

amounting to £3.4 m. and any increase in the cost of goods and stores as before. Even though these costs increased by the full 40 per cent., the internal debt service would remain the same. Thus there would similarly be a net gain to the budgets.* If the Hoover moratorium were continued, the external debt charge in terms of sterling would be reduced by £1.3 m. In this event the additional cost of exchange would amount approximately to £2.9 m.

75. An exchange rate of 40 per cent. would raise the values of export prices from their present basis of 40 per cent. below 1928-29 levels to approximately 24 per cent. below the 1929 level. At the present time export prices have fallen from, say, 100 in 1928-29 to 60. This is the position at a 10-per-cent. exchange. At a 40-per-cent. exchange export prices in New Zealand currency would tend to rise in the ratio of 140 to 110—that is, to 76. The rise would, therefore, be from 60 to 76—namely, 27 per cent. This would give an addition of this order to the gross income of the exporter and place him in a better position to meet costs which had not fallen in conformity with the fall in export prices. The adjustment in costs required to make export production profitable at the lower level of real income would be less than 24 per cent. from the 1929 level. If the farmer is sharing in the loss of real income proportionately to the rest of the community, a reduction in costs of the order of 20 per cent. might suffice at 40-per-cent. exchange rate, compared with 35 per cent. at 10-per-cent. rate and over 40 per cent. at parity of exchange. Hence the revision of fixed charges and other costs that tend to stick would be a less formidable task at a 40-per-cent. exchange than at parity of exchange or at a 10-per-cent. exchange.

**Adjustment of
Export Prices and
Costs.**

76. It has been shown above (paragraphs 73-74) that the higher rate of exchange would not involve an additional net burden to the budgets of local bodies as a whole or of the Government.* Hence it cannot be regarded as a net burden on the taxpayer. It would, however, increase the prices of imports when measured in New Zealand currency. With exports of £32 m. in sterling and an external interest burden of £9 m. sterling, imports would be approximately £23 m. A 40-per-cent. exchange rate would add nearly £9 m. to the cost of these imports in New Zealand currency. We have to consider (i) whether this is a net cost to the community, (ii) whether it is inequitable to importers, and (iii) whether it would tend to put up costs to the farmer and thus to destroy part of the benefit he receives from the higher prices of his exports. We shall consider these questions apart from any other adjustments that may be made. (i) With regard to the first, it is clear that there is no net cost to the community as a whole. Income is transferred from some sections of the community to exporters. This transfer is a matter of adjustment within the community itself. If economic conditions are to be adjusted to the lower level of export prices a transfer of this order must, in any case, take place eventually. It may be done through the exchange rate, or through drastic cuts in money incomes for the purpose of reducing the costs of export production, or by other measure of relief to exporters at the expense of the community. On this point any measures adopted involve a loss of present real income to some sections of the community in order to restore part of the loss of income that exporters have suffered. In other words, the problem of adjustment is to spread more evenly throughout the community the loss of national income that now falls with special severity upon exporters. It is not a valid argument against the high exchange rate, or any other measure of relief that it imposes a burden upon the rest of the community for the benefit of farmers who are suffering from price disparity. (ii) Hence we reach our second question—namely, whether it is inequitable to importers. The additional cost of imports in New Zealand currency will be passed on to the rest of the community. The high rate will not reduce imports below what the community can afford to buy, though its immediate effect would be to bring down the value of imports in sterling rapidly to this position. This amount is determined by the sterling value of exports, less the debt service. Since the high rate maintains a higher internal price level, it will be possible for importers to sell imports at higher prices, when stabilization is reached at the exchange rate agreed upon.

**Additional Costs of
Imports.**

77. (iii) The third question is that of costs. We distinguish money costs from real costs. It is true that by adopting the rate of exchange at 40 per cent. prices will be higher than at parity of exchange, and therefore money costs will be higher. This does not, however, apply to all money costs. Fixed charges, such as rent and interest, will not necessarily be higher. They will tend to remain the same. They will be a less real burden at 40-per-cent. exchange than at parity, because the gross income of producers will be raised by 40 per cent., while their fixed charges are less subject to variation. Similarly, money wages and incomes will be higher at 40 per cent. than at parity of exchange, but real incomes and real wages will be lower. The reduction in money wages required to bring about a reduction in real wages at parity of exchange is of such a magnitude that the adjustment cannot be made without difficulty and delay. It is true that the price level would settle at a figure substantially above the ultimate position at parity of exchange. But we have not yet reached that ultimate position. Indeed, our cost of living has fallen only 11 per cent. compared with a fall of 40 per cent. in export prices. At a 40-per-cent. exchange rate export prices would be 24 per cent. below 1929, and the additional adjustment in the cost of living would

Effect on Costs.

* See Addendum by Mr. Park.