

Leaving the question of the farmers aside for the moment, I am talking about whether Australian conditions affect the New Zealand exchange-rate. It is admitted that they do?—Yes, I should say it would be impossible for New Zealand any more than any other country to adopt a policy of “splendid isolation.”

You say that the exchange-rate in New Zealand is fixed in normal times by the demand for the supply of sterling funds. That is rather academic in view of the fact that we do not know what those sterling funds are and the fact that such sterling funds are influenced by Australian demands?—With regard to this question, Australasia was one economic unit and with the exchange-rate between New Zealand and Australia at par it does not seem unreasonable that it should be so.

I was regarding New Zealand as an economic unit, of course?—At the present time we are far more separate in that direction than we would be if the exchange-rates were the same in both countries.

So that we have not been separate in regard to exchange, Australian conditions do influence the matter?—Speaking from memory, the exchange-rates are affected. A change in the New Zealand rates follows a change in the Australian rates.

I think I can remember an example where New Zealand went below 100 and it was influenced by Australia, and it had nothing to do with New Zealand. That could be so?—Possibly. Generally speaking, the conditions are similar; they have been in the past, I think.

*Mr. Ashwin.*] When the rates started to climb to 110, before the indemnity rates came into being, would you say then that the rising of the rate in the case of New Zealand was influenced by the Australian trading position?—My view is that the rates here were influenced.

That is my impression too.

*Mr. Langstone.*] If that is so, there is a further question. Why did it not follow that up when Australia went to 125 and we went to 110?—There are one or two conditions for that. In the first place, there was a very strong tendency in Australia for a flight of capital; in the second place, the outside rate in Australia already went up to that rate and the banks recognized that as the rate.

In Australia?—Yes.

But not in New Zealand. We did not follow them up to 125?—No. The conditions in both countries were normal, and the conditions here did not follow the conditions in Australia.

To follow Dr. Sutch's question: The tendency would have been for demand to raise the rate—there was a surplus of funds; there was an overplus of New Zealand funds. Would that not be an incentive for them to get New Zealand funds for Australian purposes?—I would not say we had an overplus of funds.

When it was 110 there was no shortage of funds in London; we were carrying good balances there?—That is a matter that requires the dissection of the banks' books, but, speaking generally, to what extent do you think sterling funds would be available when New Zealand had to put the exchange-rate up 10 per cent?

The balance in London according to the statistical returns with the exchange-rate of 110, before it went to 125, was £10,000,000. There would be a demand for £8,000,000 for local-body and Government needs; there would be an overplus of £2,000,000. Would there not have been a big incentive for the Australians to have used New Zealand exchanges for their own purpose?—Their rate was already up.

I know it was?—At that time.

That would be all the more reason why they should want New Zealand funds to keep their rate down?—Now you are dealing with the Australian banking policy.

*Dr. Sutch.*] I have noticed fluctuations of sterling funds from quarter to quarter and year to year, and I have noticed no corresponding changes in the exchange-rate. Would that be due to these Australian conditions perhaps?—The way I look at it is this: If the funds in London are such that all the funds purchased by the banks and held in their London Office can be sold at the same exchange-rate at which they were purchased there is no need to lower the exchange-rate, but if they cannot be sold at that rate there is a tendency to lower the rates because you would have funds you cannot dispose of.

Sterling funds include overseas borrowing on the part of New Zealand?—Yes.

You say, “If an unbalanced external trading position results in a shortage or overaccumulation of London funds, it is, of course, necessary to make adjustments to correct the position.” What are those adjustments?—The adjustments are affected by conditions on both sides. For instance, if the condition of a shortage of London funds was the result of over-importing here and consequently on an increase of overdrafts above deposit-rates, it might be necessary to increase the advances rates, increase the deposit rates to restore the equilibrium here, and that might automatically have the effect of restoring the equilibrium overseas.

So that you might have to adjust the exchange-rate as well?—You might and you might not.

I notice you say, “In normal times an increase in the exchange-rates is an indication that the supply of London funds is less than the demand.” You admit, then, that the exchange-rate could fluctuate in normal times?—Oh, yes; but not to a great extent, as the history of the case has shown. For many years past neither Australian, New Zealand, nor intercolonial exchange-rates have varied by more than a few points.

In talking of the shortage of London funds up to 1931. In December, 1931, the exchange pool was instituted. England needed short-term funds urgently for foreign withdrawals. The New Zealand Government owed England money on short-term and undertook to supply £1,000,000 a month during the period of stringency. Before the banks would agree to provide this from sterling funds, they asked the Government to give them a monopoly of the handling of sterling exchange. This was agreed to, and the banks received their monopoly, pooled the London funds, made so much available for the Government account and rationed the remainder. Is that a correct picture?—What do you mean by rationing?