When this happens the export producers will be able to purchase with their diminished money income the same quantity of goods and services as before, and industrial output will therefore be restored to its former level. Without this adjustment, how can the community deal effectively with the problem of unemployment, balance the Budget, and restore and maintain sound financial conditions ?

Absorbing the Unemployed.

48. There will also be the problem of absorbing in profitable enterprise the workers and employers formerly dependent upon the expenditure of overseas loan-money. For this purpose a further reduction in costs must be achieved in order that export production and internal production competing with imports can be expanded. As this happens, the volume of employment will be increased and the community will come down to a lower level of real income consistent with the loss of national income caused by the depression.

Spreading the Loss.

49. This real loss must be spread over the community as a whole. If it is borne mainly by two sections of the community—namely, export producers and the unemployed—national income must suffer. The contraction of output in secondary production will be severe, and it is doubtful whether export production can be maintained on its present returns. Thus the spreading of the loss of income is essential to the process of readjustment. The more rapidly it is spread, the quicker will be the recovery and the smaller will be the loss during the process of readjustment. It is, therefore, important to consider how the adjustment can be made expeditiously and equitably whilst sustaining enterprise.

Equality of Sacrifice.

50. If the adjustment is made on parity of exchange a fall in many cases of the order of 40 per cent. is required. A cut of 10 per cent. in income accompanied by a reduction of 10 per cent. in the cost of living certainly contributes substantially towards the monetary adjustment. It does not, however, involve the spreading of the real loss to the recipients of the incomes cut by 10 per cent. Thus to-day average wages have fallen by approximately 11 per cent., compared with a reduction in the cost of living of 11 per cent. Similarly the recipient of interest, unless he be specially taxed, has a higher real income if he continues to receive the same amount as formerly. If the loss of real income is to be spread evenly, no section of the community can be left with a greater real income than before the crisis. An all-round sacrifice is required. Resistance to the sacrifice by any section of the community will only delay the process of recovery, dampen down enterprise, and react ultimately upon the interests of the particular section in question, together with the interests of the whole community. It should be recognized that any measures of readjustment involve sacrifices by those sections of the community that have escaped any real loss of income or have hitherto been asked to accept a minor real loss. The total loss is so great that it must be spread evenly over the whole community if an ill-balanced economic structure is to be avoided.

Inadequacy of Adjustments already made.

51. Some progress towards readjustment has already been made. The following are the measures of adjustment in operation to date :—

(i) A fall in internal prices and in the cost of living of the order of 10 per cent.
(ii) A rise in the exchange rate to 10 per cent., bringing relief to export producers.
(iii) A contraction of imports from £45 m. to £24 m.
(iv) A reduction in wages of 10 per cent. ordered by the Arbitration Court.
(v) A reduction of 10 per cent. in wages and salaries in the Public Service, and other economies in public expenditure.
(vi) The passage of legislation to enable mortgagors to secure relief from both interest and principal under certain conditions, and special consideration to mortgagees by all State lending Departments.
(vii) Taxation relief and increased subsidies to the farming industry.
(viii) A reduction of interest on Government and local-body loans for new issues, and on bank overdraft and deposit rates.
(ix) Special taxation on gilt-edged income.
(x) Increased land development and settlement, and unemployment relief.
(xi) Legislation for a co-ordination of transport to limit unnecessary and wasteful competition, and the placing of the railways under a non-political Board.
(xii) The utilization of reserve funds.
(xiii) The conduct of special investigations—viz., into Government expenditure, by a Royal Commission ; into banking and currency, with special reference to a central bank for New Zealand ; and into the whole incidence of local-body taxation and the expenditure of all local bodies, including Hospital and Charitable Aid Boards.

Whilst helpful, these measures are inadequate to deal with the situation. We now proceed to consider in detail what other measures are possible, and what effect they will have if adopted.