

where the policy has been most successful have been those within the sterling group. Speculation has been rife as to the prospects of a general rise in interest-rates, and there has been a tendency in certain directions to inspire such a rise. There is a school of thought which believes that the lessons of past experience indicate serious doubts as to the practicability of maintaining the present low levels.

Whilst the world monetary system was based generally on a gold standard and subject to less control, such a view as expressed above would carry weight, but the position to-day is entirely altered.

Past records bear witness to the fact that capital enterprise, industry, and trade in Great Britain have frequently borne the brunt of higher interest-rates than they would have but for unfavourable events of external origin. Progress in technique, however—*e.g.*, the Exchange Equalization Account, Treasury control of capital issues, &c.—has introduced a method of insulating Great Britain's internal conditions from the effects of external events. This principle of British monetary policy was summed up some time ago by the present Prime Minister, then Chancellor of the Exchequer, when he said—

“If this country were to go back to the gold standard it would mean that we should no longer be free to adapt our policy in regard to price-levels and cheap money to our domestic requirements. We should have to adjust it according to conditions overseas, over which we have no control, at a time when international affairs were unsettled, and when large movements of capital sufficient to upset established equilibrium were by no means beyond the bounds of possibility.”

Trade recovery in Great Britain has not been accompanied by any appreciable rise in interest-rates. The cheap-money policy of both Great Britain and the United States still prevails, assisted by the weight of funds in each country. Opinion as to future trends is by no means unanimous, but a recent statement by the well-known authority, Mr. J. M. Keynes, to the effect that in the years to come investors cannot expect a long-term rate of interest in excess of 3 per cent., has not been seriously challenged. On present indications it may fairly be said that the resumption of international lending on a large scale and the still further widening of international trade are the two factors necessary to challenge seriously the present policy of low interest-rates in those countries.

Towards the end of 1935 the course of events in Australia to some extent influenced New Zealand opinion as to the trend in interest-rates. Any comparison, however, between New Zealand and Australia must be approached with caution. Conditions are by no means parallel in the two Dominions. The position of London funds and local cash resources in Australia at the period referred to caused concern. In addition, general reactions in the metal markets, mainly as a result of rearmament policies overseas, reflected adversely for a while on gilt-edged securities and created a boom in the relative share prices of industrial concerns on the stock exchanges. The cumulative effect was the lessening of the demand for, and a fall in the price of, gilt-edged securities, with a consequent higher interest return to the buyer. Whilst this condition obtained the interest-rate on new issues of gilt-edged securities necessarily rose.

The position has, however, since completely changed. The rise in the price of exports, the slowing-down—if not the termination—of the speculative elements which dominated the stock exchanges, particularly in relation to mining and certain other industrial shares, the increase in London funds and the change in investment flow has reversed the position in respect of gilt-edged securities and the temporary rise in interest-rates in Australia has been checked.

During the year under review, New Zealand was not faced with any shortage of London funds. The published returns of the trading banks continued to show a large excess of deposits over advances and discounts. Increased savings were indicated by the Post Office and Trustee Savings-banks. Insurance companies recorded increased business. Primary products continued to recover in price. There was an absence of large new loan issues on the market. Therefore, a review of the relative factors involved leads to the conclusion that there is little to justify the assumption that interest-rates in New Zealand are bound to rise in the immediate future above present levels.