4. The first question which appears to me to arise is whether New Zealand should revert to the pre-war currency system with gold coin in circulation and with a liability to pay notes internally in gold. On this point I should strongly recommend permanent legislation making the New Zealand note internally inconvertible, as it is in fact now, and as a consequential measure removing the prohibition on the export of gold coin, which will no longer be necessary. It is generally recognized by monetary authorities that the main purpose of a gold reserve is to meet possible calls for foreign exchange. The gold standard consists essentially in an obligation on countries adhering to that standard to provide gold or its equivalent at certain fixed rates for payment to one another. It is no essential part of the gold standard to provide gold coin for internal use, and the absence of such liability is no departure from the gold standard as such. So long as New Zealand recognizes a liability to pay gold or its equivalent at definite rates abroad, she will be just as much on the gold standard if there is not a single gold coin in circulation in New Zealand, and no liability to pay gold coin for notes internally.

Further, under modern conditions the use of gold coin as an internal circulating medium has in fact steadily decreased. In those countries where it is still a legal obligation to pay notes internally in gold, in practice very little gold coin is in circulation. In many countries, as is well known, even the legal obligation has been removed. In the United Kingdom, for instance, under the Act of 1925, the Bank of England cannot be called upon to pay its notes in gold, except in gold bullion bars containing 400 oz. of fine gold, worth about £1,700 each. In effect, this provision amounts to an obligation to provide gold only for export in settlement of foreign exchange payments.

In past days, when notes were a much larger proportion of the total purchasing media, when international financial connections were much more limited, and when notes represented usually the private liabilities of numerous competing banks, the position was different. A bank had no means of meeting its obligations to note-holders except by payment in coin, and an individual bank could not afford, *vis-à-vis* its competitors, the risk of a run which it could not face. But in countries with an adequate central banking system, in which the Central Bank is responsible for the maintenance of the currency and must always be prepared to provide against proper securities legal tender for internal obligations, the internal need for payment in coin has ceased to exist.

On a wider consideration, and having regard to the existing and prospective supplies of gold available as a basis for monetary purposes, it is of the utmost importance to economize in the use of gold. The scattering of gold about a country in the form of circulating gold coins (or in the form of gold dormant held in private banks) removes that gold from effective influence on the monetary position. A shortage of monetary gold, to which the putting of gold coin in circulation would contribute, tends to accentuate a restriction of credit, and that in its turn to precipitate a fall in the money prices of commodities. Countries, such as New Zealand, which are essentially primary producers, are heavily interested in any step tending to check the continued decline of world prices, and they have therefore a strong interest in doing all they can to avert a gold-shortage. It would probably be impossible, in any case, for New Zealand to revert to a gold coinage in internal circulation; but even if it were possible, it would be in theory a retrograde step and in practice inimical to the best interests of New Zealand.

An internal gold circulation is not merely an unnecessary luxury from the point of view of New Zealand, but also would be contrary to modern views on currency, and likely, *pro tanto*, to be a factor in bringing about a world gold-shortage, from which New Zealand, among other countries, would suffer.

5. The question as to the medium into which New Zealand notes should remain externally convertible is the easier to answer in view of what is now in fact the practice of some years' standing. New Zealand is in practice already on a sterling exchange standard: her obligations abroad are for the greater part satisfied by the offering of sterling balances in London, which are the equivalent of gold, and the vast preponderance of her trade and her indebtedness is with the United Kingdom. In many European countries on the gold standard, though not in