

(B) CONSIDERATION OF THE RESTORATION OF THE GOLD STANDARD.

**Exchange and
National Income.**

64. We have given a general description of the working of the exchanges. New Zealand is now 10 per cent. off parity with sterling. Whatever the circumstances determining this rate, it checks imports and thus helps to safeguard London funds. It also encourages exports by raising the gross income of the exporter by 10 per cent. above what it would be at sterling figures. At parity of exchange with sterling, national income will tend to be adjusted on the basis of an overseas income of £32 m. On this basis we found in Section III (paragraph 18) that, after the process of economic adjustment was completed, the national income would tend to fall to £80 m. If, however, the rate of exchange moves and remains away from parity, the money value of the national income will be different.

**Alternative
Exchange Policies.**

65. The rate of exchange thus has an important bearing upon the money value of national income. We proceed to consider typical examples of three possible exchange objectives: First, a restoration of parity with gold; secondly, the maintenance of the existing 10 per cent. rate of exchange; and, thirdly, the adoption of a high premium, illustrated by taking a rate of 40 per cent. Normally, the exchange mechanism of New Zealand keeps the New Zealand exchange very close to parity with sterling. Before the war, and between 1925 and 1931, Great Britain was on the gold standard; hence New Zealand currency was then closely linked to gold through the exchange relationship with sterling. When Great Britain moved from the gold standard, in 1931, British exchange depreciated in terms of the currencies of countries such as the United States and France. The New Zealand exchange, which had already depreciated 10 per cent. in terms of sterling, maintained its relationship with sterling, so that the depreciation of sterling on gold-standard countries resulted in a similar but additional depreciation of New Zealand currency.

**(i) Return to
Parity with Gold.**

66. The present adverse exchange of 10 per cent. on sterling causes export prices expressed in New Zealand currency to be approximately 10 per cent. higher than the prices expressed in sterling. The money receipts of the farmer are therefore increased. If New Zealand currency had remained at parity with gold, the New Zealand exchange in London would have been below parity with sterling. Hence the effects on export prices would have been the reverse of those at the present rate of 10 per cent. New Zealand export prices expressed in sterling would have remained the same as at present; but export prices in New Zealand currency would have been lower than sterling prices by approximately the amount of the depreciation of sterling in terms of the gold parity, or parity with the dollar. The following table shows the level of export prices and the estimated value of exports in New Zealand, at the present 10 per cent. rate, at parity with sterling, parity with gold, and at a 40 per cent. exchange.

	Export Prices, December, 1931.	Exports, Estimated Value, Current Year. £ m.
At present rate	95.0	35.1
At parity with sterling	86.5	32
At parity with gold	61.0	23
At 40 per cent. above sterling	121.10	45

67. In order to demonstrate the probable effects which would follow from maintaining the pre-war parity with gold, let us assume that the exchange between London and New York is established at 3.60 dollars to £1 sterling, instead of the normal gold parity of 4.86 dollars = £1 sterling. In other words, let us assume that Great Britain stabilizes her currency at a level which is depreciated 25 per cent. in terms of the gold parity. In fact, sterling at the moment has depreciated by 27 per cent. If New Zealand currency were maintained at parity with gold, this would mean that export prices in New Zealand would fall 25 per cent. below export prices expressed in sterling. The value of exports is now round about £32 m. expressed in sterling. Hence the value of exports expressed in New Zealand currency would fall to about £24 m. As a consequence, the national income would fall from the 1928-29 level of about £150 m. to about £60 m. It will be apparent at once that the problem of readjusting our economic life to a national income of £60 m. would be very difficult indeed—much more so than the problem of adjusting it to a national income of £80 m., to which the national income would tend to fall at parity with sterling. But it is never assumed that New Zealand should return to the old parity with gold. There is general agreement that parity of exchange with a depreciated sterling has economic advantages over parity of exchange with gold currency at the old rate. The main reason for this view is the higher level of export prices when these prices are measured in a sterling currency depreciated in terms of gold.

**Effects of
Deflation.**

68. We now discuss briefly the economic arguments for and against this view. Maintaining the exchange at parity with sterling does not bring any additional real income into New Zealand, over the amount at parity with gold. But on the assumption that sterling is depreciated 25 per cent. in terms of the gold parity, it does support the money income in New Zealand at a level 25 per cent. higher. By holding export prices above their level in gold it lessens the magnitude of the necessary