

7. *Would it be possible, by law, to fix and stabilize internal price-levels, irrespective of oversea price-levels?*

It would be possible by appropriate exchange policy to have a considerable increase of price-stability, but such a policy is not wholly advantageous. (See reply to questions 12 and 14 *ante*.)

8. *Does the volume of money and credit determine the general price-level?*

The general level of prices is determined by the combined effects of—

- (a) The volume of currency and credit :
- (b) The velocity of circulation of currency and credit :
- (c) The volume of transactions for which means of payment are required.

This is perhaps an oversimplified statement, but to answer the question fully would require an intricate and extended argument.

9. *What was the principal means of financing used during war-time in New Zealand? Did advancing by way of overdraft for the purpose of subscribing to war loan play an important part in inflating the currency?*

The principal means of finance in New Zealand was the issue of war loans. I understand that arrangements were made with the banks to grant advances to enable persons to subscribe to such loans. The Treasury would know more about this aspect of the matter, but I am satisfied that such advances were relatively unimportant in relation to the total issue. The large volume of subscriptions to the war loans was rendered possible by the high prices then received for exports of primary products.

While the war demand was responsible for that rise in prices, I do not think the flotation of the war loans in New Zealand was directly responsible for the increase in the volume of credit in New Zealand. The explanation of this is contained in the Treasury statement wherein it is pointed out that through the operation of the sterling exchange standard our price-level moved in sympathy with that of Great Britain. As more was received in sterling for our exports more was added to deposits in New Zealand, while, on the other hand, more had to be paid for imports. Hence the large increase in deposits and advances during the war period.

10. *To what extent does our oversea indebtedness link New Zealand to gold or sterling?*

Overseas indebtedness does not "link" New Zealand to gold or sterling in the sense that it forces us to accept any particular parity of exchange. It does, however, strengthen somewhat the case for a fixed parity of exchange with sterling.

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Statement submitted by THE ASSOCIATED CHAMBERS OF COMMERCE OF NEW ZEALAND (A. O. Heany, Secretary).

My association takes this opportunity of placing before your Committee the views of the business community, as represented by my association, with regard to the inquiry being undertaken by your Committee. Our views may be briefly set out as follows:—

1. The primary causes of the present economic stress arise from conditions which are beyond the control of the monetary system, such as economic nationalism; war debts and reparations; political inflation of currencies during the war and after; tariffs and their effect on international trade.

2. The confidence of the commercial community in the banking system of this country has not been shaken, and we are confident that it can and will adapt itself wherever necessary to any changes that may occur in the development of industry and commerce whether local or international.

3. Except so far as changes may be necessary in the circumstances suggested in the preceding paragraph, the commercial community is not prepared to forgo the present system in favour of some new system that is unable to command the same confidence.

Factors distinct from the operation of the monetary system which have to be borne in mind in connection with present conditions in New Zealand are—

1. We have suffered a severe drop in the prices we receive for our produce sold overseas, the proceeds from which are the chief factor in our prosperity. Our interests are therefore interlocked with economic conditions overseas.

2. Government and local-body borrowing has for years constituted no small part of what we have regarded as our income, and this source of supply has now been seriously curtailed.

3. Overborrowing and overspending by the public authorities, by private enterprise, and by individuals, aided in some directions by an overextension of credit facilities, have resulted in the inflation of almost all kinds of assets beyond their real value, and much harm has resulted from the efforts which have been made to sustain these false values.

Monetary measures—

1. The majority of the monetary-reform schemes that are being propounded are variations of inflation in one form or another, and it is unnecessary to remind the Committee how impossible it is to control inflation so as to avoid the disastrous consequences of such a policy, which are well illustrated by post-war Germany and other Continental countries. My association does not feel called upon to deal with the claims of these schemes, one of which can only be described as plainly confiscatory. The schemes do not, in themselves, impress the commercial community as likely to be efficacious in the important sphere of banking, currency, and credit, and they also lack completely that authority that would come from their operation elsewhere.

2. By no possible method of manipulation of currency can the Dominion break away from the inevitable valuing of its currency in terms of sterling, in which latter currency payment is made for our exported produce, sterling thereby still determining the basis and value of our income.