

notes being declared legal tender. Others issued during the same month practically suspended the legislative restrictions on the note-issue and credit-expansion. Briefly, these regulations provide in effect—

- (a) That the note-issue is to be limited only to the total amount of coin, bullion, and public securities held in New Zealand, with a proviso that the Minister of Finance may by Warrant authorize the inclusion of public securities held in the United Kingdom, provided the securities are hypothecated to the Crown. This regulation means that no gold at all need be held :
- (b) That the sections in the several private banking Acts limiting the debts and engagements to three times the coin, bullion, and public securities held in New Zealand are extended to include public securities held in the United Kingdom. These are the sections intended to control credit-expansion, previously referred to as being unintelligible under the existing banking practice :
- (c) That the definition of "public securities" in the several banking Acts previously restricted to New Zealand Government securities is extended to include public securities of the United Kingdom or of the Commonwealth of Australia or any State of the Commonwealth.

By additional regulations made in 1917 and 1920 the limit of the note-issue was extended by adding to the total of coin, bullion, and public securities the amount of the advances to customers to enable them to invest in war loans or discharged-soldiers-settlement loans, and also the amount of the advances against wool held in store at that time. Special returns of these advances had to be made to the Treasury.

In 1919 a section in the Finance Act removed the ban on the exportation of uncoined gold. This, of course, occurred after the cessation of hostilities, and probably was a recognition of the fact that mined gold is one of the normal trade exports of this Dominion. In the following year, 1920, it was deemed necessary to pass a further section in the Finance Act making it an offence to melt down or use gold or silver coin except as currency. The reason for this last piece of legislation probably lay in the fact that at that time gold was at a considerable premium—that is to say, gold bullion was worth in notes considerably more than the mint par as fixed by the gold content of the sovereign.

Since 1920 no further changes have been made in these Acts and regulations, and insofar as they are not overridden by the recent Reserve Bank of New Zealand Act they are still in force to-day. Now, what was the economic result of all these changes in the law?

Declaring notes legal tender led to an ostensible change in the withdrawal of gold from circulation, but this in itself was of no real economic significance, as a pound-note does the work just as efficiently as a sovereign. In fact, in many respects the note is much more convenient than gold, and now that we have got used to paper, we would probably find that gold was a nuisance if it were again put into circulation.

On the face of things, a much more fundamental change was made when by regulation the legal restriction limiting the note-issue to three times the amount of coin held was removed. With a self-contained banking system this alteration, coupled with the ban on the export of gold, would have opened the way to unlimited credit-expansion. As already explained, however, the volume of credit was definitely dependent on credit conditions in Great Britain, and the relaxation of the restrictions on the note-issue in no way contributed to such credit-expansion as did occur in New Zealand during and immediately after the war. In fact, throughout the whole period of inflation right down to the present time the note-issue was practically covered pound for pound by the gold held by the banks. Removing the restrictions on the note-issue thus meant little or nothing in the economic affairs of the country. The additional provisions extending the issue of notes up to the amount of the wool and war-loan advances were never used.

The widening of the definition of public securities, and the further provision allowing securities held in Great Britain to be included in reckoning the ratio of securities to liabilities, may at times have been useful to the banks under such interpretations of the section in question as they may have adopted, but, for reasons already fully explained, the volume of credit was not really affected thereby.

In fact, none of the changes in the law referred to had any real economic significance, for the very good reason that the original permanent provisions which were subject to amendment or were suspended by the war regulations had always been quite ineffective. To amend a law that is practically a "dead letter" is obviously not going to make much difference to anybody. The only difference is that whereas prior to the war the law simply did not apply, now it is legally suspended or rendered inoperative. The essential point to which attention is drawn is that throughout the war period, and since, the pre-war *de facto* sterling-exchange system was maintained without any fundamental change.

RECENT CHANGES.

Until recently economic facts and the traditional exchange policy of the banks were the only real regulative factors of our banking system. The position, however, has been changed by the passing of the Reserve Bank of New Zealand Act, 1933. This Act overrides the pre-war legislation and gives legal recognition to the sterling-exchange standard. The formal provision is contained in section 16 of the Act, which makes it mandatory for the Bank, after it commences operations, to supply on demand sterling in exchange for its own notes and gold and, *vice versa*, notes in exchange for sterling, both at rates of exchange to be fixed by the Board of the Bank. The unlimited authority thus granted to the Bank is unusual, and is due to the abnormal conditions prevailing both in Great Britain and here. It is normally the duty of Parliament to fix the basis of the currency by Act which in our case would mean fixing the par of exchange; after which it would be the duty of the Bank to maintain