

Table showing the Yearly Totals of Deposits, together with a Series of Index Numbers based on the Figures for the Year 1910, which are equated to 1000.

Year.	Amount in Thousands. £	Index Number.
1910	30,109	1000
1911	33,443	1111
1912	33,299	1106
1913	34,092	1132
1914	37,836	1257
1915	44,285	1471
1916	52,771	1753
1917	61,067	2028

If 1914 is taken as the base, the increase in deposit currency up to the end of 1917 amounted to 61 per cent.

Thus, concurrently with a decrease in the volume of business on the one hand, amounting to 13·6 per cent., there was, on the other hand, an increase in note-circulation amounting to 170 per cent., and an increase in deposits subject to cheque of 61 per cent., and these changes in the relationship that exists between volume of business and currency (in its widest sense) found expression in a general rise in prices.

A similar comparison made by Professor Kemmerer in America during the period 1914 to 1917 shows that the volume of business in America increased by 21 per cent., money in circulation by 39·6 per cent., and deposits by 58·2 per cent., whereas prices increased by 78 per cent.

The fact that food-prices have not increased in New Zealand to the same extent as in America, although in New Zealand there has been an actual fall in the volume of business, is due to the measures taken by the Government, through the Board of Trade, to stabilize prices. For instance, the Government has controlled the price of wheat, and its products, flour, bran, pollard, and bread; it has controlled the prices of meat, wool, butter, and cheese, through its system of purchases as agent of the Imperial Government; it has controlled the supply and price of sugar by arrangement with the Colonial Sugar Company; through the Board of Trade it has controlled the supply and price of petroleum-products under agreements entered into with the chief importing companies; it has controlled the price of milk, fixing in some instances maximum prices where conditions warranted such a course of action; it has controlled the price of bacon and hams by decreeing that the price shall not exceed that ruling on a particular date; and again, through the Board of Trade, under arrangement with wholesale merchants, it has controlled and steadied the prices of fifty-seven main commodities, a great number of which are imported from overseas and are frequently in short supply: and all this at a small expenditure. This result compares more than favourably with the result attained in Australia, where the expenditure on subsistence, as expressed in the index number relating to the cost of living, shows a difference of 4 per cent. only when compared with New Zealand; and this slight difference is explainable by the fact that Australia has a superabundance of wheat, and therefore flour, bran, pollard, and bread prices are necessarily lower than in New Zealand. It must be borne in mind, too, that Australia has not taken from the forces of production man-power to the same extent as has been done in New Zealand.

It is not proposed in this report to republish in detail statistical data relative to the cost of living that have already appeared in the "Monthly Abstract of Statistics" issued by the Government Statistician, but the Board desires to emphasize the fact that the continuous rise in prices—synonymous in the minds of most people with the increased cost of living—has not been peculiar to New Zealand, but has been world-wide. Moreover, the rise has not been due solely to conditions created by the war, as the upward tendency was pronounced in 1906, and has received no serious check since. The rise, of course, has been rapid since August, 1914, and, in spite of attempts by most Governments to control and regulate prices, shows no signs of having reached its maximum. Between 1906 and July, 1914, the general price-level throughout the world increased by approximately 14 per cent. The rise was more marked in some countries than in others, and affected some commodities and groups of commodities more than others; but after allowing for the fact that price statistics are not always collected on a uniform basis, and that even where they are thus uniform the conditions of living differ so widely as to make direct comparisons but seldom possible, general trends may be distinguished with some clearness. Naturally the tendency of price-movements is towards uniformity. As Professor Irving Fisher has pointed out ("Why is the Dollar Diminishing?" page 105), "International trade gives present-day problems of money and of price-levels an international character. If all countries had their own irredeemable paper money, and no money that was acceptable elsewhere, price-levels in different countries would have no intimate connection . . . but where two or more nations trading with each other use the same standard there is a tendency for the price-level of each to influence profoundly the price-level of the other. The price-level in a small country like Switzerland bears largely on the price-levels in other countries."

It follows, therefore, that so long as New Zealand has commercial relations with the rest of the civilized world the level of prices in New Zealand will tend to approximate to the level of prices outside, allowing for cost of transit, and that the causes of the change of the level of prices are to be looked for outside our own narrow confines. While inquiry may usefully be made into the special causes of price-movements in the case of individual commodities, the upward movement of prices has been so widespread as to suggest that some few important causes are exercising their influence over the world in such a way as to uplift the price-level. The Board submits the following brief analysis of these causes:—

1. On the side of demand—

(a.) The most important of these causes is probably the increase in the volume of credits.

Belligerent and neutral Governments have been borrowing immense sums of money,