

The period during which such notes were to remain legal tender was to be fixed in the Proclamation, and the Act authorized the Finance Minister, at any time within six months after the expiry of the period limited in the Proclamation, on being satisfied that a bank-note covered by the Proclamation had been duly presented for payment at the bank issuing the same and had not been paid, to pay the sum in gold to any *bona fide* holder, not being a bank, who might present the same for payment at the Treasury.

By Proclamation dated 3rd December, 1917, the period during which bank-notes were to be legal tender was extended until the 31st December, 1922. By the Finance Act, 1916, power was conferred on the Governor-General in Council to make regulations suspending, altering, or varying the terms, conditions, or restrictions relating to the issue of bank-notes; altering the amount of reserve of coin, bullion, and public securities required to be held in New Zealand by banks; and providing for the issue of 10s. notes. By virtue of the provisions of this Act the Governor-General in Council by regulation provided that the limit of the note-issue of any bank should be the total amount of coin, bullion, and public securities held by that bank in New Zealand, and that this limit could be extended by the Minister of Finance by an amount equal to the public securities held by that bank in the United Kingdom, provided such public securities were hypothecated to the Crown by way of a first charge to cover the Crown's liability to redeem in gold as set out above. The term "public securities" was defined as meaning the public securities of the Government of New Zealand, or of the United Kingdom, or of the Commonwealth Government, or of any of the Australian States.

The effect of this legislation was immediately apparent in an expanding paper currency, as the table dealing with note-circulation quoted above shows—that is, 214 per cent.—while at the same time there was a decreasing volume of trade to be financed. This paper currency, backed with the Government guarantee eventually to redeem in gold, enabled the banks to extend their loans to a considerable extent without apprehension of being unable to meet their obligations in legal tender. Under these circumstances, and in response to the urgent appeals of the Government for funds on attractive terms, the public and the banks have naturally taken advantage of the facilities open to them to subscribe largely to Government loans. The figures in the above tables show that both notes in circulation and deposits subject to cheque outstripped the legitimate requirements of business, and the extent to which they outstripped these requirements measures the amount of general purchasing-power which the Government obtained without the public effecting economies in consumption. This amount is paper money unrepresented by commodities, and spread over commodities actually consumed could have but one effect—an increase in their price.

The employment of deposits for this purpose has been supplemented by loans on security of various kinds, including bonds of the Government loans—the public securities mentioned above—of which each issue provided the holders with a means of borrowing to subscribe to others. Further, the banks themselves have been large subscribers, the mechanism of banking rendering it possible for them thus to supplement their customers' loans to an almost indefinite extent by direct loans of their own.

The accumulative effect of all these operations has been to create and place in the hands of the Government an enormous fund of purchasing-power without effective compulsion on the public to limit their own purchasing-power to more than a relatively moderate extent, though a considerable restriction of expenditure has doubtless been effected by voluntary effort.

Armed with this purchasing-power the Government has entered into competition with the public for the acquisition of goods and services necessary for the war, with the inevitable result of a general and formidable rise in prices. This has in turn reacted on the amount of purchasing-power required by the Government, so that it has been necessary to raise further sums as the war has proceeded and the system has become more and more costly.

These facts are essentially similar to those which would have been produced if, to the extent of the additional purchasing-power employed, the Government had issued inconvertible currency notes in payment for the goods and services required instead of raising the amount by loan. The Government would in this case have incurred, in place of the obligations maturing at fixed dates, which it has incurred in respect of loans, an indeterminate obligation in respect of the currency notes, without having to support the charge for interest for the benefit of banks and others. The currency notes would have been to a large extent deposited in banks, while the residue would have remained in circulation, just as under the system adopted the sums paid out by the Government were paid in again to a large extent to the banks, while a considerable amount of currency notes is in the hands of the public.

These conditions imply a departure from the gold standard of prices, and the substitution for it of an arbitrary standard which fluctuates to the extent to which inflated purchasing-power is effectively being employed.

Now, it is essential during the reconstruction period, if we wish to avoid the chaos that has overtaken the economic life of Russia and is threatening to overtake the economic life of other countries in Europe, that a solution be found to the problem of the depreciation in the purchasing-power of the sovereign, or the continual rise of the general level of prices, or the cost-of-living problem, as these terms are merely different expressions of the same economic phenomena.

Indeed, the problem of the currency is the greatest problem that has been left to us by the war, and already in Great Britain and the United States official committees are at work to devise means to overcome the currency difficulties that will arise during the next few months. The Committee in Great Britain, known as the Cunliffe Committee, was appointed as early as January, 1918, and its first interim report, dated August, 1918, has already been published.

Many remedies have been proposed as a solution of the cost-of-living problem. These have been ably summarized by Professor Irving Fisher in his forthcoming volume, already referred to—namely, "Stabilizing the Dollar in Purchasing-power," &c., a few of which in some places have already