

Other countries have devalued their currencies, but, so far as I am aware, only in recognition of an existing depreciation. It is quite another matter to fix intentionally in advance a point to which the currency is to be depreciated, even assuming the depreciation could be controlled and stopped at the point decided upon. I may add that the history of other countries is against such an assumption.

Artificially to raise the exchange-rate above the level required to maintain equilibrium in external receipts and payments amounts to designed depreciation of the currency. To maintain such rate while it remains artificial it is suggested in the report that the accumulation of London funds resulting from the unnecessary restriction of imports could be used for redeeming debt held abroad. Apart from the fact that doing this would be very costly at a high rate of exchange, the operation would in my opinion be impracticable at a time like the present, owing to the difficulty of borrowing in New Zealand the additional funds required for such redemptions. Thus the banks would be unable to sell at the higher rate all the exchange bought at that rate, and accordingly the artificial rate could not be maintained. To fix an artificial rate without being able to maintain it would further complicate an already difficult situation, with repercussions that cannot be foreseen.

In any case, the proposal means forcing the community to provide funds for such redemptions out of the much-reduced purchasing-power of their exports. In other words, the community badly needs the reduced volume of imports that can be obtained in exchange for our exports at present, but this proposal would still further reduce the volume of imports that could be purchased. The restriction would operate through the higher New Zealand prices for imports resulting from the raising of the exchange-rate.

To raise the exchange-rate for the express purpose of giving a bonus to one section of the community at the expense of the remainder of the community would establish a precedent which might later lead to similar demands from other sections, with disastrous results to the all-important element of confidence in the currency. Further, such a bonus would be distributed *pro rata* without regard to the relative need of individuals.

If, as is quite likely, it is found that the comparative rigidity of some of the elements of cost is such as to render it impossible to make sufficient internal adjustments fairly rapidly, without imposing too much strain on the economic structure, some further measure of currency depreciation may be forced upon us. It is not advisable in a time of financial stress to attempt to restrict credit unduly, and maintaining the volume of credit in the face of falling prices must, as soon as there is some recovery in turnover, lead to pressure on the exchanges. Essential advances to the Government during the period of economic adjustment would add force to this tendency. Even if further intentional depreciation of the currency as suggested in the report were found to be desirable, the desired end could be attained on more orthodox lines by action through the banks to maintain the internal purchasing-power, leaving the rate of exchange to reflect the relative position of internal and external purchasing-power in the normal manner.

In this way unavoidable depreciation would take effect in the usual manner, and there would be no suggestion of tinkering with the currency.

Experience clearly demonstrates that even an orthodox rise in exchange-rates results in a fall in the price of our securities on the London market. An artificial rise denoting intentional depreciation of the currency would undoubtedly have a much greater adverse effect on our credit, and this would not only preclude obtaining any relief through fresh borrowing abroad, but would greatly increase the difficulties and cost of dealing with debt maturities abroad.

Whatever the exchange-rate may be for the time being, any change in the currency laws should be considered only when sterling is again on a permanent basis and general economic stabilization at some level has actually been reached in the Dominion. New Zealand is linked with Great Britain by strong ties of sentiment, trade, and debt, and it would be inadvisable to make any permanent change in the basis of New Zealand currency without full discussion of the matter with the British authorities.

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