

DOLLARS AND SENSE

WHEN Mrs. Jones, of Wellington, buys an American picture book for her small daughter she gives the salesman a 10/- note which disappears into the bookseller's till and that transaction is ended. If Mrs. Jones has an enquiring mind she may wonder how the publisher in the United States receives payment for the book and perhaps she is puzzled about whether her 10/- or any part of it is sent to America to pay for her book. If this New Zealand mother is puzzled so are many others, because the methods of paying for imports from another country are not simple nor are they widely understood.

When paying for the book, along with others costing in all 100 dollars the book importer would find that neither his own cheque nor New Zealand bank notes would be acceptable in the United States. He must therefore find some way in which he can pay 100 dollars to the publisher. He may do so by buying from the Bank of New Zealand a dollar draft which is in effect a request from the Bank of New Zealand to its agents in the U.S.A., the National City Bank of New York, asking that 100 dollars

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be paid to the publisher of the books. The bookseller in Wellington sends the draft to the publisher, who presents it to the National City Bank, which pays the 100 dollars to the publisher in exchange for the draft. To enable the National City Bank to meet such drafts the Bank of New Zealand periodically pays to it lump sums in dollars. In the main such dollars are purchased from the Bank of England, London, through the Reserve Bank of New Zealand.

It should be explained that New Zealand exports to Great Britain exceed in value the amount required to pay for New Zealand imports from Britain and to meet other New Zealand payments in Britain such as interest on New Zealand loans raised in Britain. As between New Zealand and the United States the opposite is true and the usual way for this country to obtain dollars to meet payments in the United States in excess of the sums realised from goods and services supplied by New Zealand to the United States is to buy from

Britain, dollars in exchange for some of the British currency accumulated as a result of the sale in London of New Zealand produce. The final result of the purchase of a picture book in Wellington was therefore to reduce the dollars held by the Bank of England, and to reduce similarly the United Kingdom currency held by the Reserve Bank of New Zealand in London. In the light of this example, let us now consider Great Britain's dollar crisis which, as we have been told repeatedly in the Press and from the platform, is of grave importance to this country.

Britain Must Import to Live

Twin facts which provide the key to understanding dollar crisis are that Britain is a small island with a population of nearly 50 millions and that she has just fought a war the exertions of which have gravely affected her economic strength. Because of her large population and relatively scarce land, Britain must import to feed, clothe, and otherwise supply the needs of her people. She must be a great importing country and to pay for her imports she must be a great exporter. No other country would go on sending goods to Britain without receiving payment in

some way or other and receiving payment means being supplied with some goods or services in return for those supplied to Britain.

Britain has fought a war which has increased her need to import, but has seriously impaired her ability to pay for imports. She is short of manpower and of productive resources to restore the physical damage of war to her buildings, her machinery, and her people. In pre-war days the produce of British mines and factories for export was augmented, in that contributions towards the payment for imports came as income from foreign investments, from earnings of British ships and from insurance earnings and trade commissions on foreign trade. Part of the cost of the war to Britain was the loss of much shipping, the sale of overseas investments to pay for war supplies, and an added external interest burden on overseas debt which increased by £3,000 million. All of these difficulties existed in the later years of the war, but their effect was masked by lease-lend assistance from the U.S.A., valued at more than £5,000 millions and by stringent economies in consumption by the British people.

The American Loan

It is no wonder that in the years following the war Britain has found difficulty in financing her imports. The

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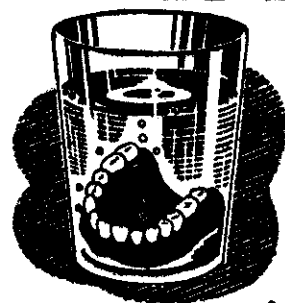
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