

upon the extent to which the financing of industry by banks may be carried under Government support. Again, gold circulating currency may be restored or it may not. If it is restored prices will reach a lower level than if it is not restored, because a much larger volume of purchasing-power can be maintained when all the gold is in the reserve than when part of it is circulating as currency, and, as pointed out previously, the level of prices largely depends on the volume of purchasing-power. But whatever the action of Governments it is probable that a fall in prices, which may be delayed for some years, is bound to be experienced. This being so, it is evident that the money wages that can only just be paid at first would soon become an impossibly heavy charge unless something occurred to render the amount left for wages, after payment of capital, much greater than it was before the war. If, as pointed out by Professor Chapman in "Labour and Capital after the War," the problem in industrial organization is approached by the employers and employees in an open-minded way, with a desire to minimize as much as possible any real or seeming conflict of interest, and with the object of increasing the yield of the industries of the country, productivity will be raised to a substantial extent. Productivity may not be raised rapidly, however, though whole-hearted effort on the part of the employers and employees to improve the efficiency of the industry will certainly yield eventually far more comfortable real incomes for the latter than they had before the war. This matter of money wages in the exceptional period of reconstruction requires most careful consideration, and eventually industry by industry, because the war bonuses have varied greatly from industry to industry.

In our last annual report we attempted tentatively to show the concurrent movement in the volume of the circulating media and in the volume of trade or business, and we discussed the question as to whether both had increased at the same rate. For this purpose it is necessary in some way to measure the growth of trade, and, although this cannot be done with any high degree of accuracy, a rough approximation can probably be made through the study of certain statistics which typify business activity and growth. The statistics used to measure business should, however, exclude prices. The indices of business growth and activity should be expressed in units other than monetary units. Among the items selected for measuring the movements of business in general, because they are factors that enter into the manufacture of many goods of first-rate importance, are coal, wheat, mineral oils, the number of passengers and tons of freight carried on the railways, the tonnage of vessels entered and cleared at New Zealand ports, the consumption of sugar and tea, and the production of wool, frozen meat, butter, cheese, hides, skins, tallow, and flax. As each of these has its own peculiar bias, an index number has been constructed including them all, and this number represents in a rough way the growth of business in general. The index numbers are as follow:—

Growth of Trade in New Zealand, 1909 to 1918.

Year.	Index Number.	Year.	Index Number.
1909	1000	1914	1278
1910	1082	1915	1321
1911	1034	1916	1311
1912	1020	1917	1119
1913	1134	1918	1161

This table shows the steady growth in business up to the end of 1913 as compared with 1909, amounting to 13·4 per cent. During 1914, five months of which we were at war, the increase over 1909 rose to 27·8 per cent. The volume of business reached its maximum in 1915, showing an increase over the base year of 32·1 per cent.; thereafter there was a steady decline to 1917, the volume of business falling in that year to lower than what it was in the year immediately preceding the war. The year 1918, however, shows a recovery.

In order to institute a comparison with figures relating to prices let us take 1914 as the base year, and we find that the volume of business in 1915 increased 3 per cent.; in 1916 the increase was only 1·6 per cent.; in 1917 there was a drop of 13·6 per cent.; and in 1918 9·2 per cent.; the respective index numbers being—

Year.	Per Cent.
1914	100
1915	103
1916	101·6
1917	86·4
1918	90·9

The Government Statistician's figures show a rise in food-prices during the same period of 42 per cent., a percentage which in all probability is exceeded by other commodities. We therefore find during the war period that there has been a decrease in the volume of trade concurrent with an increase in general prices, and a comparison of these figures gives a rough indication of the degree to which the currency has been inflated in New Zealand.

Figures are not available showing the actual volume of money in circulation during the period. Notes in circulation have, however, increased as follows:—

Year.	Index Number.	Year.	Index Number.
1910	1000	1915	1750
1911	1032	1916	2490
1912	1054	1917	3328
1913	1030	1918	3854
1914	1229		