

14. After reviewing the position as disclosed in the statistics on the subject your Commission is of opinion that the rise in the cost of living due to the increase of the prices of the articles in the uniform "Schedule of Living" has been considerably less than in the United States, Canada, and Germany, and appears to be approximately the same as in the United Kingdom, but higher than in France.

General
conclusion.

CHAPTER IV.—INFLUENCE OF THE GOLD-SUPPLY.

Question 10 : What influence, if any, has the value of gold had on the cost of living ?

1. The price of a commodity is the value or purchasing-power of that commodity expressed in terms of money. Money is the common medium of exchange, and, as such, becomes the common denominator of values expressed in prices. If a bushel of wheat exchanges for 3s. and a chair for 9s. in the same market, their relative powers in exchange for commodities in general are as 1:3. The total value of the exchanges in a market at a given period will equal the quantities of goods and services exchanged multiplied by their several prices. This must be equal to the amount of money in circulation in that market for that period, multiplied by its rate of turnover or velocity of circulation. The money with which exchanges are made consists of (a) gold in circulation, and (b) credit money based on gold, and on other forms of property deposited in the banks, the latter usually taking the form of bank-notes, cheques, and bills of exchange. Therefore the amount of *legal-tender money* in circulation multiplied by its *rate of turnover*, and added to *the amount of credit money* in circulation multiplied by its *turnover*, exactly equals the sum of the prices of all commodities and services bought and sold in the market multiplied by the quantity sold ; or, in other words, *the volume of trade*. The general level of prices, or the average prices, for the period must therefore equal the sum of, first, the legal-tender money in circulation multiplied by its rate of turnover, and, secondly, the amount of credit money in circulation multiplied by its turnover, divided by the total quantities of goods and services exchanged. This may be briefly referred to as the "equation of exchange" (Fisher). It is this general level of prices which the index numbers of wholesale prices (referred to in Chapter I) attempt to measure, not, of course, by attempting the impossible task of pricing all goods and services exchanged, but by choosing certain ones that may be regarded as typical of the whole. It is therefore clear that the general level of prices so determined is influenced directly by five factors—viz., the amount of money in circulation, the velocity of its circulation, the amount of credit money in circulation, the velocity of its circulation, and the volume of trade.

Gold and the
general level
of prices.

Obviously, if any one of these factors changes in magnitude, there must result a change in the general level of prices. Actually, of course, all of them are constantly changing, and the net result on the level of prices will depend on whichever factor has preponderating influence. The general principle is : If either money or credit money, or either of their velocities, increases, other things remaining the same as before the general level will rise ; and, conversely, if the volume of trade increases, other things being the same, the general level must fall ; if all the factors are increasing or diminishing, but at different rates, the result on prices will depend on the difference of influences exerted.

But the amount of credit money in the country is always dependent on the amount of money proper ; though the ratio of the one to the other may change, there is a limit to the superstructure of credit that can be raised on the base composed of money proper. In New Zealand, as in nearly all countries, this basis of money proper is composed of gold, which is the standard money and the only unlimited legal tender ; and it is by directly influencing the amount of this money in circulation, and indirectly influencing the amount of credit money in circulation, that the changes in the gold-supply of the world influence the general level of prices.