

prices that has taken place throughout the world. Countries that have a depreciated currency might claim that it is the value of gold currencies that has increased, and not the value of their currencies that has decreased. With such a low money value of national income it would be impossible to meet the expenditure of local bodies and the Government without the most drastic scaling-down of all payments. It would certainly be more difficult to balance the Budget at parity with gold than at parity with sterling, despite the fact that the budgets of local bodies and the Government would derive an advantage in terms of money of £2·25 m. on account of the lower gold value of external interest payments. This may appear a surprising conclusion, but it is not less surprising than a view that it might be to the advantage of the country to have a rate of exchange above parity with sterling, despite the fact that the external debt charge will increase the cost of exchange on external interest. We consider this view below. (Paragraph 74.)

Conclusion.

72. We have no hesitation in coming to the conclusion that, in view of the present level of gold prices, parity with sterling is preferable to parity with gold. It means a higher money income, a readjustment of less magnitude, the maintenance of the values of securities, less financial disturbance, and, finally, a less disturbing budgetary situation. Having reached this conclusion, we now consider the economic effects of a rate above sterling.

(C) CONSIDERATION OF THE PRESENT 10-PER-CENT. RATE.

(ii) Maintenance of Present Position : 10 per Cent. above Sterling.

73. At present the exchange is 10 per cent. above parity with sterling. This increases export values in New Zealand currency and sustains the New Zealand price level above what it would otherwise be. If export prices in sterling remain at their present level, the money value of the national income will tend to be adjusted to an export income of £35 m. in terms of New Zealand currency, instead of £32 m. at parity with sterling. In Section III we estimated the national income as settling at approximately £90 m. at the present 10 per cent. and present export prices. From the point of view of farm production the exchange rate raises export prices approximately 10 per cent. above the sterling figure and reduces the decline in costs required to make farm production profitable. In other words, the general adjustment in money income and in all fixed charges in the community is lessened. For the same reason, it helps to sustain the values of securities against which debts have been created, and thus lessens the financial disturbances associated with the problem of readjustment. Further, it sustains revenue at a higher money level than would be possible at parity of exchange. On the other hand, it increases the money cost of the external debt service when expressed in terms of New Zealand currency. If the budgets of local bodies and the Government as a whole be taken, the external debt charges are approximately £8·2 m. in sterling and £0·76 m. in Australian currency. On the latter there is at present an advantage on account of the higher level of the Australian exchange. This advantage is approximately £0·1 m. The additional cost on the sterling interest is approximately £0·8 m. The net cost is therefore £0·7 m. To meet this it would be necessary to collect only £0·7 m. additional revenue upon an additional national income of approximately £10 m. Thus, if the total revenue is only 7 per cent. on national income, the Budget should not suffer any loss from the higher rate of exchange on account of exchange charges on the debt service.* Before the crisis, local-body and Government revenue amounted to about £40 m. on a national income of £150 m.—that is, more than 25 per cent. If this percentage is maintained on the lower national income, the additional revenue on £10 m. of national income would be £2·5 m. against a cost of £0·7 m. There is a balance of £1·8 m. to meet any increases in the cost of stores and goods on account of the higher exchange rate. The total of these costs should not increase more than 10 per cent., and the internal debt service would not increase at all. It is clear, therefore, that the 10-per-cent. exchange involves a net gain to the budgets of local bodies and the Government as a whole.* This benefit is not immediate. It accrues as economic adjustment proceeds, and the full benefit is not realized until the process of adjustment is completed. During the transition period the additional exchange cost on the Budget is stabilized at £0·7 m. The 10-per-cent. exchange rate, however, prevents the national income from falling as much as it otherwise would. Therefore from the outset it sustains revenue at a higher level than would otherwise be possible. The additional revenue, however, is not immediately £2·5 m., but substantially lower than this sum.

(D) CONSIDERATION OF THE EFFECTS OF A HIGH RATE—SAY, 40 PER CENT.

(iii) A High Premium—e.g., 40 per Cent.

74. We now proceed to consider the case of a high premium on exchange—say, 40-per-cent. exchange. In this case the additional cost of the sterling interest would be approximately £3·3 m. in New Zealand currency. The Australian interest would cost £0·09 m., making a total of £3·4 m. But the additional money value of the national income would be about £32 m. Hence the exchange charges on external interest would amount to about 10 per cent. of the additional national income, compared with a 25 per cent. ratio of revenue to national income before the depression. If this rate is maintained, the additional revenue possible from £32 m. of income will amount to £8 m. against which is to be set the additional cost of exchange on the external debt charges

* See Addendum by Mr. Park.