THE FUTURE OF NEW ZEALAND CURRENCY.\*

83. The question of the future relationship of the New Zealand currency with sterling is a matter for consideration. It has always been recognized as a normal function of government to prescribe by law the basis of the unit of currency, and in fact every currency is so established. Thus under the gold standard a British pound-note was convertible into a sovereign containing about 123·27 grains of standard gold. The New Zealand pound-note was convertible into a British pound-note and thus indirectly into a sovereign of the same value. As long as the value of the British currency remained fairly stable, this arrangement had great merits, because it gave stability to New Zealand exchange, and sustained an internal price level free from major fluctuations. At a time when British prices have been subject to a violent fall, it is legitimate for New Zealand to consider whether parity with sterling should be restored, and, if so, when, though naturally no final decision on this question would be made without consultation with Great Britain. A return to parity would at present involve the Dominion in a general deflation of its internal wholesale-price level to at least the level of British wholesale prices. In Section III (paragraph 22) reasons have been given for the belief, that, with a reduced amount of overseas borrowing, the New Zealand wholesale price level might fall even further if parity of exchange is to become again the natural as well as the official rate.

**The Legal Basis of  
Currency.**

84. In Section VIII the general economic effects of different rates of exchange with sterling were considered.† From the analysis given in that section it may reasonably be assumed that under present conditions a rate above parity has net economic advantages. If this rate were fixed at, say, 10 per cent., the question arises whether it should be revised downwards gradually until parity is restored, whether it should be raised, or whether the rate should be stabilized at this level. It is impossible to come to a definite conclusion at present upon these alternatives. The influences to be considered in arriving at an ultimate decision may, however, be considered. It is the purpose of this section to draw attention to these influences.

**The Future Legal  
Basis.**

85. The heavy fall in export prices is the main reason for concluding that a rate above parity has economic advantages.† It may therefore be assumed that the future of export prices in relation to internal costs will determine the advantage or disadvantage to be derived from maintaining a rate above parity with sterling. At the present 10-per-cent. rate export prices are 40 per cent. below the 1929 level. Costs, whether measured by the index number of farm costs, wholesale prices, or the cost of living, have fallen about 10 per cent. Let us take an increase in the rate, say, 25 per cent., purely for the purpose of illustration. This rate would raise export prices in the proportion of 125 to 110. That is from 60 to 68. They would still be much below costs. If, however, the adjustments in fixed charges and wages (see Sections X and XI) and the fall in import prices brought costs down from 90 to 80, the disparity would be reduced to 18 per cent. It would not be necessary to bridge the whole of this gap because exporters must expect to suffer a loss of real income proportionate to the loss suffered by the community as a whole. In these circumstances a rise of 15 per cent. in export prices might be sufficient to restore a balanced economic structure. If this improvement in export prices did not take place, further reductions in money costs or an increase in the rate of exchange, or some movement in both these directions, would be necessary to restore economic equilibrium. If international prices rose by substantially more than 15 per cent., it would be possible to reduce the exchange rate without causing internal disturbance, unless world prices, and with them New Zealand export prices, fluctuated more violently than at present seems possible, the variations in the exchange rate around the assumed rate would in these circumstances be slight.

**Factors determining  
the Exchange Rate.**

86. The question arises whether such a rate could be maintained. Bankers are dealers in exchange, and they would naturally be averse from accumulating funds in London if they thought a fall in the exchange rate was inevitable. Hence the normal seasonal accumulation of funds in London during the export season would tend to drive the rate down, though there might be an upward pressure later when the export season was over. These seasonal fluctuations in London credits did not exert a disturbing influence upon the exchange rate before the depression, because it was the practice to maintain stability with sterling. In these circumstances an accumulation of funds in London did not cause any difficulties. The sterling holdings of the banks had a relatively stable value in New Zealand currency, and could be sold off later as the demand for London funds increased for imports, interest payments, or other financial transactions. There was thus a stabilizing influence. This is absent when the exchange is substantially away from parity and there is a general presumption that it will return to parity. If a rise in the rate occurred, a temporary accumulation of funds in London would be likely, but with exports valued at £32 m. sterling and Government and local-body demands as low as £8·5 m. (the minimum that would be required, even though the floating debt can be funded in London), imports would have to settle at £23·5 m. to balance funds. Accumulation would then occur only to the extent that imports fell below the level or other loans were raised. In so far as accumulation took place, it

**Temporary  
Stability.**

\* See Addendum by Mr. Park.

† This is subject to Mr. Park's Addendum concerning effect on the Budget.

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.

11 per cent., apart from the effects of the special taxation of interest, would be merely an adjustment to the fall in the cost of living. It would not reduce the real income of the recipient of interest. But some interest is not being paid and the total income from interest is lower now than it was in 1929. Hence the bondholder and the mortgagee are adversely affected by a fall in national income, though the net effect upon them may be less serious than upon other sections of the community. Their welfare will be best safeguarded by the restoration of sound trading-conditions. This necessitates a reduction in all costs. It is both socially equitable and economically sound that the recipient of interest should make a contribution towards the reduction in costs and bear a due proportion of the loss of national income.

92. For these reasons a reduction in fixed money claims would have beneficial effects. Provision is now made under the Mortgagees Relief Act for a downward revision in certain conditions of mortgage interest and principal. An extension of this principle to all fixed payments under private contract would assist in the reduction of costs and the more equitable spreading of the loss of national income. The adjustments in other incomes required for restoring Budget equilibrium and maintaining industrial output are serious. The exemption of any income element from the general public policy would raise the objection that a particular class of income was receiving specially favourable treatment. Any general adjustment in private interest should be all-inclusive, covering interest on all debts against which chattels have been pledged and interest upon goods sold under the time-payment system, as well as interest on all mortgages, urban and rural.

**Extension of  
Mortgagees Relief  
Act.**

93. If the borrower who is unable to secure relief from the lender after recourse to an Adjustment Commission then has the right to approach a tribunal, the adjustment could proceed on a sound constitutional basis. It would then be open to the lender to show why a reduction in interest or other fixed charges was inequitable to him, and to convince the Court that no reduction should be made. We deal with the problem of interest on deposits, and advances of banking and other institutions in Section XIV.

94. Interest on the internal debt of the Government and local bodies is considered in Sections XII and XIII. Any revision of fixed charges should be confined to internal interest pending an all-round adjustment of economic conditions to the new situation. It is the responsibility of the people of the Dominion to meet the position by a common sacrifice among themselves. We draw attention to the fact that the fall of 40 per cent. in export prices has increased the burden of external payments by two-thirds. Some relief has already been granted through the Hoover moratorium. If this be made permanent, the money burden of the present external-debt charge will be reduced by nearly 15 per cent.

**External Interest.**

95. The same arguments apply to rents as to interest. Indeed, a reduction of interest on mortgages offers a suitable basis for rent-reduction. According to the Government Statistician's index number for rent, in twenty-five towns in the Dominion the fall in rent from 1929 to November, 1931, has been approximately 6 per cent. Thus, the recipient of rent, wherever it is paid in full, is receiving a greater real income now than he was in 1929. Unless a rapid downward revision of rents occurs, the reductions in wages will fall with special severity upon wage and salary earners, and costs in commercial and retail businesses will remain high. It is important that these costs be reduced, and it is equally important that the wage-earner should be placed in a position where he can take a lower money wage without making a greater sacrifice than the rest of the community. Hence the case for revising rents is not less strong than the case for revising interest. In any legislation it would be advisable to treat rents on a uniform basis with interest.

**Rents.**

96. Such a revision of fixed money contracts, even though made from the paramount consideration of the general economic welfare, might raise important questions concerning contract. In normal times the community would not be justified in passing legislation involving a capricious interference with contract. Conditions, however, to-day are far from normal, and the revision of fixed money payments is a reasonable measure of further economic readjustment. Moreover, contracts are expressed in terms of money, and money itself has a variable value. To-day its value in New Zealand, according to the movements in the cost of living, is 12·5 per cent. greater than in 1929—that is, a fixed amount of money will purchase 12·5 per cent. more goods in general than in 1929. Hence the real terms of a contract, when brought into relation with these new conditions, would not be modified in terms of purchasing-power to the extent that may appear at first sight.

**Contract.**

97. A final question arises regarding the revision of contracts in fixed money terms. What rate should be applied in making a revision? If parity of exchange is restored, the export price level will, under present conditions, be 45 per cent. below the 1929 level. Farm-costs as a whole have fallen by approximately 10 per cent. There would thus be a wide gap between export prices and farm-costs. This gap would be narrowed by a higher exchange-rate, or some other process that transfers real income to the farmers. Reasons have been given in Section VIII for stating that a higher rate of exchange will bring but a slight increase in farm-costs in the immediate future. With a corresponding fall in import prices these additional costs will be reduced.\* Thus the

**The Rate of  
Reduction.**

\* See Addendum by Mr. Park.

gap between farm-costs and export prices would be narrowed by substantially the whole amount of the rise in exchange. This should be considered in relation to Sections XI and XII. A reduction of 20 per cent. in fixed money claims would make a substantial contribution towards bridging the gap between costs and prices.

#### SECTION XI.—THE REVISION OF WAGES.

##### Fall in Real Income.

98. It was shown in Section III that the community had incurred a loss of real income of the order of from 10 to 15 per cent. This loss must be spread throughout the community if sound economic conditions are to be restored. Hence it is necessary to consider what revision must take place in wages. The argument of Section X applies just as strongly to wages as it does to fixed money charges. It need not be repeated here.

##### Fall in Wages.

99. According to the official index number, money wages were high during the period of prosperity, with a slight tendency to rise from 1923 to 1930, though when at their peak in 1930 real wages were only 6·6 per cent. higher than in 1914. From 1929 to September, 1931, money wages have fallen by 11·5 per cent. compared with a fall in the cost-of-living index of 11 per cent. Thus, apart from the effect of the special unemployment levy on wages, real wages for workers in full employment are approximately the same as in 1929 despite the adjustment in money wages made by the Arbitration Court in 1931. To bring wages down in conformity with the fall in real income a reduction of a further 10 per cent. would be necessary. The necessity for any subsequent adjustment could best be judged by the general progress of economic recovery and the reduction in unemployment.

##### Wages and Spending-power.

100. An objection frequently made to a reduction in wages is that it decreases the spending-power of the people and thus intensifies the depression. This argument may have some force during the period of readjustment, but it cannot be true in the long-run. Indeed, it may be shown that it is a fallacy. The spending-power of the people as a whole depends upon the money-value of the national income. If a reduction in wages helps to restore national income, it must ultimately increase real spending-power. In the present circumstances of New Zealand, national income, both money and real, has fallen, and the former level of wages cannot be sustained for the whole people. Some will remain permanently out of employment unless costs of production can be brought down sufficiently to expand the margin of production and re-employ workers at present displaced by the depression. The fall in wages must be considered along with the reduction in other incomes and in the cost of living. Moreover, the wage-level bears a close relationship to unemployment. The maintenance of wages at uneconomic levels increases unemployment. Any increase in unemployment throws additional weight upon the Budget for unemployment relief. In the existing financial position it is important to avoid any increases in public expenditure if a sound Budget position is to be reached. It is therefore inevitable that a fall in wages will take place.

##### Restriction in Respect of Working Conditions.

101. At the same time it is desirable to consider whether undue restrictions on industry cannot be removed in order that costs of production may be lowered. In some cases working-conditions exert a more powerful influence in keeping up costs than does the level of money wages. At a time when all sections of the community are revising standards that were economically possible only in the period of high export prices and heavy overseas borrowing, a revision of regulations governing working-conditions in industry is appropriate. It is not suggested that free competition without any intermediary regulating authority should be restored. What is required is a relaxation of the rigid conditions that the community could afford in the days of prosperity, but cannot afford now.

##### Restatement of Reason for Fall in Wages.

102. It may be appropriate here to restate briefly the reasons why a reduction in real wages in New Zealand is inevitable. Export prices have fallen much more than import prices, and the same quantity of exports will purchase a substantially lower quantity of imports. Overseas borrowing is declining and will continue to do so. The real income of a community from the point of view of the consumer is the goods and services available for consumption. These goods and services are made up of home-production less exports plus imports. The volume of imports has fallen substantially, and for the present home-production in factories and other non-farm products has declined. The latter may be restored, but the former cannot until import prices fall relatively to export prices. Hence the community has less real income. With the fall in internal prices the reduction of money income is much greater. It has been estimated at £40 m. at present, and the decline is still going on. In these circumstances it is clear that a decline in wages both money and real is inevitable at least for a time.

#### SECTION XII.—BALANCING THE BUDGET.

##### The Deficit.

103. In Section VI it was estimated that the Budget deficit for 1932-33 would amount to £9·26 m., subject to a reduction of £0·6 m. if the Hoover moratorium were continued. On present indications there is little prospect of such improvement in national income as would increase revenue, or reduce the expenditure on exchange and unemployment due to existing conditions. It is therefore necessary to consider what special measures should be adopted to bridge the wide gap between revenue and expenditure and to lay the foundations of a balanced Budget.

104. We deal first with expenditure. This may be classified as follows :—

Adjustable  
Expenditure.

TABLE 5.—PUBLIC EXPENDITURE.

(Figures in £ m.)				1929-30.	1932-33 (estimate.)
Debt charges	..	..	..	10·73	11·07
Unemployment	..	..	..	..	1·45
Exchange	..	..	..	..	1·10
Total				10·73	13·62
All other expenditure	..	..	..	14·47	13·10
Total				25·20	26·72

We may look upon "All other expenditure" as adjustable expenditure more readily subject to economies. The table shows that net economies to the amount of £1·37 m. have already been made by a reduction in Public Service salaries of 10 per cent. and by other measures. It will, however, be necessary to reduce this adjustable expenditure in much greater measure if the Budget is to be balanced. We have assumed that a 25-per-cent. reduction over all adjustable expenditure on the 1929-30 level is possible. This might be achieved by a second reduction of 10 per cent. in salaries and emoluments, by substantial cuts in pensions and other statutory allowances, and by drastic general economies. Such economies might be made without unduly impairing existing social services, and therefore would not have a disturbing effect upon the volume of employment and general economic conditions. A reduction of 25 per cent. on the 1929-30 basis would produce total economies of £3·62 m. Of this, £1·37 m. has already been achieved leaving £2·25 m. to be made.

105. With regard to the other expenditure which we classify as normally non-adjustable expenditure, unemployment accounts for £1·45 m. This is only half the total estimated expenditure on unemployment for 1932-33. (See paragraph No. 41 above.) In view of the serious condition of the public finances and the general economic conditions, it is doubtful whether a satisfactory Budget plan can be devised when new expenditure of £2·9 m. for unemployment as compared with 1929-30 is imposed upon the Budget. There is little compensating influence upon the revenue from this expenditure. For the most part it remains a dead weight, like interest on unproductive debt. If the total were reduced to, say £2 m., and the whole of the revenue for this sum raised from a special unemployment-tax on wages and salaries, the Budget would receive relief to the extent of £1·45 m. Such a step would necessitate a fundamental change in unemployment policy, but in view of the serious condition of the public finances this may be found necessary. It must be borne in mind that, if this policy is adopted, additional direct unemployment taxation is necessary by increasing present rates and extending the tax to classes now exempt. If the Budget deficit is not to be increased, any amount in excess, say, of £2 m. would require further increases in taxation.

Non-adjustable  
Expenditure.

106. With regard to expenditure on exchange, we have discussed in Section VIII, above, the effects of a return to parity of exchange upon the Budget. It is only necessary here to point out that the sum of £1·1 m. includes £0·4 m. exchange on Treasury bills in London. It is possible that this £0·4 m. will not be required in 1932-33, and, in any case, it will be a non-recurring item in the Budget, and will thus provide a contribution towards Budget equilibrium from 1933-34.

Exchange.

107. No contribution to the Budget would normally be expected from an adjustment in the interest burden, except in so far as reductions of interest were made possible from conversion operations as loans mature. Under present conditions, however, the adjustments to be made in public and private finance and in all income elements are of such magnitude that consideration of the burden of fixed interest payments is necessary. In Section X we have dealt with the importance of this subject as regards private interest. We propose now to consider alternative methods of dealing with interest on the public debt.

Interest.

108. One method of dealing with the situation is by levying a special stamp duty on interest on the internal debt held by the public and the Government commercial Departments, embracing maturities commencing in 1933. This interest amounts to nearly £3·4 m. on a capital sum of £68 m.,\* or nearly 5 per cent. On this amount a flat-rate duty of 20 per cent., with concessions on the lower-dated stocks, would produce approximately £0·6 m. The remainder of the internal debt held by other Government Departments could not be taxed with advantage to the Budget, unless they were able to pass on the tax to their clients. This would not be practicable in the circumstances, and the gross relief to the Budget would therefore be of the order of £0·6 m. On the other hand, there would be a loss to lending Departments if the duty were accompanied by a general reduction in fixed charges on private debts. We estimate this loss below at £0·3 m. In these circumstances the net relief to the Budget would be £0·3 m.

Special Stamp  
Duty on Interest.

\* This sum includes £32·5 m. free of income-tax the interest on which amounts to £1·4 m.

**Effects of such  
Taxation.**

109. Such a stamp duty would tend to keep up the rate of interest, and might even cause it to rise. It would not conform to a uniform plan of general interest-reduction. During the five years ending the 31st March, 1937, over £26 m. of the internal debt held by the public matures, and a special duty, if still in operation, would tend to keep up the rate at which such renewals would be practicable. By making conversion more expensive than it otherwise would be, the duty, if continued, might defeat its own objects.

**Special Income-tax  
on Investment  
Interest.**

110. Another method is that adopted last year, under which receivers of investment income became subject to a special income-tax. Under this method the free-of-income-tax securities escape.

**Voluntary  
Conversion Loan.**

111. An alternative method is a voluntary conversion loan, under which, if successful, the internal debt would be converted into new securities bearing a lower rate of interest. If rates on the internal debt, held by the public and commercial Government Departments, embracing maturities up to 1963, were reduced by 20 per cent. to a minimum of  $3\frac{3}{4}$  per cent., the gross savings in interest would be approximately £0.6 m. If the interest on the public debt were thus reduced, and private interest were also reduced, it would be necessary for the Government lending Departments to extend similar concessions to their borrowers. A general reduction of 20 per cent. in interest to a minimum of 5 per cent. would cost the Budget approximately £0.3 m. Thus the net gain to the Budget would be £0.3 m. If, as appears equitable, the reduction of 20 per cent. in interest were applied also to all loans held by the public bearing not less than  $4\frac{1}{2}$  per cent., and other loans were reduced to a basis of  $3\frac{1}{2}$  per cent., the net saving would be greater. If a general reduction in bank deposit, Savings-bank deposit, and all other rates of interest were made, it might be possible to secure an additional gain to the Budget of £0.1 m. on account of a reduction in interest on the public debt held by the other Government Departments.

**Effects of  
Voluntary  
Conversion.**

112. If conversion were successfully undertaken on a voluntary basis as a patriotic effort on the part of the holders of the public debt it would greatly expedite the process of general economic recovery. There could be no objection to reduction in salaries and wages, and general cuts in costs, if all elements of income were contributing simultaneously towards the general sacrifice. Moreover, the fall in the cost of living that has already taken place and the further fall that must take place in order to reduce costs generally will compensate the bondholder for the money loss he incurs in making his contribution through an interest adjustment. His real income from interest on the public debt would in the immediate future be reduced by approximately 10 per cent., and the reduction will be less as the cost of living falls.

**Relation to  
Maturities.**

A feature of a voluntary conversion loan could be the elimination of the problem of conversion of the internal debt during a stated period—say, five or seven years. The new bonds could be offered in maturities of different durations, commencing with five or seven years, so that the period of economic adjustment might be completed without the disturbing effect of intervening conversion operations.

**Net Effect of  
Economies.**

113. Assuming, therefore, a 25-per-cent. cut in adjustable expenditure saving £2.25 m., reduction to £2 m. of unemployment expenditure financed from special taxation saving £1.45 m., and an interest adjustment on a basis of  $3\frac{3}{4}$  per cent. yielding £0.3 m., the total savings in expenditure would amount to £4 m. This is a substantial contribution towards a deficit of £9.26 m.

**Increase in the  
Revenue.**

114. On the revenue side it might be possible to raise from increases in existing taxes an amount of £1 m. The increase in the special unemployment-tax would make it difficult to raise additional revenue by ordinary income-tax. In any case, the decline in national income is so heavy that there may be some difficulty in reaching the estimate of £3.25 m.

**Special Sales-tax.**

115. One of the chief causes of the fall in revenue is the decline in Customs from £8.9 m. in 1929–30 to an estimated amount of £5 m. in 1932–33. With present low prices for exports the volume of imports must remain low, and little expansion of Customs revenue is to be expected until export prices improve, or a substantial improvement in productivity is made. Pending these developments, it might be possible to secure additional revenue from indirect taxation through a special sales-tax. The economic disadvantages of such a tax are well known, and its adoption would not be contemplated if the necessary revenue were available from other sources. A sales-tax might yield £1 m.

**Other Revenue.**

116. With regard to other revenue, there would be an increase in the yield from railway interest and Post Office profits if wages were reduced by a further 10 per cent. Railway interest would rise by £0.4 m. and Post Office profits by £0.2 m., giving a total of £0.6 m. from this source.

**Benefit from  
Economies and  
New Revenue.**

117. Summarizing these possible increases in revenue, we have £1 m. from present and new taxation, £1 m. from a special sales-tax, and £0.6 m. from additional interest, giving a total of £2.6 m. The economies considered above amounted to £4 m., so that the Budget would benefit to the extent of £6.6 m. by economies and new revenue.

118. This leaves a deficit of £2·66 m., which might be reduced to approximately £2·06 m. if the Hoover moratorium is extended. Such a deficit for 1932–33 could in the circumstances of New Zealand be regarded as manageable. With improvements in economic conditions bringing an increase in revenue and a reduction of expenditure on unemployment, this deficit could be steadily eliminated. It must be financed by special measures in the meantime. We consider these in Section XIV.

Deficit.

119. It should be clear that the reduction of the deficit by the amount stated will not be easy. The economies required, the revision of unemployment policy, an interest adjustment, heavy reductions in wages, additional rates on existing taxation, and a new tax are measures that would not be contemplated under normal circumstances. But circumstances are not normal to-day. The Budget position is serious, and cannot be adjusted without immediate and drastic action. At every point this action requires sacrifices from some sections of the people. Any comprehensive proposal to deal with the situation should recognize the importance of spreading the burdens equitably with the least disturbance to the community.

Urgency of the Problem of Balancing.

SECTION XIII.—LOCAL-BODY FINANCE.

120. Up-to-date information upon the financial position of local bodies is not available. It cannot be doubted, however, that the revenue of local bodies will be adversely affected by the depression. There is a considerable lag in the adjustment of capital values upon which rates are levied, and other forms of local-body revenue are also less seriously affected in the early stages of the depression than is Government revenue. But the basis of local-body revenue rests upon the national income directly through income and indirectly through land-values. It is therefore necessary to consider the future of local-body finance in the light of this position.

Basis of Local-body Revenue.

121. For the year ended 31st March, 1930, the revenue and expenditure of local bodies, excluding loans, were as follow :—

Revenue and Expenditure.

TABLE 6.—LOCAL-BODY FINANCE, 1929–30.					
(Figures in £ m.)					
Revenue—					
Rates	..	..	..	..	6·01
Licenses, rents, &c.	..	..	..	..	10·31
Government subsidies		..	..	..	0·44
Total	..	..	..	..	16·76
Expenditure—					
Interest	..	..	..	..	3·90
Amortization	..	..	..	..	1·15
Other	..	..	..	..	11·71
Total	..	..	..	..	16·76

It is difficult to separate the expenditure financed by revenue items included above from those financed by loans. It is assumed, however, that expenditure on items other than loan works balanced the revenue.

122. Assuming a general reduction of 20 per cent. in revenue for the year 1932–33, total revenue will reach £13·41 m. We think this is a reasonable assumption. In any case the task of readjustment is such that local-body rates and charges should conform to a general standard of economy. A 20-per-cent. reduction is much less severe than the reduction that has taken place in Government revenue.

123. In the event of a fall of this order in revenue it would be necessary to make adjustments in expenditure. From the above table it is seen that expenditure other than debt charges amounted to £11·71 m. in 1929–30. If we adopt the same standard of economy as was assumed for Government expenditure—namely, 25 per cent.—the savings on this account would be £2·93 m., against a loss in revenue of £3·34 m. To bridge the gap of £0·42 m. it may be necessary to consider an adjustment in respect of interest from two viewpoints—(a) loan conversion, and (b) special stamp duty levied on local-body interest to be applied to assist local bodies.

Adjustable Expenditure.

124. The internal debt of local authorities is held to the extent of £26·4 m. by the public and £18·9 m. by public Departments. The average rate of interest on the public holdings is 5·48 per cent., and on the departmental 5·1 per cent. If we assume that the interest on the local-body debt can be adjusted by 20 per cent. to a minimum of 4 per cent., the total economies would be £0·41 m. Thus, total economies would amount to £3·34 m. But in any plan of interest adjustment it would be necessary for Government Departments holding local-body securities to bring down the interest to their own

Interest Adjustment.

borrowers. Thus the net relief to the Budget of local bodies should not be the total savings on interest. Some £25,000 would have to be set off against the adjustment of interest on the securities held by the Departments if the Government Budget is not to suffer to this extent. It would be appropriate for the Government to reduce its grants to local authorities by this sum. In these circumstances the Budget of local authorities as a whole would balance with slight additional economies above the 25 per cent. standard already suggested.

Varying Incidence  
of Proposals.

125. We have not had time to consider the varying incidence of such a set of proposals upon different local authorities. Some would benefit, while others would lose on account of the varying ratio of internal to external interest burden. This, however, is a problem which would have to be considered in any general review of local-body finance.

Review of  
Local-body  
Finance.

126. Local-body finance as a whole will no doubt come under detailed review by the special Commission which it is proposed to set up to investigate the urgent problem of local government in New Zealand.

SECTION XIV.—BANKING POLICY AND TREASURY BILL FINANCE.

Bank Credit in the  
Depression.

127. In a period of acute depression it is important that credit should be available to sustain and encourage enterprise. This can readily be done, provided the community is making the adjustments in public and private finance necessary to re-establish the basis of profitable enterprise. The main responsibility for supplying credit rests with the banks. That credit has been made available by the banks is clear from the following table :—

TABLE 7.—BANK DEPOSITS AND ADVANCES.

December Quarter.			Deposits. £ m.	Advances. £ m.
1928	..	..	55·73	48·10
1929	..	..	55·01	53·80
1930	..	..	53·23	56·38
1931	..	..	51·98	51·02

It is not surprising that a decline in both advances and deposits should have taken place in 1931. Advances are still higher than in 1928, despite the fall in national income and in the value of securities. This indicates that the banks have pursued a policy of providing credit to sustain production during a period of difficulty. Their capacity to continue to provide credit in this way depends in part upon their resources and in part upon the speed with which the community makes adjustment to the new economic conditions.

Bank Deposits and  
Business  
Conditions.

128. The resources of the banks in turn depend upon deposits and cash reserves. In both respects the position of the New Zealand banking system is strong, though some decline in deposits has taken place since 1928. This decline is, however, wholly in respect of current or free deposits, which fell from £22·18 m. in the December quarter, 1928, to £16·14 m. in the same quarter of 1931. This fall is due to the decline in prices and in business activity. It is possible to conduct financial and commercial operations with a smaller amount of free deposits. Fixed deposits, on the other hand, have risen from £29·84 m. to £34·64 m. This is evidence of the confidence of investors in the banks, though it increases the interest payments the banks are called upon to make. Such an increase in fixed deposits shows that capital is available for investment when economic conditions improve.

Bank Rates.

129. Banks and Government Savings-bank's deposits rates were reduced by  $\frac{1}{4}$  per cent. to  $\frac{1}{2}$  per cent. in August, 1931, and some reductions were also made in private savings-bank deposit rates. But these were not uniform. In addition the Public Trustee and over-the-counter security rates were reduced. In a general plan of interest adjustment these rates should be further reduced, and with them advances rates. It may be necessary to deal with some institutions by legislation, but bank-rates could for the most part be arranged by agreement.

Financing Deficits :  
Treasury Bills.

130. In addition to the normal requirements of private business, banks may be asked to supply credit to the Government until Budget equilibrium is restored, to finance redemption operations, and to sustain some loan expenditure. We have to consider the effects on the banking and the general economic situation of the financial operations associated with the supply of such credit. In normal conditions a deficit in the Budget would be regarded as unsound public finance. In a time like the present, however, when national income has been so severely reduced, a Budget deficit may be unavoidable. The costs of Government are in some respects rigid, and, though drastic economies may be made and higher taxation levied, it may be difficult to bridge the gap in the Budget at once. The general economic effects of economies and high taxation have to be considered. If pressed too far, they may exert a detrimental influence upon economic recovery. Yet it is vital in any Budget proposals to aim at stability and



reduce the deficit to a manageable amount—that is to say, to such an amount as may be liquidated by a moderate recovery in business conditions or by further economies should this recovery not eventuate. In the meantime such a deficit could be financed by the issue of Treasury bills. Where a central bank is in operation, it is possible to arrange this Treasury bill finance through the bank in co-operation with trading banks. In New Zealand, however, as there is still no central bank, arrangements would have to be made direct with the banks as a whole. Provided the Budget deficit is reduced to the manageable amount specified above, it is possible for banks to take Treasury bills for the deficit without impairing their resources. But they must have confidence in the ultimate liquidity of the Treasury bills, and this confidence depends essentially upon the balancing of the Budget within a reasonable period.

131. In taking up Treasury bills banks are supplying further credit to the community, and to this extent they are easing the process of readjustment. The additional credit sustains spending-power, and therefore the volume of internal production at a level higher than would otherwise be possible. It also helps to prevent the internal price level and the value of securities in general from falling too rapidly. In this way it tends to maintain the liquidity of all bank assets. Further, the use of Treasury bills to finance a Budget deficit for internal transactions does not necessarily involve a drain on bank resources for external purposes. Therefore the credit made available to the Government will in large part find its way into the accounts of other customers of the banks and be used to reduce advance or increase deposits. Hence it should not have a detrimental effect upon the bank position generally, provided Budget equilibrium is in prospect, and the Treasury bills taken up by the banks are therefore good securities. The transaction is indeed a means of using the banking system to ease the process of economic readjustment.

**Effects of  
Treasury Bills on  
Bank Deposits.**

132. The same considerations apply to the issue of Treasury bills for necessary loan works until such time as the Government is able to float an internal loan for essential public works. In 1930–31 the total expenditure for public works, land-settlement, and State advances, was approximately £10 m. It will not be possible for the Government to spend the same amount during the depression, but it would only deepen the depression if the supply of funds for these purposes were completely cut off. Moreover, such a cessation of loan expenditure would be economically unsound, because it would leave uncompleted some loan works, and thus involve the community in a dead loss on account of indebtedness created by the expenditure on the uncompleted works. It might, however, pay the community to abandon non-productive works not yet completed and cut the present loss thereon. But it is desirable that some loan expenditure should be sustained. Apart from completing existing works, the suspension of which would involve a net loss, new works should be able to meet normal debt charges on the capital expended upon them. If this standard be applied to loan works in the future, there will necessarily be a permanent reduction in loan expenditure. In the transition period funds should be available for such completion of existing public works or settlement schemes and for such new enterprises as are economically sound. It is not possible at present to estimate the amount likely to be required for these purposes, but the reduction is likely to be at least 50 per cent. compared with 1930–31. This is a very heavy reduction over a period of two years, and will in any case involve considerable disturbances to the volume of employment both directly and indirectly dependent upon loan works.

**Loan Expenditure  
through Treasury  
Bills.**

133. With regard to the issue of Treasury bills to meet external requirements the position is different. The nature of the transaction depends mainly upon the extent to which funds are available in London from the balance of payments. During 1931 imports were approximately £25 m. and exports £32 m. in sterling values. On present indications it is estimated that exports will amount to about the same figure for the current year. In the event of no loan operations being possible on the London market, the requirements of the Government and local bodies in London will have to be met from exports. These requirements are estimated at £14 m., leaving £18 m. available for imports, unless existing reserves abroad be drawn upon. It may thus be necessary to bring imports down to this figure. If this is done there will be sufficient credits in London from current income to meet obligations for interest and loans falling due. With respect to interest, the Budget plan should provide for the raising of sufficient funds in New Zealand to buy from the banks the credits required in London. With regard to Treasury bills falling due in London, however this policy is not practicable, and it may be necessary for the banks in New Zealand to take over these bills as they mature. If it is practicable to fund these bills on maturity, such should be done so as to ease the position in New Zealand.

**Treasury Bills for  
External  
Requirements.**

134. In conclusion, it may be desirable to draw attention to the fact that the issue of Treasury bills involves an increase in the public debt. Where this debt is increased on account of the Budget deficit, there can be no immediate provision from earning assets for payment of interest and sinking fund. But the transaction is not unsound on this account, because it may form part of a plan of general readjustment.\* If it is associated with an exchange policy that sustains the internal price level, the real burden of the debt might still be less than it would be with a policy that combined parity of

**Treasury Bills and  
the Public Debt.**

\* See Addendum by Mr. Park.

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

they have suffered from increased taxation. It is difficult to estimate the effect on recipients of fixed money incomes, but the reduction in these incomes may be said to be less than in the cost of living. These incomes have, however, been subjected to special taxation.

#### SECTION V.—GENERAL EFFECTS OF DEPRESSION ON PUBLIC FINANCE.

As the result of falling export prices, reduced overseas borrowing, and the consequent depression, the Dominion's national income has been reduced between 1928-29 and 1931-32 by about 27 per cent. The decrease in taxable capacity has been far greater. With a total expenditure from the Consolidated Fund of under £25 m. in 1930-31, a prospective deficit of £8·4 m. for 1931-32 had to be covered. Present indications are that, despite these adjustments, the financial year will end with a substantial deficit. The burden of interest charges on national and local-body debt has been increased by the fall in prices. About 1,600 units of exports are now required to pay the same interest bill as was paid by the sale of 1,000 units in 1928-29. In 1928-29 about 16 per cent. of the national income was required to pay taxes and rates, as against 26 per cent. of a much smaller income in 1931-32.

#### SECTION VI.—THE BUDGET DEFICIT.

The inroads on public revenue made by the fall in the national income will be even more serious in 1932-33. Expenditure to provide for unemployment and exchange on the external debt has increased notwithstanding the fall in national income. The preliminary estimated deficit for 1931-32 is about £3 m. A net expansion of expenditure since 1929-30 of approximately 12 per cent. and a reduction of revenue of 30 per cent. have helped to bring about the preliminary estimated deficit of £9·26 m. in 1932-33. If the Hoover moratorium is continued, the preliminary estimated deficit will be £8·66 m.

#### SECTION VII.—THE GENERAL PROBLEM OF READJUSTMENT.

There are three aspects of the problem of readjustment—

- (1) To remove price disparities by increasing the receipts of farmers, or decreasing internal costs, or by a combination of both;
- (2) To spread the loss resulting from the depression more evenly over the community; and
- (3) To balance the national and local-body budgets.

It would be unwise to expect adjustment through a substantial rise in export prices or an early and substantial increase in productivity, more especially as the latter requires as a prior condition the removal of existing impediments to production. Nor can adequate relief come from overseas loans. The fundamental issue is to restore the spending-power of farmers by causing profits to emerge; hence the crucial problem is to remove the disparity between farm costs and farm selling-prices. Without this adjustment, how can the community deal effectively with the problem of unemployment, balance the Budget, and restore and maintain sound financial conditions?

A further reduction in costs of industry in general is necessary to engage in other and profitable enterprises those workers and employers formerly dependent upon the expenditure of overseas loan-money. As the result of the depression, the community has suffered a real loss of income, the equitable spreading of which over the people as a whole is part of the problem of readjustment; this is another aspect of the problem of reducing costs. Resistance, by any section of the community, to the sacrifice involved will only delay the process of recovery, dampen down enterprise, and ultimately injure the interests of that particular section in common with those of the whole community. Some adjustments have already been made, but the total loss is so great that it must be spread more evenly if the economic structure is not to remain ill-balanced. A condition essential to permanent equilibrium is the balancing of national and local-body budgets. Eventually this may be effected by additional economies and some increase in taxation, but in the case of the national Budget the gap cannot be completely bridged until the general process of economic adjustment is well under way. Meanwhile it will be necessary, as a part of the policy of reconstruction, to finance deficits by means of loans or Treasury Bills, as well as those public works whose completion promises a net gain.

#### SECTION VIII.—EXCHANGE AND ECONOMIC READJUSTMENT.\*

Up to 1929 the New Zealand monetary system was based upon a sterling exchange standard. Fluctuations in the balance of payments had little effect upon the exchange rate, because funds accumulated in London could be held there pending a later increase in demand. Such funds were always convertible into New Zealand currency, approximately at par. Special influences operate on the exchange rate in a period of monetary

---

\* See Addendum by Mr. Park.

disturbance. Thus funds held abroad may become less liquid or the exchange operations of other countries may affect the rate of exchange. The New Zealand balance of payments has been affected by a contraction of the value of exports from £55 m. to £32 m. in sterling values. Imports have fallen from £45 m. to £25 m. The present 10-per-cent. exchange rate discourages imports and helps to sustain export production by adding to the gross income of exporters. In general, an exchange rate above parity will benefit exporters, because the addition to gross income more than offsets any increase in local costs through the higher exchange rate. Such a rate also sustains the money value of national income above its level at parity with sterling or at parity with gold. Thus at 40 per cent. exchange national income is estimated to settle at £112 m. compared with £80 m. at parity with sterling and £90 m. at the present 10-per-cent. rate. The additional national income sustains revenue at a higher level and more than compensates for the increased exchange charge on the overseas debt service, both State and local body. By sustaining a higher price level than would be possible at parity of exchange a rate above sterling sustains security values and strengthens the position of financial institutions whose liabilities are in fixed money claims and whose assets vary with the price level. By raising the level of export prices in local currency the rate above parity with sterling lessens the adjustment in fixed charges, wages, and salaries that have to be made to restore the equilibrium between costs and prices in export production. A very high rate would, however, damage the country's credit abroad and throw an undue strain upon the currency system as a factor in economic readjustment. At parity of exchange the reduction in costs which would restore profit in export production and leave exporters with the same loss of real income as the rest of the community would be 35 per cent. It would be more than 25 per cent. at the present 10-per-cent. exchange, 15 per cent. at a 40-per-cent. exchange rate, and 50 per cent. at parity with gold. It is thus easier to make an adjustment at a rate above sterling than at parity with sterling or with gold. A transfer of income similar to that effected by a high exchange rate might be secured by a primage duty on all imports, with additional taxation and an export bounty.

#### SECTION IX.—THE FUTURE OF NEW ZEALAND CURRENCY.\*

The Government prescribes by law the basis of the unit of currency. This was fixed in New Zealand by the convertibility of New Zealand currency into sterling, which was based on one sovereign containing 123·27 gr. of standard gold. In common with sterling, New Zealand currency is temporarily off this basis, and it is legitimate to consider whether it should return to it or adopt a new basis. This will depend upon the future of the exchange rate, which is likely to be determined mainly by the movements in export prices. If it were thought desirable to maintain a high rate, this could be done in the first instance by using any temporary accumulation of funds in London to meet redemptions or to transfer external debt to internal debt. A permanent change in the legal basis of the currency could be made by devaluation.

#### SECTION X.—ADJUSTMENT IN REGARD TO FIXED CHARGES—INTEREST AND RENT.

The rigidity of fixed charges during a period of falling prices both hampers industry and prevents the smooth and equitable distribution of the loss over the population. Except in cases where concessions have already been granted, recipients of fixed incomes have actually benefited from the fall in prices. An adjustment of fixed incomes, whether by means of a special levy or reduction in such incomes, would not impose undue hardship upon the recipients. This adjustment might be facilitated by a special duty on fixed-income elements, the extension of the Mortgagees' Relief Act, or, in the case of public debt, by further income-tax or by conversion operations. Any reduction in private interest should be all-inclusive, covering interest on all debts against which chattels have been pledged, and interest upon goods sold under the time-payment system, as well as on interest in all mortgages, urban and rural. Similar conclusions apply in respect of rents. A reduction of 20 per cent. in fixed money claims would make a substantial and equitable contribution towards bridging the gap between costs and selling-prices.

#### SECTION XI.—ECONOMIC ADJUSTMENT IN RESPECT OF WAGES.

From 1929 to September, 1931, the award rate of money wages fell by 11·5 per cent., as compared with a fall in the cost-of-living index of 11 per cent. On this basis real wages remained approximately the same for workers in full employment. During the same period the community has incurred a loss of real income of from 10 per cent. to 15 per cent., and a further reduction of 10 per cent. in wages and salaries would be necessary to bring wages down to conform with the real loss in national income. This should be read in conjunction with the discussion in Section X. In view of the changed economic situation, undue restrictions on working-conditions which may have been appropriate in the past should be relaxed.

\* See Addendum by Mr. Park.

## SECTION XII.—BALANCING THE BUDGET.

A preliminary budget deficit of £9·26 m. for 1932-33 with a possible reduction to £8·66 m. should the Hoover moratorium be continued, demands drastic action in public finance. Adjustable expenditure, embracing all expenditure other than debt charges, unemployment, and exchange, was £14·47 m. in 1929-30, and is estimated at £13·10 m. in 1932-33. Adopting 25 per cent. as a standard for economies on the amount for 1929-30, the expenditure for 1932-33 should be reduced to £10·85 m. This would yield £2·25 m. in further economies. By reducing the unemployment expenditure from £2·9 m. to £2 m. and making the whole expenditure a charge upon special direct unemployment taxation, the Budget would be relieved by a further £1·45 m. An interest adjustment of 20 per cent. down to a minimum of  $3\frac{3}{4}$  per cent. would save a net amount of £0·3 m. The total economies would amount to £4 m.

On the revenue side taxation could be increased by £1 m. by amendments and extensions of existing taxes. A special sales-tax to replace part of the loss on account of Customs revenue might yield a further £1 m. Reductions in wages and salaries in the Post Office and Railways would increase the net revenue from these Departments by £0·6 m. The total revenue would thus be increased by £2·6 m. and the total contribution towards the Budget deficit would be £6·6 m., leaving an uncovered deficit of £2·06 m. This is regarded as a manageable amount which can be reduced later, either automatically as trade recovers and unemployment expenditure declines, or by further special economies and taxation.

## SECTION XIII.—LOCAL-BODY FINANCE.

Local-body revenue is not immediately disturbed by a depression, but it cannot escape suffering from the decline in national income and land-values. Total receipts of local bodies exclusive of loan funds amounted to £16·76 m. in 1929-30. A moderate estimate of the probable decline would be 20 per cent., bringing this down to £13·41 m. for 1932-33. Expenditure consists of interest £3·09 m., debt service £1·15 m., and "all other" £11·71 m. Applying the standard of 25-per-cent. reduction to "all other" expenditure, savings of £2·93 m. would be possible. With an interest adjustment on a plan similar to that adopted by the Government, but with a 4-per-cent. minimum rate, there would be net saving of £0·39 m. The total savings would then be £3·32 m., against a deficit of £3·35 m. The balance of £30,000 could be made up from further economies. These proposals would have a varying incidence upon individual local authorities, and any adjustments among local authorities should be considered as part of a general review of local-body finance.

## SECTION XIV.—BANKING POLICY AND TREASURY BILLS.\*

The resources of the banks depend upon their deposits and cash reserves. In both respects the position of the New Zealand banking system is strong. A decline in current or free deposits from £22·18 m. in the December quarter, 1928, to £16·14 m. in the same quarter for 1931, has taken place, but fixed deposits have risen from £29·48 m. to £34·64 m. The increase in fixed deposits shows that capital is available for investment when economic conditions improve. Such an improvement depends on the rapidity and thoroughness of the readjustment. In addition to financing private enterprise, the banks may be asked to supply credit to the Government to meet deficits until Budget equilibrium is restored, to finance redemption of loans, and to sustain essential loan expenditure. In normal conditions a deficit in the Budget would be regarded as unsound public finance, but at a time like the present a Budget deficit may be unavoidable. Provided that the Budget deficit is kept within manageable limits, the banks should be able to finance the requirements of the Government without impairing their resources. The financing of such a deficit by means of Treasury bills then becomes part of the process of readjustment, and helps to ease the general economic situation, and sustain spending-power. The financing of some uncompleted public works by similar means is, on balance, desirable. The soundness of financing external requirements by means of Treasury bills depends on the extent to which funds are available in London from the balance of payments, and it will be necessary to bring down imports so that the balance of trade is adequate. The present requirements of Government and local bodies in London are about £14 m., though this amount may be reduced. With such a reduction, imports would require to be reduced to about £18 m. if existing reserves were not to be drawn upon.

The issue of Treasury bills involves an increase in the public debt. Where this debt is increased on account of the Budget deficit, there can be no immediate provision from earning assets for payment of interest and sinking fund, but as part of a general plan of readjustment the transaction is not unsound on this account. If associated with an exchange policy that sustains the internal price level, the real burden of the debt might still be less than under a policy that combined parity of exchange, the immediate balancing of the budget, and the consequent fall in internal prices.\*

\* See Addendum by Mr. Park.

The question of the best policy involved in financing deficits and sustaining loan expenditure through Treasury bills is one of vital importance to the Government, to the banks, and to the community as a whole. There should be a clearly defined policy associated with a careful and comprehensive Budget plan.

Signed by the Committee :—

JAMES HIGHT, Chairman.

H. BELSHAW.

D. B. COPLAND.

A. D. PARK.\*

A. H. TOCKER.

Wellington, 24th February, 1932.

\* See Addendum by Mr. Park.

#### SECTION XVI.—ADDENDUM BY MR. A. D. PARK.

As I concur generally in those sections of the report which are descriptive of the existing economic position of the Dominion and which demonstrate the necessity for an all-round adjustment of costs to restore economic balance, I have signed the report. I have done so, however, subject to reservations on the following points :—

##### (a) EFFECT OF CHANGES IN EXCHANGE-RATES.

Although the fact is indicated in various ways in the report, I wish to emphasize that the effects of adopting various rates of exchange, as illustrated in the report, and particularly in Parts B, C, and D of Section VIII, refer to the ultimate rather than the immediate comparative effects of changes to those levels—that is to say, these parts really represent a hypothetical comparison between the various positions that would be likely to obtain if we had in present circumstances complete adjustment and stabilization of internal affairs at levels that would make the assumed rates of exchange in each case the natural rate of exchange with sterling. The effects noted in the report would not immediately follow a fall or an increase in the rate of exchange, and before stabilization was reached at any of the assumed levels it is very likely that the factors on which the hypothesis is based will have undergone considerable change. British wholesale prices are at present showing a rising tendency.

I wish to record particularly my dissent from statements made in Section VIII and other references in the report to the effect that there would be a net gain to the Budget from an increase in the rate of exchange. In fact, I am convinced that the immediate effect would be to increase considerably the Budget difficulties. For instance, an immediate substantial rise in the exchange-rate to, say, 25 per cent. would increase the expenditure item for exchange by approximately £1,500,000 for next financial year. In addition, it would assuredly lead to a further immediate fall in Customs revenue of, say, £1,500,000, and, through the reactions on the importing and mercantile sections of the community, income-tax and other items of revenue would be adversely affected, perhaps to the extent of £500,000, making a total adverse effect of £3,500,000.

The ultimate effects on the Budget of such a rise in exchange-rates are very difficult to foresee, but it would appear that when stabilization at the new level is eventually reached the aggregate margin of real income available for taxation can be no greater than would accrue from stabilization at the present rate of exchange, or at parity with sterling. On the other side of the account, the relative position of the expenditure to the revenue, apart from internal-debt charges, would be the same at the new level once internal prices, wages, property values, &c., had completely adjusted themselves to that level. On present internal-debt charges, as these are definitely fixed in terms of money, there would be a saving at a higher price level.

In between the immediate loss and the ultimate effects on the Budget of a rise in the exchange rate—that is, during the period of adjustment—the Budget would benefit or lose according to the relative stages of adjustment of the various economic factors at any particular time. These remarks on the effects on the Budget largely apply generally. During the period of adjustment some sections of the community will gain at the expense of others from a rise in the exchange-rate, but such benefit, apart from the saving on existing fixed charges, would be lost as soon as stability at the new level is reached.

##### (b) THE FUTURE OF NEW ZEALAND CURRENCY.

In regard to the observations on this matter contained in Section IX of the report, I agree that it is a normal function of Government to prescribe by law the basis of the unit of currency. At the same time I wish to point out that changing an established basis of currency is a serious step, as any impression that the existing basis at any time is not permanent would be fatal to the essential element of confidence in the currency.

Other countries have devalued their currencies, but, so far as I am aware, only in recognition of an existing depreciation. It is quite another matter to fix intentionally in advance a point to which the currency is to be depreciated, even assuming the depreciation could be controlled and stopped at the point decided upon. I may add that the history of other countries is against such an assumption.

Artificially to raise the exchange-rate above the level required to maintain equilibrium in external receipts and payments amounts to designed depreciation of the currency. To maintain such rate while it remains artificial it is suggested in the report that the accumulation of London funds resulting from the unnecessary restriction of imports could be used for redeeming debt held abroad. Apart from the fact that doing this would be very costly at a high rate of exchange, the operation would in my opinion be impracticable at a time like the present, owing to the difficulty of borrowing in New Zealand the additional funds required for such redemptions. Thus the banks would be unable to sell at the higher rate all the exchange bought at that rate, and accordingly the artificial rate could not be maintained. To fix an artificial rate without being able to maintain it would further complicate an already difficult situation, with repercussions that cannot be foreseen.

In any case, the proposal means forcing the community to provide funds for such redemptions out of the much-reduced purchasing-power of their exports. In other words, the community badly needs the reduced volume of imports that can be obtained in exchange for our exports at present, but this proposal would still further reduce the volume of imports that could be purchased. The restriction would operate through the higher New Zealand prices for imports resulting from the raising of the exchange-rate.

To raise the exchange-rate for the express purpose of giving a bonus to one section of the community at the expense of the remainder of the community would establish a precedent which might later lead to similar demands from other sections, with disastrous results to the all-important element of confidence in the currency. Further, such a bonus would be distributed *pro rata* without regard to the relative need of individuals.

If, as is quite likely, it is found that the comparative rigidity of some of the elements of cost is such as to render it impossible to make sufficient internal adjustments fairly rapidly, without imposing too much strain on the economic structure, some further measure of currency depreciation may be forced upon us. It is not advisable in a time of financial stress to attempt to restrict credit unduly, and maintaining the volume of credit in the face of falling prices must, as soon as there is some recovery in turnover, lead to pressure on the exchanges. Essential advances to the Government during the period of economic adjustment would add force to this tendency. Even if further intentional depreciation of the currency as suggested in the report were found to be desirable, the desired end could be attained on more orthodox lines by action through the banks to maintain the internal purchasing-power, leaving the rate of exchange to reflect the relative position of internal and external purchasing-power in the normal manner.

In this way unavoidable depreciation would take effect in the usual manner, and there would be no suggestion of tinkering with the currency.

Experience clearly demonstrates that even an orthodox rise in exchange-rates results in a fall in the price of our securities on the London market. An artificial rise denoting intentional depreciation of the currency would undoubtedly have a much greater adverse effect on our credit, and this would not only preclude obtaining any relief through fresh borrowing abroad, but would greatly increase the difficulties and cost of dealing with debt maturities abroad.

Whatever the exchange-rate may be for the time being, any change in the currency laws should be considered only when sterling is again on a permanent basis and general economic stabilization at some level has actually been reached in the Dominion. New Zealand is linked with Great Britain by strong ties of sentiment, trade, and debt, and it would be inadvisable to make any permanent change in the basis of New Zealand currency without full discussion of the matter with the British authorities.

A. D. PARK.

---

TABLE I.—INDEX OF PRICES IN NEW ZEALAND. (YEAR 1914 = 1000.)

Year.	Wholesale.	Imported Commodities including Wholesale-price Index Number.	Exports.	Farm Ex- penditure.	Retail Prices (New Series).	Nominal Wages.	Male.
1914	..	1000	1000	1000	1000	1000	1000
1915	..	1125	1017	1096	1076	1058	..
1916	..	1209	1175	1195	1153	1090	..
1917	..	1376	1429	1284	1252	1142	..
1918	..	1619	1852	1452	1354	1191	..
1919	..	1692	1941	1671	1452	1275	1304
1920	..	1986	2382	1661	1623	1463	1454
1921	..	1844	2082	1523	1606	1596	1563
1922	..	1581	1753	1446	1516	1541	1535
1923	..	1517	1578	1403	1593	1527	1514
1924	..	1584	1555	1597	1586	1567	1539
1925	..	1546	1536	1702	1582	1599	1565
1926	..	1475	1456	1377	1555	1608	1583
1927	..	1403	1390	1366	1574	1594	1593
1928	..	1417	1360	1520	1642	1602	..
1929	..	1413	1355	1456	1636	1599	..
1930	..	1376	1345	1144	1628	1562	..
1931	..	1270	1322	874	1490	1447	..

TABLE II.—COMPARISON OF WHOLESALE AND RETAIL PRICE INDEX NUMBERS IN GREAT BRITAIN, AUSTRALIA, AND NEW ZEALAND.

Annual average index number, year 1927 = 1000 in the cases of Australia and New Zealand and 100 in the case of Great Britain.

Month.	Great Britain.					Australia.					New Zealand.				
	1927.	1928.	1929.	1930.	1931.	1927.	1928.	1929.	1930.	1931.	1927.	1928.	1929.	1930.	1931.

*Wholesale-price Index Numbers.*

January	..	..	102	101	96	89	71	969	1024	987	946	800	1030	1023	1008	1006	957
February	..	..	103	101	96	87	71	958	1007	979	921	797	1004	1009	1003	1003	935
March	..	..	101	101	97	85	70	941	1007	986	906	801	1003	1010	1003	1001	929
April	..	..	101	104	96	84	70	947	1015	990	915	796	1005	1006	1003	999	919
May ..	..	..	102	104	94	83	69	957	996	982	926	793	994	1011	1004	997	908
June	..	..	102	103	94	81	69	975	994	990	912	784	998	1013	1005	991	903
July ..	..	..	102	101	95	81	67	1009	988	998	905	786	1000	1010	1010	986	894
August	..	..	102	99	95	79	66	1034	964	1005	892	770	999	1008	1015	997	896
September	..	..	102	99	94	77	68	1065	961	1023	843	766	1001	1010	1016	985	896
October	..	..	101	99	93	76	69	1085	956	1008	814	..	1001	1021	1014	972	899
November	..	..	101	98	91	75	71	1041	955	993	791	..	1005	1025	1007	962	905
December	..	..	101	99	91	73	..	1017	969	969	770	..	1016	1021	1000	962	903

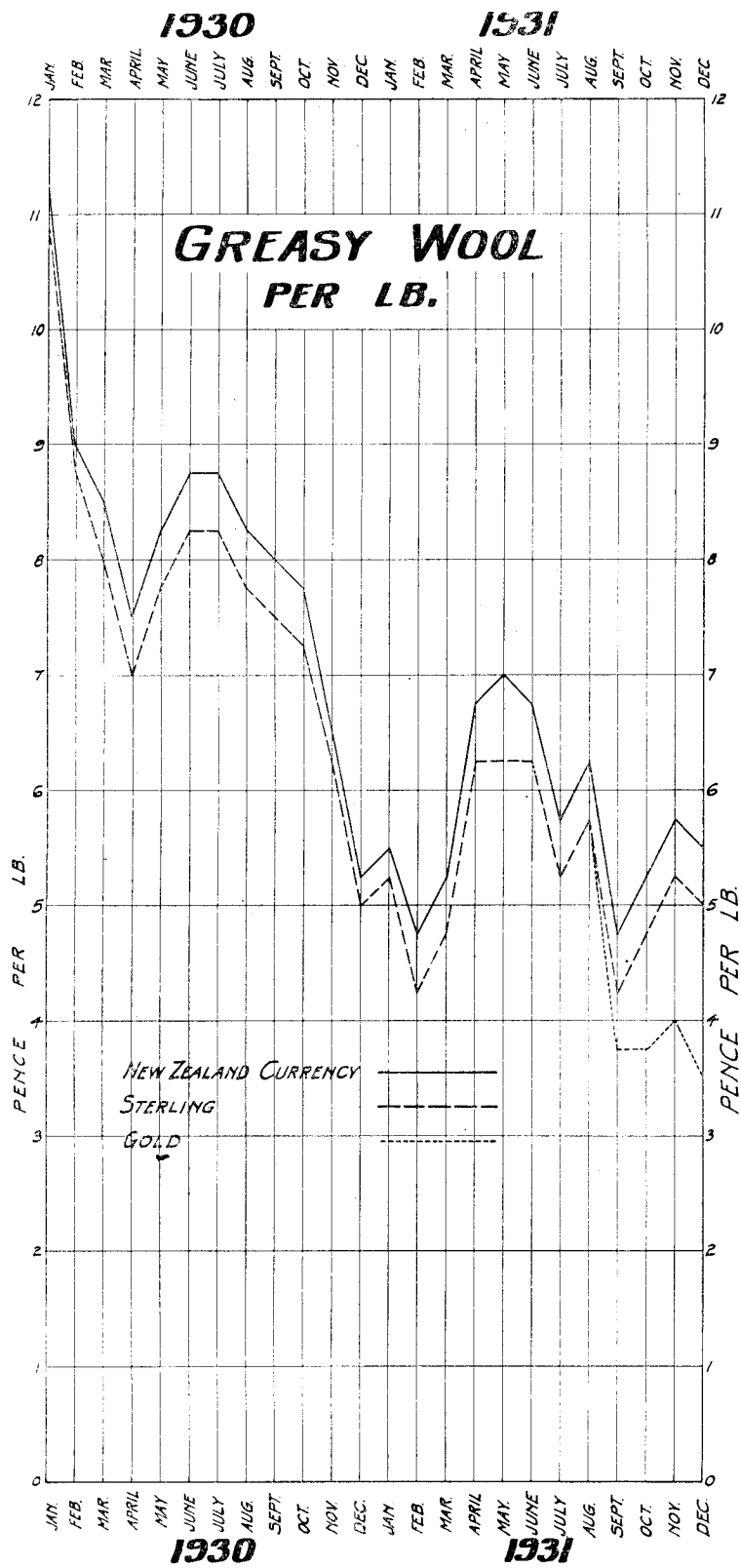
*Retail-price Index Numbers.*

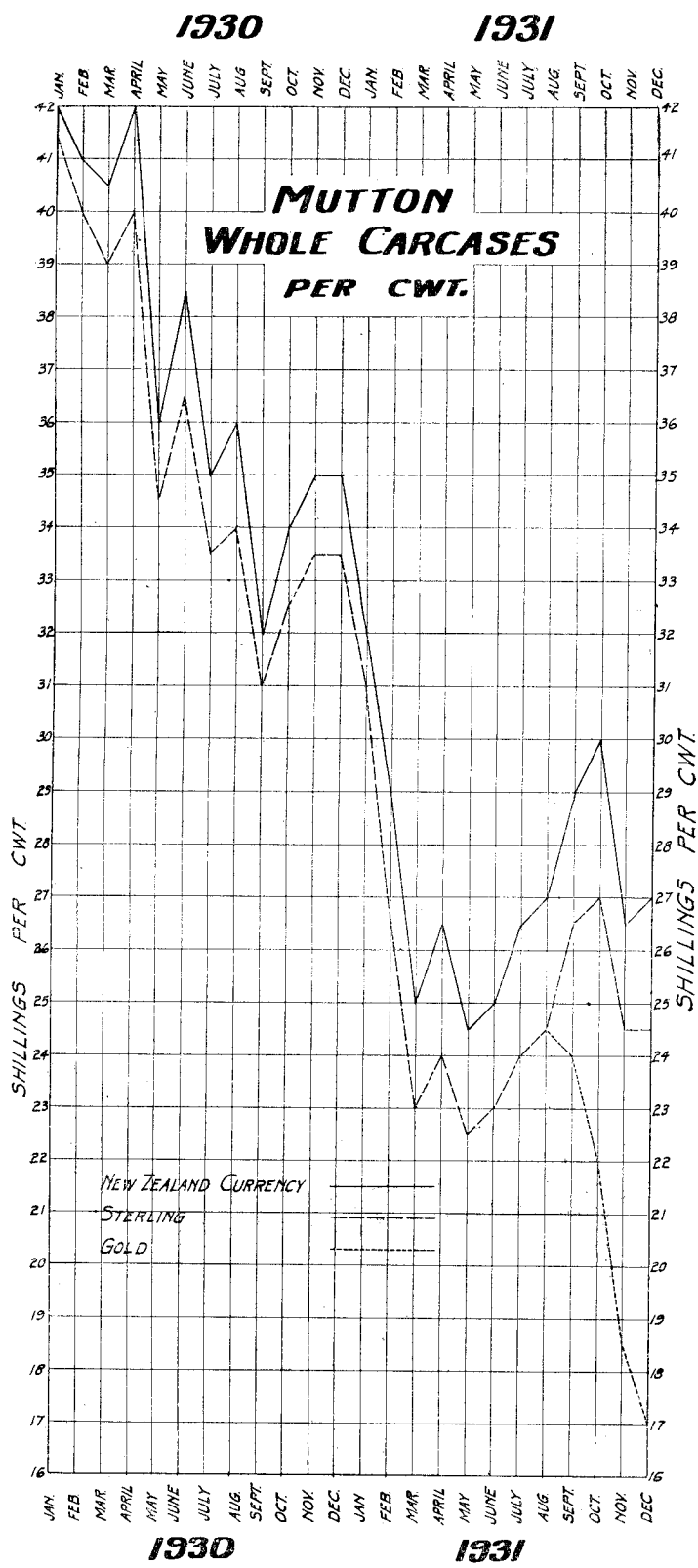
[illegible]

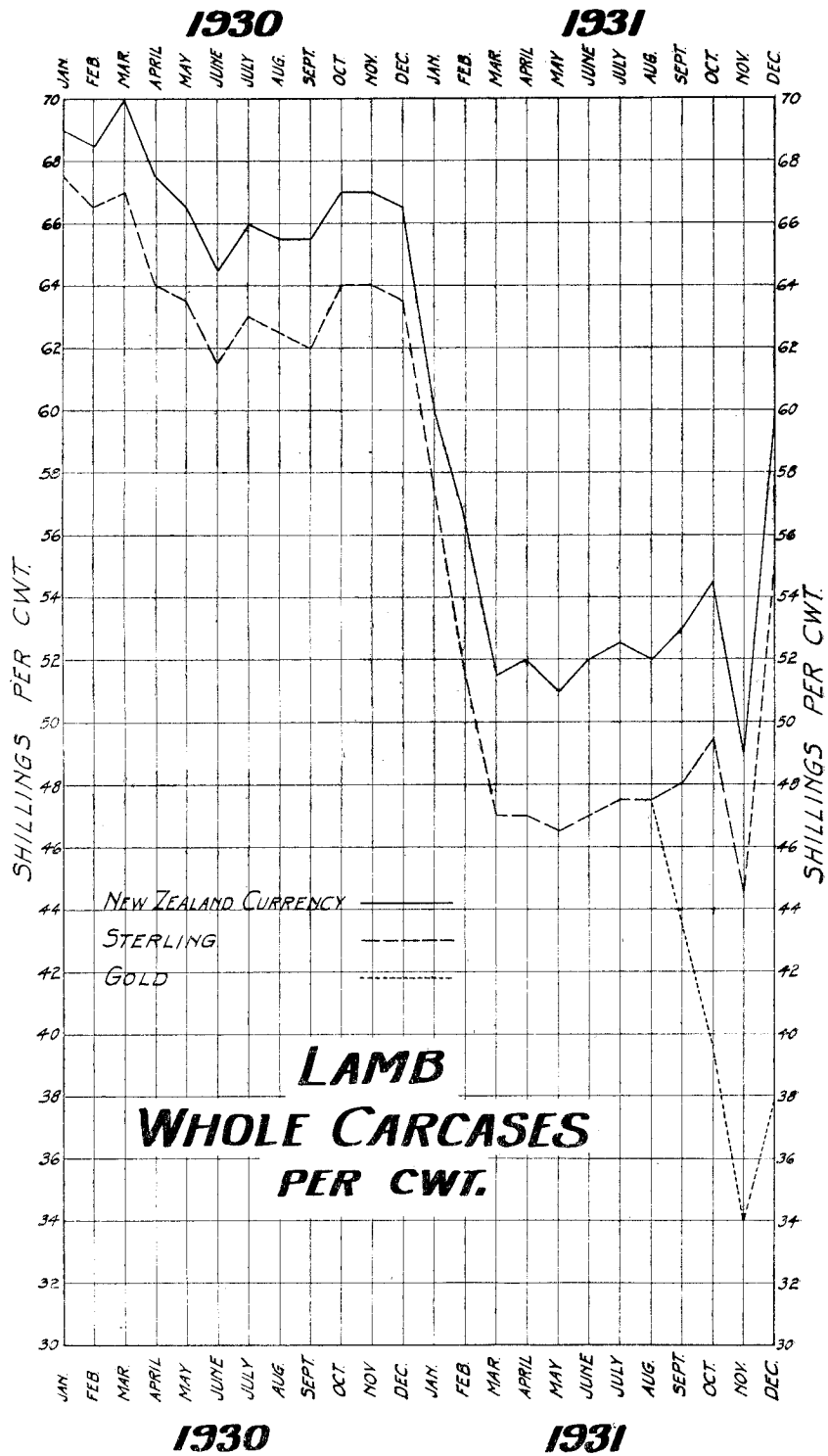


TABLE III.—MONTHLY EXPORT PRICES OF FIVE PRINCIPAL EXPORT ITEMS, 1929 TO 1931, EXPRESSED IN TERMS OF NEW ZEALAND CURRENCY, STERLING, AND GOLD.

Month.	Greasy Wool (per lb.).			Mutton—Whole Carcasses (per cwt.).			Lamb—Whole Carcasses (per cwt.).			Butter (per cwt.).			Cheese (per cwt.).		
	New Zealand Currency.	Sterling.	Gold.	New Zealand Currency.	Sterling.	Gold.	New Zealand Currency.	Sterling.	Gold.	New Zealand Currency.	Sterling.	Gold.	New Zealand Currency.	Sterling.	Gold.
	d.	d.	d.	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.
1929.															
January ..	17	17	17	44 0	44 0	44 0	76 6	76 6	76 6	162 6	162 6	162 6	86 6	86 6	86 6
February ..	16½	16½	16½	41 6	41 6	41 6	75 6	75 6	75 6	169 0	169 0	169 0	84 0	84 0	84 0
March ..	15½	15½	15½	40 0	40 0	40 0	74 6	74 6	74 6	161 6	161 6	161 6	74 0	74 0	74 0
April ..	14½	14½	14½	41 0	41 0	41 0	73 0	73 0	73 0	157 6	157 6	157 6	75 0	75 0	75 0
May ..	14½	14½	14½	40 0	40 0	40 0	72 6	72 6	72 6	150 0	150 0	150 0	74 6	74 6	74 6
June ..	15	15	15	40 6	40 6	40 6	72 6	72 6	72 6	151 0	151 0	151 0	75 6	75 6	75 6
July ..	12½	12½	12½	41 0	41 0	41 0	73 0	73 0	73 0	153 0	153 0	153 0	74 6	74 6	74 6
August ..	14	13½	13½	39 6	39 6	39 6	72 0	71 0	71 0	156 6	155 0	155 0	77 0	76 0	76 0
September ..	10	9¾	9¾	40 0	40 0	40 0	71 0	70 0	70 0	150 6	148 6	148 6	81 0	80 0	80 0
October ..	10	9¾	9¾	39 6	39 0	39 0	69 0	68 0	68 0	156 6	154 6	154 6	90 0	89 0	89 0
November ..	11½	11½	11½	36 6	36 6	36 6	68 6	68 0	68 0	161 6	159 6	159 6	69 6	69 0	69 0
December ..	11½	11	11	39 6	39 0	39 0	64 0	63 0	63 0	156 6	153 6	153 6	79 0	78 0	78 0
1930.															
January ..	11½	11	11	42 0	41 6	41 6	69 0	67 6	67 6	145 0	142 0	142 0	75 6	74 0	74 0
February ..	9	8¾	8¾	41 0	40 0	40 0	68 6	66 6	66 6	145 0	141 0	141 0	79 0	77 0	77 0
March ..	8½	8	8	40 6	39 0	39 0	70 0	67 0	67 0	135 6	130 6	130 6	75 0	72 6	72 6
April ..	7½	7	7	42 0	40 0	40 0	67 6	64 0	64 0	120 6	115 0	115 0	72 0	68 6	68 6
May ..	8½	7¾	7¾	36 0	34 6	34 6	66 6	63 6	63 6	119 0	113 6	113 6	74 6	71 0	71 0
June ..	8½	8½	8½	38 6	36 6	36 6	64 6	61 6	61 6	120 6	115 0	115 0	73 6	70 0	70 0
July ..	8¾	8¾	8¾	35 0	33 6	33 6	66 0	63 0	63 0	124 6	119 0	119 0	73 6	70 0	70 0
August ..	8½	7¾	7¾	36 0	34 0	34 0	65 6	62 6	62 6	126 6	120 0	120 0	73 6	70 0	70 0
September ..	8	7½	7½	32 0	31 0	31 0	65 6	62 0	62 0	121 6	115 6	115 6	67 6	64 6	64 6
October ..	7¾	7¼	7¼	34 0	32 6	32 6	67 0	64 0	64 0	115 6	110 6	110 6	65 6	62 6	62 6
November ..	6½	6½	6½	35 0	33 6	33 6	67 0	64 0	64 0	109 6	104 6	104 6	61 6	58 6	58 6
December ..	5½	5	5	35 0	33 6	33 6	66 6	63 6	63 6	104 6	100 0	100 0	62 0	59 0	59 0
1931.															
January ..	5½	5½	5½	32 0	31 0	31 0	60 0	57 6	57 6	104 0	100 0	100 0	56 6	54 0	54 0
February ..	4¾	4¾	4¾	29 0	26 6	26 6	56 6	51 6	51 6	112 0	102 0	102 0	55 0	50 0	50 0
March ..	5½	4¾	4¾	25 0	23 0	23 0	51 6	47 0	47 0	117 0	106 6	106 6	55 0	50 0	50 0
April ..	6¾	6½	6½	26 6	24 0	24 0	52 0	47 0	47 0	92 6	84 0	84 0	53 0	48 0	48 0
May ..	7	6½	6½	24 6	22 6	22 6	51 0	46 6	46 6	103 6	94 0	94 0	47 0	42 6	42 6
June ..	6¾	6½	6½	25 0	23 0	23 0	52 0	47 0	47 0	100 0	91 0	91 0	43 0	39 0	39 0
July ..	5¾	5½	5½	26 6	24 0	24 0	52 6	47 6	47 6	105 0	95 0	95 0	50 0	45 6	45 6
August ..	6¼	5¾	5¾	27 0	24 6	24 6	52 0	47 6	47 6	112 0	101 6	101 6	58 0	53 0	53 0
September ..	4¾	4¾	4¾	3¾	29 0	26 6	53 0	48 0	43 6	110 0	100 0	90 6	56 6	51 6	46 6
October ..	5½	4¾	4¾	3¾	30 0	27 0	54 6	49 6	39 6	113 0	103 0	82 0	61 6	56 0	44 6
November ..	5¾	5¼	5¼	4	26 6	24 6	49 0	44 6	34 0	109 0	99 0	76 0	59 0	54 0	41 0
December ..	5½	5	3½	27 0	24 6	17 0	60 0	55 0	38 0	103 6	94 0	65 0	56 6	51 6	35 6









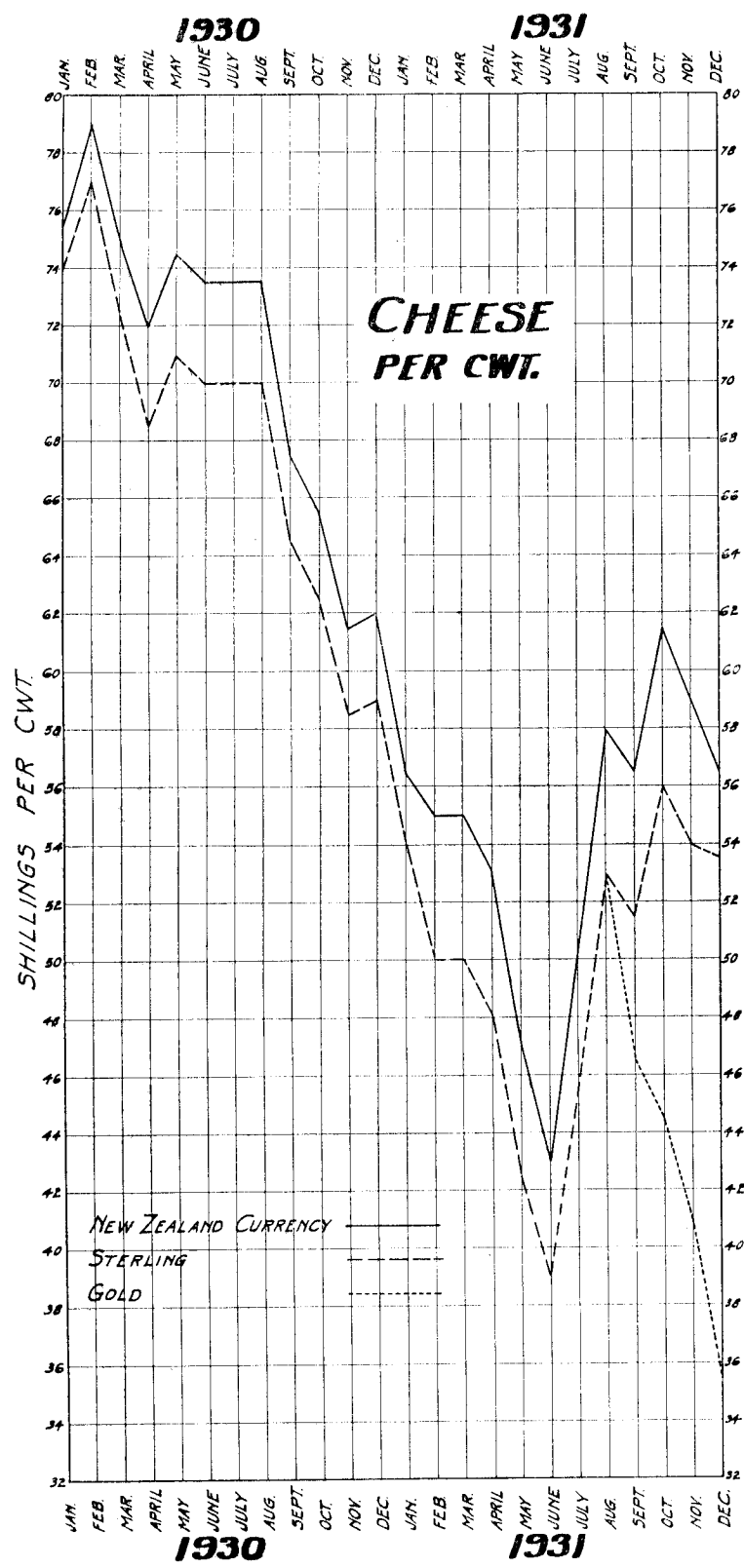


TABLE IV.—NEW ZEALAND EXTERNAL TRADE.

Year ended 31st March,	Total Trade.	Imports.	Exports.	Excess of Exports over Imports.	Excess of Imports over Exports.	Approximate Figures for State and Local Bodies.	
						Interest paid Overseas.	External Loans raised.
	£	£	£	£	£	£	£
1921 ..	115,662,628	67,463,269	48,199,359	..	19,263,910	4,556,617	5,696,000
1922 ..	79,925,582	36,123,256	43,802,326	7,679,070	..	4,989,181	5,621,000
1923 ..	82,524,283	36,975,583	45,548,700	8,573,117	..	5,548,524	5,301,000
1924 ..	96,054,362	44,401,756	51,652,606	7,250,850	..	5,542,682	8,070,000
1925 ..	104,592,253	49,821,095	54,771,158	4,950,063	..	6,075,596	10,866,000
1926 ..	101,723,443	53,025,856	48,697,587	..	4,328,269	6,414,378	7,571,000
1927 ..	93,875,008	48,192,670	45,682,338	..	2,510,332	6,701,264	7,750,000
1928 ..	99,381,388	44,419,357	54,962,031	10,542,674	..	7,462,503	6,870,000
1929 ..	102,260,208	45,105,865	57,154,343	12,048,478	..	8,013,747	8,310,000
1930 ..	98,213,731	49,167,914	49,045,817	..	122,097	8,424,526	6,177,000
1931 ..	77,828,591	38,300,807	39,527,784	1,226,977	..	8,522,334	5,193,000

TABLE V.—ESTIMATES OF VALUE OF PRODUCTION AND NATIONAL INCOME.

(£ millions.)

Classes.	1925-26.	1928-29.	1930-31.	1931-32.	1932-33.
Agricultural Products .. ..	8.40	9.38	8.80	7.70	7.00
Pastoral Products .. ..	32.79	42.32	24.58	24.58	24.58
Dairying, Poultry, and Bees .. ..	26.27	30.41	23.72	23.72	23.72
Mining Products .. ..	3.14	3.49	3.57	3.20	3.00
Fishery Products .. ..	0.58	0.45	0.50	0.40	0.35
Forest Products .. ..	5.15	3.13	2.66	2.80	2.50
Factory Products .. ..	22.28	23.70	23.10	21.40	19.30
Builders, Labourers, and Industrial Workers	13.08	12.42	10.98	6.50	5.85
Total production .. ..	111.71	125.30	97.91	90.30	86.30
Add 20 per cent. for estimate of national income	136	150	120	110	103

## NOTES.

For 1925-26 the figures for both value of production and national income are the estimates from the Government Statistician. For subsequent years the figures for national income are the Committee's estimates obtained by adding 20 per cent. to the figures for total production.

For the years 1928-29 and 1930-31 the figures for production are the Government Statistician's estimates. For the last two years, 1931-32 and 1932-33, the production figures are the Committee's estimates. In these two last years certain assumptions, which may err on the generous side, have been made. It has been assumed that the value of pastoral and dairying production will remain unchanged, that other products in the next four classes will be reduced by 10 per cent. in 1931-32 and by a further 10 per cent. in 1932-33 from the 1928-29 level, while the volume of production remains about the same. In the last group—Builders, &c—allowance has been made for the known decline in building, as well as for a 10-per-cent. decrease in prices for 1932-33.

TABLE VI.—INDICES OF PROSPERITY AND DEPRESSION.

		1924.	1925.	1926.	1927.	1928.	1929.	1930.	1931.
Building-permits in principal towns ..	£m	9·3*	10·2*	9·7	9·0	8·6	8·9	6·0	2·5
Mortgages registered ..	£m	41·1†	47·1†	40·0†	33·2†	33·6†	39·8†	34·9	14·7
Mortgages discharged ..	£m	29·7†	34·0†	29·2†	24·0†	25·3†	28·3†	22·6	11·1
Land transfers ..	£m	34·0	35·5	33·3	29·6	30·5	32·1	25·3	13·8
Totalizator investments‡ ..	£m	7·7	8·4	8·6	7·6	7·6	7·2	7·5	5·3
Percentage of free to fixed deposits, December quarter		124	121	110	88	75	74	57	47
Bank debits, weekly average ..	£m	\$	\$	\$	\$	19·1	22·0	20·1	15·8
Average of 25 share prices in January (Par = 100)		..	199	205	204	213	231	195	152
Value of production ..	£m	118·1†	111·7†	112·1†	119·9†	125·3†	118·2†	97·9†	90·3¶
Estimated national income ..	£m	142·0†	136·0†	138·0†	144·0†	150·0†	142·0†	120·0†	110·0†

\* Year ended 31st March following. These two figures relate to all towns. † Year ended 31st March following. ‡ Year ended 31st July.  
§ Not available. || Last nine months only. ¶ Preliminary estimate.

TABLE VII.—NUMBERS ON UNEMPLOYMENT REGISTER OF LABOUR DEPARTMENT, 1926-1931.

1926.		1927.		1928.		1929.		1930.		1931.		1932.	
Week ended	Number.	Week ended	Number.	Week ended	Number.	Week ended	Number.	Week ended	Number.	Week ended	Number.	Week ended	Number.
Jan. 25 ..	425	Jan. 31	1,349	Jan. 30	2,185	Jan. 28	2,457	Jan. 27	2,572	Jan. 26	16,607	Jan. 25	45,677
Feb. 22 ..	448	Feb. 28	1,433	Feb. 27	3,137	Feb. 25	2,440	Feb. 24	2,520	Feb. 23	27,662	Feb. 15	45,071
Mar. 29 ..	547	Mar. 28	1,824	Mar. 26	2,509	Mar. 25	2,956	Mar. 31	3,130	Mar. 30	38,028	..	..
Apr. 26 ..	576	Apr. 25	1,553	Apr. 30	2,938	Apr. 29	3,263	Apr. 28	3,379	Apr. 27	36,981	..	..
May 31 ..	1,185	May 29	2,282	May 28	3,348	May 27	3,427	May 26	5,084	May 25	40,507	..	..
June 28 ..	2,092	June 27	2,408	June 25	3,317	June 24	3,662	June 30	5,491	June 29	45,264	..	..
July 26 ..	1,674	July 25	2,708	July 30	3,042	July 29	3,349	July 28	5,360	July 27	47,772	..	..
Aug. 30 ..	1,697	Aug. 29	2,498	Aug. 27	2,434	Aug. 26	2,795	Aug. 25	5,463	Aug. 31	50,033	..	..
Sept. 27 ..	1,795	Sept. 26	2,229	Sept. 24	2,344	Sept. 30	2,466	Sept. 29	6,025	Sept. 28	51,375	..	..
Oct. 25 ..	1,472	Oct. 31	1,952	Oct. 29	2,212	Oct. 28	4,142	Oct. 27	6,018	Oct. 26	50,266	..	..
Nov. 29 ..	1,328	Nov. 28	1,634	Nov. 26	1,815	Nov. 25	2,544	Nov. 24	7,402	Nov. 30	47,535	..	..
Dec. 13 ..	1,226	Dec. 19	1,575	Dec. 31	1,476	Dec. 30	1,242	Dec. 29	7,596	Dec. 28	45,140	..	..
Average for Year*	1,196	Average	1,982	Average	2,504	Average	3,023	Average	5,055	Average	40,335	..	..

\* This figure is the average of registrations for 52 weeks.



TABLE VIII.—REVENUE AND EXPENDITURE, 1929-30 to 1931-32 (ACTUAL), WITH TREASURY PRELIMINARY ESTIMATES (FEBRUARY) FOR 1932-33.

					1929-30.	1930-31.	Estimates, 1931-32.	Estimates, 1932-33.
<i>Receipts.</i>								
					£ m.	£ m.	£ m.	£ m.
Customs	..	..	..	..	8.90	7.61	6.00	5.00
Income-tax	..	..	..	..	3.53	4.00	4.00	3.25
Land-tax	..	..	..	..	1.51	1.15	0.55	0.52
Motor-vehicles	..	..	..	..	1.50	1.84	1.88	1.61
Stamp and death duties	..	..	..	..	3.41	3.39	2.64	2.50
Beer duty	..	..	..	..	0.63	0.58	0.66	0.66
Film-hire	..	..	..	..	..	0.04	0.04	0.04
					19.48	18.61	15.77	13.58
Interest—								
Railways	..	..	..	..	2.13	0.68	0.80	0.60
Post and Telegraph Department	..	..	..	..	0.48	0.50	0.53	0.54
Public-debt redemption	..	..	..	..	1.00	0.86	0.70	0.65
Other	..	..	..	..	0.80	0.87	0.73	0.67
					4.41	2.91	2.76	2.46
Other receipts—								
Normal revenue	..	..	..	..	1.46	1.55	1.22	0.87
Special revenue	..	..	..	..	..	..	2.58	0.55
					1.46	1.55	3.80	1.42
Grand total	..	..	..	..	25.35	23.07	22.33	17.46
<i>Expenditure.</i>								
Public debt—								
Interest	..	..	..	..	9.14	9.27	9.10	9.65
Other charges	..	..	..	..	1.59	1.68	1.47	1.42
					10.73	10.95	10.57	11.07
Other permanent services—								
Exchange	..	..	..	..	6.47	6.05	7.43	7.69
Annual votes	..	..	..	..	..	..	0.37	1.10
Civil List	..	..	..	..	7.97	7.67	6.83	6.83
	..	..	..	..	0.03	0.03	0.03	0.03
Grand total	..	..	..	..	25.20	24.70	25.23	26.72

TABLE IX.—PUBLIC DEBT: STATEMENT SHOWING LOANS FALLING DUE IN THE NEXT SEVEN YEARS, ENDING WITH THE YEAR 1938, EXCLUDING IMPERIAL DEBT REPAYMENTS.

Year ending				London.	Australia.	New Zealand.	Totals.
				£	£	£	£
1932	..	..	..	200	320,900	6,948,856	7,269,956
1933	..	..	..	..	393,850	5,219,163	5,613,013
1934	..	..	..	12,900*	52,000	17,128,414	17,193,314
1935	..	..	..	37,000	1,252,000	1,945,850	3,234,850
1936	..	..	..	..	213,800	5,885,760	6,099,560
1937	..	..	..	..	110,400	9,994,999	10,105,399
1938	..	..	..	..	..	5,535,695	5,535,695
Totals	..	..	..	50,100	2,342,950	52,658,737	55,051,787

\* In addition, £5,000,000 raised in London since the end of the financial year falls due in 1934.

TABLE X.—PUBLIC FINANCE AND THE NATIONAL INCOME.

Year.	National Income (Estimated).	Debt Charges.	All other Expenses.	Tax Revenue.	Ratio of Tax Revenue to National Income.
	£m.	£m.	£m.	£m.	Per Cent.
1925-26 ..	136	9.93	13.64	17.25	12.7
1928-29 ..	150	10.15	14.02	17.83	11.9
1930-31 ..	120	10.95	14.08	18.88	15.7

TABLE XI.—PUBLIC DEBT.

Table Showing Amount of Public Debt of New Zealand held in Great Britain, Australia, and New Zealand in 1930-31, together with average interest rates.

					Amount. £m.	Average Interest Rate.
Held overseas—						
Great Britain	..	..	..	..	155.07	4½
Australia	..	..	..	..	4.13	5¼
					159.20	
Held in New Zealand—						
By Public	..	..	..	..	60.38	47⁄8
By Government Departments	..	..	..	..	56.46	4½
					116.84	
Total	..	..	..	..	276.04	£4 10s. 5d.

TABLE XII.—ANNUAL INTEREST PAYMENT IN LONDON, AUSTRALIA, AND NEW ZEALAND ON PUBLIC DEBT OF NEW ZEALAND, FOR THE FINANCIAL YEAR 1930-31.

					Amount. £m.
Payable in—					
London	..	..	..	..	6.84
Australia	..	..	..	..	0.33
Total paid overseas					7.17
New Zealand—					£m.
(a) To the public	..	..	..	..	2.84
(b) To Government Departments	..	..	..	..	2.30
Total paid in New Zealand					5.14
Grand total					12.31

TABLE XIII.—COMPARISON OF TAXATION PER CAPITA, 1921 TO 1931.

Year.	Consolidated Fund.	Main Highways Account.	Unemploy- ment Fund.	Total.	Estimated Mean Population.	Taxation Per Capita.
	£	£	£	£		£ s. d.
1921 ..	22,184,414	..	..	22,184,414	1,252,206	17 14 4
1922 ..	16,370,516	..	..	16,370,516	1,285,711	12 14 8
1923 ..	15,594,288	121,092	..	15,715,380	1,311,381	11 19 8
1924 ..	16,416,870	123,568	..	16,540,438	1,334,029	12 8 0
1925 ..	16,139,806	409,803	..	16,549,609	1,359,995	12 3 5
1926 ..	16,939,296	315,392	..	17,254,688	1,392,073	12 7 11
1927 ..	16,851,455	586,372	..	17,437,827	1,420,762	12 5 6
1928 ..	16,428,668	716,477	..	17,145,145	1,443,323	11 17 7
1929 ..	16,588,456	1,243,577	..	17,832,033	1,459,983	12 4 3
1930 ..	17,960,341	1,510,790	..	19,471,131	1,477,494	13 3 7
1931 ..	16,756,866	1,840,590	280,829	18,878,285	1,497,732	12 12 1

Prior to 1923 all taxation was retained in Consolidated Fund, but from that year taxes upon motor-spirit, &c., earmarked for Main Highways were transferred periodically to Main Highways Account. Similarly, in 1931, taxation in respect of unemployment was credited direct to Unemployment Fund.

TABLE XIV.—COMPARISON OF EXPENDITURE PER CAPITA, 1921 TO 1931.

Year.	Consolidated Fund.	Working Railways Account.	Post and Telegraph Account.	Main Highways Account.	Unemployment Fund.	Total.	Population.	Expenditure per Capita.
	£	£	£	£	£	£		£ s. d
1921 ..	28,128,730	..	..	..	..	28,128,730	1,252,206	22 9 3
1922 ..	28,466,838	..	..	..	..	28,466,838	1,285,711	22 2 10
1923 ..	26,263,760	..	..	..	..	26,263,760	1,311,381	20 0 6
1924 ..	26,148,005	..	..	1,100	..	26,149,105	1,334,029	19 12 0
1925 ..	27,331,700	..	..	123,951	..	27,455,651	1,359,995	20 2 11
1926 ..	23,149,108	5,981,654	..	303,196	..	29,433,958	1,392,073	21 2 10
1927 ..	23,843,797	6,127,681	..	557,685	..	30,529,163	1,420,762	21 9 9
1928 ..	24,148,675	6,324,636	..	905,008	..	31,378,319	1,443,323	21 14 9
1929 ..	22,473,590	6,087,200	2,493,736	1,339,975	..	32,394,501	1,459,983	22 3 11
1930 ..	23,565,494	6,737,413	2,630,199	1,871,687	..	34,804,793	1,477,494	23 11 2
1931 ..	22,965,848	6,223,025	2,800,648	1,506,194	319,141	33,814,856	1,497,732	22 11 6

NOTE.—Additional expenditure figures from accounts other than Consolidated Fund are quoted in order to maintain the comparison upon the same basis throughout. From 1923 taxation upon motor-tires, motor-spirit, &c., was credited to Consolidated Fund, although the Main Highways Act, 1922, provided that it should be earmarked for main highways, and has been segregated from the Consolidated Fund revenue for the purpose of the above return. Railway and Post and Telegraph accounts were separated from the Consolidated Fund in the years indicated, while the institution of the unemployment levy in 1931 resulted in further expenditure of direct taxation from a separate account, the Unemployment Fund.

TABLE XV.—LOCAL-BODY DEBT IN NEW ZEALAND: ALLOCATION OF INDEBTEDNESS OVER DIFFERENT LOCAL BODIES, AS AT 31ST MARCH, 1921, 1926, AND 1930.

	1921.	1926.	1930.
	£ m.	£ m.	£ m.
Counties ..	1.05	3.05	4.24
Boroughs ..	14.58	25.61	29.31
Town districts	0.37	0.44	0.56
Road districts	0.06	0.41	0.29
Electric-power districts	0.15	8.75	12.64
Harbour Board districts	7.53	9.84	10.33
Other districts	2.45	3.63	6.68
Total ..	26.19	51.73	64.05

NOTE.—Figures are exclusive of debt owing by local bodies to General Government.

TABLE XVI.—LOCAL BODIES: RECEIPTS AND PAYMENTS.

Year ended 31st March,	Revenue from			Total Revenue.	Receipts not Revenue.	Total Receipts.	Payments of Local Districts.
	Rates.	Licenses, Tolls, Rents, and other Sources.	Government.				
	£	£	£	£	£	£	£
1921 ..	3,549,590	5,032,245	304,129	8,885,964	3,429,662	12,315,626	12,761,690
1922 ..	3,779,895	5,757,252	317,530	9,854,677	5,486,912	15,341,589	15,091,875
1923 ..	4,277,781	5,942,927	301,024	10,521,732	7,399,674	17,921,406	15,695,507
1924 ..	4,445,627	6,403,378	300,766	11,149,771	5,685,107	16,834,878	16,520,950
1925 ..	4,668,884	7,213,306	298,774	12,180,964	7,613,399	19,794,363	19,422,833
1926 ..	5,039,645	8,014,583	319,338	13,373,566	7,505,702	20,879,268	20,915,645
1927 ..	5,311,260	8,621,964	332,721	14,265,945	6,680,176	20,946,121	21,747,557
1928 ..	5,615,672	9,454,315	331,956	15,401,943	5,667,651	21,069,594	22,423,167
1929 ..	5,844,495	9,190,655	392,921	15,428,071	6,042,007	21,470,078	21,300,024
1930 ..	6,010,987	10,309,785	436,946	16,757,718	5,495,427	22,253,145	22,061,088

TABLE XVII.—HOLDINGS OF LOCAL-BODY DEBT AS AT 31ST MARCH, 1930.

Percentage.	Internal.		External.		Total.
	Public.	Departmental.	London.	Australian.	
	£	£	£	£	£
4 and under ..	392,454	3,648,695	2,127,600	663,550	6,832,299
4 $\frac{1}{8}$ ..	..	71,067	..	..	71,067
4 $\frac{1}{4}$ ..	594,885	64,900	168,800	800,000	1,628,585
4 $\frac{3}{8}$ ..	37,000	..	..	..	37,000
4 $\frac{1}{2}$ ..	1,571,167	4,074,854	1,613,925	417,500	7,677,446
4 $\frac{3}{4}$ ..	97,950	5,900	..	319,790	423,640
5 ..	2,107,008	439,285	7,080,600	336,662	9,963,555
5 $\frac{1}{8}$ ..	135,100	..	..	..	135,100
5 $\frac{1}{4}$ ..	2,715,741	3,316,631	2,143,600	325,179	8,501,151
5 $\frac{3}{8}$ ..	23,000	..	..	24,000	47,000
5 $\frac{1}{2}$ ..	7,000	..	..	..	7,000
5 $\frac{3}{4}$ ..	8,110,536	672,051	2,081,500	1,414,460	12,278,547
5 $\frac{7}{8}$ ..	183,187	..	..	126,000	309,187
5 $\frac{1}{2}$ ..	10,000	..	..	8,952	18,952
5 $\frac{7}{10}$ ..	42,000	..	..	130,000	172,000
5 $\frac{3}{4}$ ..	5,556,433	45,338	..	2,754,976	8,356,747
5 $\frac{7}{8}$ ..	9,100	..	..	..	9,100
6 ..	4,123,555	6,392,295	1,676,064	589,180	12,781,094
6 $\frac{1}{4}$ ..	8,400	..	..	..	8,400
6 $\frac{1}{2}$ ..	665,609	129,100	823,000	52,350	1,670,059
7 ..	42,610	..	..	237,000	279,610
Totals ..	26,432,735	18,860,116	17,715,089	8,199,599	71,207,539
Average rate per cent.	5.4779	5.105	5.080	5.3206	5.26227

The average rates of interest shown are slightly overstated for the reason that information available does not disclose in certain cases details of the loans bearing interest at a lesser rate than 4 per cent.

TABLE XVIII.—CONCESSIONS TO PRIMARY PRODUCERS BORNE BY GENERAL TAXPAYER.

	Expended, 1928-29.	Estimates, 1931-32.	Increase.	Decrease.
	£	£	£	£
(1) Agricultural fertilizers : Rebate of railage ..	109,597	91,000	..	18,597
(2) Agricultural lime : Rebate of railage .. ..	38,344	43,000	4,656	..
(3) Compensation on account destroyed and condemned stock	29,762	31,500	1,738	..
(4) Massey Agricultural College— Annual grant .. .. £15,000 Interest on capital expenditure 4,500	19,500	22,625	3,125	..
(5) Rabbit destruction : Subsidies to Boards ..	15,000	13,000	..	2,000
(6) Blackberry : Bonus for extermination .. ..	10,000	10,000	..	..
(7) Deer herds : Bonus for destruction .. ..	1,684	5,000	3,316	..
(8) Fruit-production : Guarantee for exports ..	352	11,000	10,648	..
(9) Pork : Bonus on exports .. .. ..	25,810	..	..	25,810
(10) Eggs : Guarantee for exports .. .. ..	..	850	850	..
(11) Royal Agricultural Society .. .. ..	1,000	250	..	750
(12) Substitution of flat rate of land-tax for graduated scale	..	300,000	300,000	..
(13) Special subsidy to rural local authorities in relief of rates	..	250,000	250,000	..
(14) Ordinary subsidies on rates .. .. ..	186,167	200,000	13,833	..
(15) Subsidy on account purchase of superphosphate ..	..	70,000	70,000	..
(16) Railage concession, starving stock and fodder ..	959	2,000	1,041	..
(17) Services of Department of Agriculture (in addition to items included above)	260,864	310,000	49,136	..
(18) Unemployment Fund : Proportion of total (approximate)	..	350,000	350,000	..
	699,039	1,710,225	1,058,343	47,157
			47,157	
Total increase .. .. ..	..	..	1,011,186	