Increased gold-supplies, other things equal, increase the amount of money proper in circulation, and so tend to raise prices. A falling-off in the gold-supply diminishes the rate at which money proper is being increased, and, other things equal, lowers the level of prices. As long as gold is being mined and used as the money material, it must influence the position of the general level of prices; for, if the gold produced were used only in the arts, sooner or later a time would come when minted gold, by reason of its comparative scarcity, would become more valuable than uncoined gold, and then the owners of gold bullion would coin it, and the money-supply would rise. A fall in the general level of prices marks a rise in the general level of gold, or an appreciation of gold, since a given amount of gold —*e.g.*, a sovereign—obtains in exchange a greater quantity of things in general; conversely, a rise in the general level of prices indicates a fall or depreciation in the value of gold.

Causes of the depreciation of gold.

2. The period since 1895–96 has been marked by a rising price-level, and by the depreciation of gold measured by commodities and services in general. We are therefore led to seek the causes that have helped to bring this depreciation about by an examination of the forces that tend to alter the magnitude of the terms in the "equation of exchange." Let us examine these as they affect the several terms.

(1.) The amount of *money proper* in a country like New Zealand is determined by the price-level over the countries within the circle of its trade. That amount must be sufficient to sustain prices at the figure which will make them equal to those in other countries, allowing for the cost of transportation of the goods. If, for instance, the amount of money in New Zealand were increased (other things equal), prices here would rise relatively to those in other countries; but this would lead to a falling-off in exports and an increase in imports, with a consequent balance of indebtedness against New Zealand, which would generally be discharged by the export of the surplus of gold. The gold might, in theory, be retained by diminishing the credit money in circulation, or the velocity with which the money (gold and credit) was turned over, but this is scarcely likely in practice under normal conditions. If the price-level is higher in one country than another it is due to the restrictions placed upon the import and export commodities by natural causes such as distance, or by artificial causes such as a Customs tariff. Tables in Chapter III prove that the depreciation of gold since 1895–96 has not been confined to New Zealand, but is universal.

If the supply of gold for use in the arts increases relatively to the demand, gold will become more valuable as money, and will be minted in greater quantities. About one-fourth of the gold produced is used in the industrial arts throughout the world, and the amount of gold mined has been rapidly increasing.

The amount of additions to the money in circulation is also partly a result of the cost of producing gold. Gold is produced as long as the cost of production of an ounce is less than the current value of an ounce. A period when the price-level is rising retards the mining of gold, though the effect of the general rise in costs may be diminished by improvements in mining processes which diminish costs relatively to those of most industries.

(2.) The amount of *credit money* in circulation varies with the commercial habits of the people and the character of the banking system. The greater the value of the deposits in the banks and the confidence of the people in one another, the greater the circulation of the paper currency in the shape of bank-notes and cheques which are issued against the deposits. Other things equal, an increase of such currency raises the price-level and depreciates gold. Far greater than any advance in the quantity of metallic money has been the extension of the credit system by means of cheques, drafts, bills of exchange, &c. It is calculated that in the United States of America there is at least ten times as much credit money passing in business as there is of minted coin.

(3.) If the rate at which money proper and credit money is *turned over* increases, that is tantamount to an increase, other things equal, in the sum of currency in active circulation, and therefore induces a rise in the price-level and the depreciation of gold. That such an increase in the velocity of circulation of both kinds of money has occurred is hardly to be questioned after a glance at the causes which