

reduce the deficit to a manageable amount—that is to say, to such an amount as may be liquidated by a moderate recovery in business conditions or by further economies should this recovery not eventuate. In the meantime such a deficit could be financed by the issue of Treasury bills. Where a central bank is in operation, it is possible to arrange this Treasury bill finance through the bank in co-operation with trading banks. In New Zealand, however, as there is still no central bank, arrangements would have to be made direct with the banks as a whole. Provided the Budget deficit is reduced to the manageable amount specified above, it is possible for banks to take Treasury bills for the deficit without impairing their resources. But they must have confidence in the ultimate liquidity of the Treasury bills, and this confidence depends essentially upon the balancing of the Budget within a reasonable period.

131. In taking up Treasury bills banks are supplying further credit to the community, and to this extent they are easing the process of readjustment. The additional credit sustains spending-power, and therefore the volume of internal production at a level higher than would otherwise be possible. It also helps to prevent the internal price level and the value of securities in general from falling too rapidly. In this way it tends to maintain the liquidity of all bank assets. Further, the use of Treasury bills to finance a Budget deficit for internal transactions does not necessarily involve a drain on bank resources for external purposes. Therefore the credit made available to the Government will in large part find its way into the accounts of other customers of the banks and be used to reduce advance or increase deposits. Hence it should not have a detrimental effect upon the bank position generally, provided Budget equilibrium is in prospect, and the Treasury bills taken up by the banks are therefore good securities. The transaction is indeed a means of using the banking system to ease the process of economic readjustment.

**Effects of
Treasury Bills on
Bank Deposits.**

132. The same considerations apply to the issue of Treasury bills for necessary loan works until such time as the Government is able to float an internal loan for essential public works. In 1930–31 the total expenditure for public works, land-settlement, and State advances, was approximately £10 m. It will not be possible for the Government to spend the same amount during the depression, but it would only deepen the depression if the supply of funds for these purposes were completely cut off. Moreover, such a cessation of loan expenditure would be economically unsound, because it would leave uncompleted some loan works, and thus involve the community in a dead loss on account of indebtedness created by the expenditure on the uncompleted works. It might, however, pay the community to abandon non-productive works not yet completed and cut the present loss thereon. But it is desirable that some loan expenditure should be sustained. Apart from completing existing works, the suspension of which would involve a net loss, new works should be able to meet normal debt charges on the capital expended upon them. If this standard be applied to loan works in the future, there will necessarily be a permanent reduction in loan expenditure. In the transition period funds should be available for such completion of existing public works or settlement schemes and for such new enterprises as are economically sound. It is not possible at present to estimate the amount likely to be required for these purposes, but the reduction is likely to be at least 50 per cent. compared with 1930–31. This is a very heavy reduction over a period of two years, and will in any case involve considerable disturbances to the volume of employment both directly and indirectly dependent upon loan works.

**Loan Expenditure
through Treasury
Bills.**

133. With regard to the issue of Treasury bills to meet external requirements the position is different. The nature of the transaction depends mainly upon the extent to which funds are available in London from the balance of payments. During 1931 imports were approximately £25 m. and exports £32 m. in sterling values. On present indications it is estimated that exports will amount to about the same figure for the current year. In the event of no loan operations being possible on the London market, the requirements of the Government and local bodies in London will have to be met from exports. These requirements are estimated at £14 m., leaving £18 m. available for imports, unless existing reserves abroad be drawn upon. It may thus be necessary to bring imports down to this figure. If this is done there will be sufficient credits in London from current income to meet obligations for interest and loans falling due. With respect to interest, the Budget plan should provide for the raising of sufficient funds in New Zealand to buy from the banks the credits required in London. With regard to Treasury bills falling due in London, however this policy is not practicable, and it may be necessary for the banks in New Zealand to take over these bills as they mature. If it is practicable to fund these bills on maturity, such should be done so as to ease the position in New Zealand.

**Treasury Bills for
External
Requirements.**

134. In conclusion, it may be desirable to draw attention to the fact that the issue of Treasury bills involves an increase in the public debt. Where this debt is increased on account of the Budget deficit, there can be no immediate provision from earning assets for payment of interest and sinking fund. But the transaction is not unsound on this account, because it may form part of a plan of general readjustment.* If it is associated with an exchange policy that sustains the internal price level, the real burden of the debt might still be less than it would be with a policy that combined parity of

**Treasury Bills and
the Public Debt.**

* See Addendum by Mr. Park.