

WELLINGTON, MONDAY, 23RD APRIL, 1934, AT 2.30 P.M.

Statement in Reply by D. O. WILLIAMS to Monetary Committee Questionnaire.

*"Banking and Currency in New Zealand," by A. D. Park and B. C. Ashwin.*

I am in substantial agreement with the opinions and conclusions expressed in this statement. In my opinion it ably sets out the main features of the New Zealand system.

The chief items concerning which I am in doubt or in disagreement are—

- (i) *Pages 8 to 9.* Velocity of circulation: The method of computation is not clear to me, and, as the utility of the graph on page 9 depends on the method employed in its preparation, I am not prepared to accept (or reject) it in its present form.
- (ii) *Pages 11 to 12.* Recent changes: The statement is made that it would be the duty of the Reserve Bank "to maintain the value of currency by holding the exchange-rates within a swing of approximately 30s. per cent. either way, that being the approximate cost of shipping gold from London to New Zealand and *vice versa*." This appears incorrect. In the first place, the authors have themselves pointed out that in practice there is no free movement of gold into or out of New Zealand. The so-called "gold points" have no practical application to a sterling-exchange system. The margin of fluctuation round any given par, therefore, will depend on exchange policy and not on the cost of gold transport. Where the movement of gold is of no consequence in the maintenance of an exchange system it would appear perverse to make the cost of its movement the determinant of exchange policy. It is much more logical to recognize the practical unimportance of gold-movement and to rest exchange policy on other considerations. Such considerations are discussed in answer to question 1, 2, and 3. and 12.

(Questions 1, 2, 3, and 12.)

1. *In view of present conditions and the prospective outlook for the next few years, what should be the exchange policy of New Zealand?*
2. *On balance would devaluation at New Zealand £125 to £100 sterling be in the best interests of New Zealand? This question assumes that £125 would be the "normal" exchange-rate about which adjustment might be made if warranted in the future.*
3. *What would be the advantages and disadvantages of lowering the exchange-rate on London from the point of view of (a) the budgetary position, (b) the economic structure of the country?*
12. *Would you favour a rigid exchange-rate with sterling?*

(a) These questions are complementary and are best treated in one general answer. It would, in my opinion, be wise to seek a new par of exchange in the vicinity of the rate of £125 New Zealand to £100 sterling. In present conditions and in view of the uncertainty of future prices for our export trade, any substantial lowering of the exchange would involve a gamble with the solvency of primary industries, unless it were possible to provide assistance of another sort to replace the protection now afforded by the exchange. In practice this would mean borrowing internally in order to pay a subsistence dole to farming. I am convinced that the practical difficulties in the way of borrowing money for the purpose of farming subsistence, of allocating it equitably, and of preventing it from leading to undesired overproduction, as well as the danger of alienating still further the English Administration, make the subsidy proposal an unsatisfactory alternative to the exchange device. Even though it may be pointed out (fairly or unfairly) that the exchange device has operated inequitably in that it has conferred benefit on the deserving and undeserving alike, that it has stimulated overproduction, and that it has irritated people overseas, yet it is a much simpler weapon than any subsidy could be, is fairly elastic in both directions, operates most directly on the major source of our national income, and does not pile up unproductive debt for a later operation. In what follows, therefore, I am assuming that exchange policy is to be considered without reference to possible alternative forms of framing relief.

(b) Certain apparent advantages would follow upon a lowering of the exchange-rate on London. The money costs of overseas payments for debt charges would be reduced, and to that extent the Budget would be relieved. I suggest, however, that nationally (as distinct from the relatively narrow field of the Financial Statements) there would be no relief. If an economist may be permitted the luxury of going back to simplicities, it is to remark that overseas interest is basically paid in butterfat, meat, wool, apples, and honey. One bale of wool at £10 sterling pays a debt of £10 sterling whether the exchange is £100 New Zealand or £125 New Zealand to £100 sterling. At the traditional par a £10 sterling debt and a £10 bale of wool both mean £10 New Zealand money. At a par of £125 New Zealand to £100 sterling a £10 sterling debt means a £12 10s. New Zealand obligation; but also a £10 bale of wool (sterling) means a £12 10s. New Zealand means of payment. The Minister of Finance taxes the people additionally to meet the additional money costs of the debt; but there is a larger national income in terms of New Zealand money to meet the extra taxation. The incidence both of the larger taxation and the larger national income are indeed altered, and the real as well as the money costs of overseas debt press more heavily on some sections than formerly; but that is a question of expediency and equity which does not affect the validity of the general proposition that nationally the real costs of overseas debt have not even increased by the higher exchange and would not be diminished by a reduction of the exchange. The real costs of the overseas debt have been increased not by a raising of exchange, but by the fall in sterling prices. My conclusion is that the real burden of overseas debts would not be lightened by a reduction in the rate of exchange on London.