

14. The rise in the cost of living due to the increase of the prices of the articles in the uniform schedule of living has been considerably less in New Zealand than in the United States, Canada, and Germany, and appears to have been approximately the same as in the United Kingdom, but higher than in France.

CHAPTER IV.—INFLUENCE OF THE GOLD-SUPPLY.

Question 10: What influence, if any, has the value of gold had on the cost of living?

1. The price of any article is a statement of its relation to standard money. Therefore prices may vary with causes affecting either standard money or the articles compared with it. The general level of prices varies according to variations in the amount of legal tender money in circulation, the velocity with which it circulates, the amount of credit money in circulation, the velocity of its circulation, and the volume of trade. If any one of these factors changes in magnitude, a change in the general level of prices results. The amount of credit money in the country is always dependent on the amount of money proper, though the ratio of the one to the other may change. If the supply of money or of credit money, or the velocities with which they circulate, increase (other things equal) there is a rise in the general level of prices.

2. The period since 1895 has been marked by a rising price-level and by the depreciation of gold measured by commodities and services in general. During that period the amount of money proper in New Zealand has increased considerably, as have the other factors in the equation of exchange. The volume of trade, it appears, has not increased sufficiently to overtake the increase in the supply of money.

3. The depreciation in the purchasing-power of money which has been a chief factor throughout the world since the middle nineties has been accompanied by, and is chiefly the result of, a greatly increased rate of gold-production. This is indicated by statistical tables.

4. The close connection between the production of gold and the general level of prices is illustrated by reference to the history of prices during the nineteenth century.

5. There is reason for believing that the world's gold-supply will not long continue at its present rate of increase.

6. But even when the output of gold begins to diminish we cannot expect lower prices at once, because the influence of gold on prices does not depend on whether the output is itself increasing or diminishing, but really on the quantity of gold in circulation relatively to other factors. The rise in prices may continue for some ten or fifteen years, by which time we may be near the final era, under the present monetary system, of falling prices.

7. There has been a great increase in the amount of credit money in circulation in New Zealand between 1890 and 1911. Reference is made to a recent investigation into the degree in which the factors in the equation of exchange have changed during the last fifteen years in the United States of America. The money in circulation nearly doubled, its velocity increased considerably, the volume of trade doubled, the credit money nearly trebled, its velocity increased by about 50 per cent., and the general level of prices rose about 66 per cent.

8. The Commission is of opinion that the increased gold-supplies of the world have assisted both directly and also indirectly through credit money to raise the general level of prices, and the rise in the cost of living is partly the effect of this rise in general prices.

9. But the prices of all goods and services do not increase at once and uniformly.

10. If the prices of some things do not change in proportion to the increased gold-supply, those of all other things must rise higher than in proportion—in other words, while the general level of prices is determined by the operation of the five factors in the equation of exchange, the prices of goods relative to one another is largely determined by the conditions of demand and supply.