

The question of the best policy involved in financing deficits and sustaining loan expenditure through Treasury bills is one of vital importance to the Government, to the banks, and to the community as a whole. There should be a clearly defined policy associated with a careful and comprehensive Budget plan.

Signed by the Committee :—

JAMES HIGHT, Chairman.

H. BELSHAW.

D. B. COPLAND.

A. D. PARK.*

A. H. TOCKER.

Wellington, 24th February, 1932.

* See Addendum by Mr. Park.

SECTION XVI.—ADDENDUM BY MR. A. D. PARK.

As I concur generally in those sections of the report which are descriptive of the existing economic position of the Dominion and which demonstrate the necessity for an all-round adjustment of costs to restore economic balance, I have signed the report. I have done so, however, subject to reservations on the following points :—

(a) EFFECT OF CHANGES IN EXCHANGE-RATES.

Although the fact is indicated in various ways in the report, I wish to emphasize that the effects of adopting various rates of exchange, as illustrated in the report, and particularly in Parts B, C, and D of Section VIII, refer to the ultimate rather than the immediate comparative effects of changes to those levels—that is to say, these parts really represent a hypothetical comparison between the various positions that would be likely to obtain if we had in present circumstances complete adjustment and stabilization of internal affairs at levels that would make the assumed rates of exchange in each case the natural rate of exchange with sterling. The effects noted in the report would not immediately follow a fall or an increase in the rate of exchange, and before stabilization was reached at any of the assumed levels it is very likely that the factors on which the hypothesis is based will have undergone considerable change. British wholesale prices are at present showing a rising tendency.

I wish to record particularly my dissent from statements made in Section VIII and other references in the report to the effect that there would be a net gain to the Budget from an increase in the rate of exchange. In fact, I am convinced that the immediate effect would be to increase considerably the Budget difficulties. For instance, an immediate substantial rise in the exchange-rate to, say, 25 per cent. would increase the expenditure item for exchange by approximately £1,500,000 for next financial year. In addition, it would assuredly lead to a further immediate fall in Customs revenue of, say, £1,500,000, and, through the reactions on the importing and mercantile sections of the community, income-tax and other items of revenue would be adversely affected, perhaps to the extent of £500,000, making a total adverse effect of £3,500,000.

The ultimate effects on the Budget of such a rise in exchange-rates are very difficult to foresee, but it would appear that when stabilization at the new level is eventually reached the aggregate margin of real income available for taxation can be no greater than would accrue from stabilization at the present rate of exchange, or at parity with sterling. On the other side of the account, the relative position of the expenditure to the revenue, apart from internal-debt charges, would be the same at the new level once internal prices, wages, property values, &c., had completely adjusted themselves to that level. On present internal-debt charges, as these are definitely fixed in terms of money, there would be a saving at a higher price level.

In between the immediate loss and the ultimate effects on the Budget of a rise in the exchange rate—that is, during the period of adjustment—the Budget would benefit or lose according to the relative stages of adjustment of the various economic factors at any particular time. These remarks on the effects on the Budget largely apply generally. During the period of adjustment some sections of the community will gain at the expense of others from a rise in the exchange-rate, but such benefit, apart from the saving on existing fixed charges, would be lost as soon as stability at the new level is reached.

(b) THE FUTURE OF NEW ZEALAND CURRENCY.

In regard to the observations on this matter contained in Section IX of the report, I agree that it is a normal function of Government to prescribe by law the basis of the unit of currency. At the same time I wish to point out that changing an established basis of currency is a serious step, as any impression that the existing basis at any time is not permanent would be fatal to the essential element of confidence in the currency.