

Under the circumstances, and as previously stated, the Government have decided not to increase income-tax rates for the current year.

This takes me to another method by which money can be raised—creation of credit. It has been suggested by many good citizens, who have not fully examined the effect of their proposals, that the full cost of the war should be met by the issue of currency from the Reserve Bank. This is such an easy road that if it had good foundations we should follow it, but the facts of life prove that it would lead to chaos and disaster.

The standard of life in a community depends upon the amount and the kind of work done. If the right quantity of the right kind of goods and services is produced and equitably distributed among the people, the standard of life is high, regardless of money.

Conversely if the volume or quality of the goods and services declines or is unfairly distributed, the standard of life falls, regardless of money.

Money is necessary as a medium of exchange, and if there is sufficient money in circulation already, the creation of more would not remedy a decline in production because in such a case the decline would not have been caused by a shortage of money. On the other hand an insufficient money supply may cause production to fall by reducing the effective demand for available goods. In such a case the supply of money could with advantage be increased.

At the present time there is ample money in circulation to enable the people to purchase necessary goods and services as they become available day by day.

Consequently harm and not good would result in the further increase in the supply of money, as would arise from the use of Reserve Bank credit except in extreme emergency—and for which even then the price would have to be paid. In fact what is wanted is the syphoning off of any excess purchasing-power for investment in war loans in order that diversion of productive effort to war may be matched by a similar diversion of purchasing-power. Only by these means can we remove the pressure that threatens to upset our economic stability.

Other governments are now realizing that currency and monetary policy must be under their control as they are in New Zealand—that the power to create credit must be used exclusively for the benefit of the people, and in particular to assist the expansion of production and services to maximum requirements.

Shortage of goods and services in a period when expansion of production is not possible calls for a totally different monetary policy than does a condition when expansion of production is both desirable and possible.

If we are to make our maximum war effort, whilst ensuring good foundations for our post-war policy, it is essential that the currency and monetary system be wisely managed and controlled.

At the present time the wisest course is to rely on subscriptions to the War Loan to meet the sum not provided by taxation at existing rates during the current year.

There is thus an unprecedented opportunity to assist the war effort and place New Zealand in this field also, in the van of the United Nations.

If during the month of June every one determines to place all his or her surplus into the War Loan, the sum required will not only be obtained but further taxation will be unnecessary. The effect of subscription to the loan, if made by all classes and groups of people, will have the same beneficial effect on stabilization as if the same sum were raised by taxation.

Taxation takes from all largely in proportion to their ability to pay the moneys required to carry on the war and national activities. Creation of credit under certain circumstances takes away by unseen methods the value of work done and savings made, and ultimately in the forms of price increases hits those most who have to spend their incomes on necessities of life. Loans borrowed from those who have worked and saved the result of their labour diverts these savings to the war and national efforts and the amounts will be repaid when war needs are satisfied and production is once again based on civilian needs.

It is essential that the value of stabilization should be understood by all our people. Stabilization.

To the extent that the sum distributed in wages, salaries, and other income exceeds the total value of goods and services available for civilian consumption as measured in price we run into a dangerous position unless the surplus of income is either taken out of circulation by taxation or is invested by the recipient in war loans or National Savings Bonds or Accounts.

If surplus moneys are invested in war loans the Government is enabled not only to meet all its accounts for war services and equipment, but to hold price levels at points that will be good foundations for the post-war period. The