The Cheap Money Era: How Long Will It Last?

By Professor C. S. Richards

Continuing the Survey of World Conditions

TWO FUNDAMENTALS

Now there are two fundamentals for a rising world price level—the *desire* (and the *will*) that it should rise, and the *means* to make it rise, that is, an adequate supply of money. Both are essential: desire without the means is vain, and a short-lived boom is all that could result. The means without the desire merely implies stagnant money markets and low rates of interest. There can be no question that desire is there—most countries of the world are in an expansionist and inflationist mood, though in some cases the idea is less flagrantly decked out and "reflation" is spoken of, though in the end it amounts to very much the same. Granted that the mood is there, are there the means? Has the world the money available to finance such expansion? There can be little question also that it has, and this on two grounds:

(a) The fundamental change which has taken place in recent years in the position of "bank money";

(b) The enormous increase in the world's actual and potential supplies of gold.

(a) With the abandonment of the gold standard in England, to take the outstanding case, the Bank of England is not now under the necessity of maintaining its traditional gold reserves. National monetary policy is expressed through the Treasury (which is virtually now the dominant factor in the money market) by means of the Exchange Equalisation Account. Subject to this policy and its implications, the Bank of England is free to meet the demand for credit without the rigid restrictions which the gold standard imposed and can vary the amount of joint stock banks' cash within very wide limits. This non-rigidity in the banking structure is a great improvement in technique, but it does throw added responsibility on to the central bank. Since the crisis of 1931 these banks have improved technique in other ways so as to safeguard themselves against dangerous developments.

STILL BUYING GOLD

But the fiduciary issue of the Bank of England is still fixed at £260 millions, and the Federal Reserve System must still maintain a reserve ratio of at least 40 per cent. Moreover, central banks are still eager buyers of gold, so that though freedom is greater than previously, it is still dominated by gold.

(b) What therefore is the world's gold position since it still is of the utmost importance? The facts in this connection are little short of staggering.

1. The annual physical production of gold continues to rise at a rate never before exceeded in the history of the world. Since 1929 the output of gold has risen by fully 50 per cent and by no less than 150 per cent if valued in currencies which have depreciated by 40 per cent, that is sterling and the dollar. The following table (taken from the Annual Report, 1936, of the Bank for International Settlements) shows the world's gold production in 1915, the record year before 1932, and each year from 1923 onwards:

Year	South Africa	U.S.A.†	Canada.	Russia.	Other Countries	Total for the World	in millions of Swiss francs.
	in thousands of ounces of fine gold						
1915*	9.096	4,888	918	1,546	6,146	22,594	2,420
1923	9.149	2,503	1,233	438	4,463	17,786	1,905
1924	9.575	2,529	1,525	594	4,827	19,050	2,041
1925	9,598	2,412	1,736	693	4,592	19,031	2,039
1926	9,955	2,335	1,754	895	4,430	19,369	2,075
1927	10,122	2,197	1,853	810	4,464	19,446	2,083
1928	10,354	2,233	1,891	899	4,206	19,583	2,098
1929	10,412	2,208	1,928	1,085	4,040	19,673	2,108
1930	10,716	2,286	2,102	1,434	4,184	20,722	2,220
1931	10,878	2,396	2,694	1,701	4,702	22,371	2,397
1932	11,559	2,449	3,044	1,990	5,224	24,266	2,600
1933	11,014	2,537	2,949	2,667	6,347	25,514	2,733
1934	10,480	2,916	2,965	4,263	6,715	27,339	2,929
1935	10,773	3,619	3,280	5,650	7,356	30,678	3,287

*Record year before the years 1932-35.
†Including the Philippines.

"The probable increase of production in South Africa and Russia alone will lift world production above the 40,000,000 fine ounces mark by 1940." ("Economist, June 13, 1936.)

This increase in production has, of course, been largely brought about by the great increase in price. Assuming that the non-monetary demand for gold and for hoarding in the East is in future to be the same as in 1925-29, namely about 8,000,000 fine ounces, the above figure means that the annual addition to the stock of "monetary" gold may be expected by 1940 to have increased from 10-1/2 million fine ounces in 1929 to approximately 32 million ounces.

2. Moreover, in recent years there has been a great *transference* of the world's stock of gold *from non-monetary to monetary uses*—from this source alone the world's monetary stocks have increased from 553.6 million ounces in 1929 to 734.3 million ounces in 1935. In brief, the position is that the ultimate basis of the world's money has increased by 32.7 per cent, while annual production will soon be sufficient to increase it by a further 4 to 4-1/2 per cent per annum at least. Nor is this increase in monetary stocks confined to the United States and France. Excluding these two countries, the world's monetary gold stock has increased from 2860 million ounces in 1929 to 316.4 million ounces in 1935, or by 10.6 per cent.

3. But these figures, impressive as they are, by no means tell the whole story. Not only has there been a great increase in the *weight* of the monetary gold stock, but its *value* in terms of paper money has risen. Few countries have definitely devalued their currencies, though in some devaluation seems imminent. The American dollar has been devalued to 59.06 per cent of its former value, the belga to 72 per cent and depreciated sterling stands at about 62 per cent of its par value. It is impossible to say what the ultimate devaluation will be. On the basis of devaluation to 66 2-3 this will involve a rise in the price of gold of 50 per cent (the present rise in the sterling price, say 140s., represents an increase of about 64.7 per cent). The 553.6 million fine ounces of monetary gold in 1929 at 85s. per fine ounce were worth £2,353 millions. The 734.2 million fine ounces in 1935 at 127s. 6d. (50 per cent more) would be worth £4,680 millions. The annual production available for monetary use in 1925-29 was worth about £44.5 million. The annual production available for monetary use in 1940 will be worth nearly £205 million. In other words, the world's monetary stock of gold has increased since 1929 not by 32.7 per cent (that is from 553.6 to 734.3 million ounces) but by 98.9 per cent (that is from £2,353 to £4.680 millions). If the present price be taken, i.e., say approximately 140s per fine ounce, a rise of 64.7 per cent, the figure is not £4,680 but £5140.1 millions, and the percentage increase not 98.9 but 118.4.

4. Nor does the above complete the tale. Many countries have reduced the legal ratio of gold to liabilities, for example, South Africa from 40 to 30 per cent. No figures are easily procurable, but it seems safe to say that throughout the world as a whole, since 1929, the increase in the monetary stock of gold has been 120-125 per cent.

MORE GOLD THAN EVER

These figures are significant. They mean that there is a greater available supply of money than ever before in the history of the world. The secular rises in prices in the nineteenth century were caused by just such increases in gold production, for example, by the Californian and Australian discoveries of 1849 and that of the Rand in the nineties. But such increases were as nothing to the present position. "If monetary history means anything, it means that the world is on the eve of a very large rise of prices." ("Economist.")

What are the prospects of such a rise eventuating? The position of the "gold bloc" is becoming daily more difficult to maintain—it seems only a matter of time before the last strongholds of deflation may give up the unequal struggle.

There are two countries where such an initial impetus as is requisite to start the movement is possible, and of these, one where it is probable. Under present circumstances a rise is possible in England—but not probable. A rise such as is postulated would largely destroy the internal improvement which has taken place and would imperil the foreign trade position. Moreover, both the Treasury and the Bank of England policy is against it, despite the past four years of "cheap money."

But such cannot be said of the United States. Briefly, there is an enormous potential supply of money in the United States as a result of President Roosevelt's policy since the spring of 1933. Big as it is, it can be greatly increased by the power the President holds of further devaluation from 59.06 to 50 per cent of the previous gold figure of the dollar, that is, a further rise in the dollar price of gold of 15.3 per cent. Moreover, whether the Federal Reserve system could control such a situation is, judged by past experience, open to question—both desire and ability seem lacking, and the Treasury necessity of having to finance debt deficits is another factor which increases the possibilities of a rise of prices in the U.S.A. Such a rise could obviously not be confined to America—the British Government, in all probability, would have to let sterling depreciate still further in the interests of its foreign and domestic trade—and a rising tide would soon lap other shores.

It does not follow that such a rise is imminent the time element is as usual the unknown factor. In the international field though, as seen already, improvement is noticeable in certain directions, for example, in commodity prices, employment, world production, international debts, etc., but there are still many restraining influences on general world improvement. Tariff barriers and economic nationalism show little sign of relaxation—tariffs still restrict the volume of trade, capital and exchange regulations the flow of international investment funds, and immigration laws the movements of population. Moreover, political tension and uncertainty restrain enterprise and lead to the prolongation of the desire to remain liquid, and the possibility of a European war cannot be completely discounted.

THE CAPITAL MARKET

In this respect the position of the capital market in England is significant of a general tendency. Total capital issues during the year 1935 were £182 against £161 million in 1934, and though the former figure is double the lowest year, 1931, it is only half of the peak year, 1928. Moreover, as pointed out by Mr. D. Graham Hutton in Lloyds Bank Limited Monthly Review for February, 1935, in an article entitled "Recovery and the Rate of Interest," the share of the total of new non-government issues taken by the local bodies and public boards and corporations has remained at two-thirds and three-quarters of the new borrowings by "mainly private enterprise," while in 1928 and 1929 it formed but an insignificant fraction.

The recovery in England has been, as "The Economist" (June 13, 1936) clearly shows largely confined to that of the industries catering wholly or mainly for the home market, the export trades standing out in "strikingly unfavourable contrast." This recovery has been conditioned largely by the policy of liberal credits and cheap money, a policy now under general and serious discussion. The strongest advocate, and indeed prognosticator, of lower interest rates and cheap money has been Mr. J. M. Keynes. In an article in Lloyds Bank Monthly Review for April, 1932, entitled "Reflections on the Sterling Exchange," he advocated and indeed prophesied "lower and lower rates of interest" in order to counteract the then present deflationary tendencies and stimulate investors "to lend for purposes which involve material risks." That prophesy has since been amply fulfilled as has already been shown. At the annual general meeting (February 21, 1934), of the National Mutual Life Assurance Society, of which he is chairman, he stated categorically that the long term rate of interest would and should fall further in "the interests of the maintenance of employment and the full utilisation of national resources." ("Economist," February 24, 1934). At the meeting last year ("Economist," February 23, 1935) he was still of opinion that "while British economic health required a still lower rate of interest, there was less prospect of expecting that to eventuate because British rates were already much below those ruling elsewhere," and he expressed disappointment "at the comparatively few large scale opportunities for the investment of new savings which had as yet disclosed themselves under the influence of the low rate of interest apart from the new building and electrical developments." At the annual meeting this year, he stated that "a further reduction in the long term rate of interest was urgently called for" and criticised the Treasury for not themselves (judged by recent bond issues) "showing confidence in the short term rate of interest remaining low," since this is of paramount importance in determining the long rate. Indeed, Treasury action would seem to indicate that the period of low money rates may be drawing to a close.

Mr. Reginald McKenna, chairman of the Midland Bank, has also himself recently expressed the same view (address to Annual Meeting Institute of Municipal Treasurers and Accountants at Blackpool, June 18, 1936): "There need be no rise in the cost (of borrowing) to the legitimate borrower if its quantity is increased in accordance with the demand. This relative freedom to meet the demand for credit is indeed one of the most striking benefits resulting from our adoption of a scientifically regulated money system and there is nothing inherent in that system, as it now operates, to warrant the suggestion that cheap money must come to an end as soon as trade recovery passes a given point." Such a statement embodies an obvious fallacy. Business men are always likely to regard their demands for accommodation as "legitimate," but bank credit is not the same as capital and, in the case of England, it would be idle to think that present population can be maintained on the same standard of living by a somewhat artificial policy which concentrates on home development and ignores the necessity for improvement in the export trade, before many depressed industries can show any signs of recovery—a policy of too cheap money may dry up some of the sources of savings.

Now the current long term rate of interest is a highly psychological phenomenon which must necessarily depend on what expectations are held concerning the *future* rate of interest. The rate of interest is the price of borrowed capital and the equilibrium rate is a figure which equates the volume of savings to the demand for its use, and while no one rate is recognisable at any time, since variations will depend on the risk involved in particular cases, the trend of long term interest rates is so recognisible. Both the demand for and supply of capital are composite factors—but, in general, the greater the level of the national income the greater the volume of savings. In recent years in many countries this factor has been greatly influenced by the tendency towards equalisation of incomes, e.g., heavy income tax, death duties and more equitable distribution. The demand for capital is made up of the demands from governmental, private and industrial uses; governments are everywhere taking larger proportions of the available total, and industry is increasingly providing its own funds by reservations and re-investments of profits, particularly in the large combines, but in England, anyway, the field for investment by private enterprise is narrowed both by opportunity and inclination—lessened confidence among business and the restrictions on the movement of capital, together with foreign capital seeking refuge from uncertainty in other parts of the world, seem to preclude much possibility of a rise in interest rates in the near future.

It would seem to follow, therefore, in so far as immediate prospects are concerned, that, both from conditions in England, the United States and elsewhere, the low interest rates and cheap money will continue and rates may even perhaps fall further, but that in time the enormous pressure of the available supply of money will lead to a gradual world rise in prices and values and consequently in interest rates. Such a rise would tend to facilitate a general return to equilibrium in the future, but it may, if it is to be kept within bounds, necessitate measures to neutralise somewhat the factors producing it.

THE ECONOMIC OUTLOOK IN SOUTH AFRICA

What is the bearing of the above on the position in South Africa? There is no need to describe in detail the nature and extent of the recovery in the Union—I have so described it for 1933 and 1934 in an article in the "Economic Journal," London, December, 1934. But some important figures must be mentioned. The recovery of the Union has been almost wholly dependent on the great rise in the price of gold and the consequent expansion of the gold mining industry. The following figures, which relate to the operations of the producing gold mines of the Witwatersrand, indicate the altered position:

	1932	1935
Total tons milled...	34,906,000	44,235,000
Total fine ounces declared...........	11,378,000	10,565,000
Total working revenue............	£48,832,000	£74,414,000
Total working costs.	£33,526,000	£41,774,000
Total working profit.	£15,306,000	£32,640,000
Revenue per ton milled...........	28/-	33/8
Working costs per ton..............	19/3	18/11
Working profit per ton..............	8/9	14/9
Stores consumed....	£16,045,000	£24,829,000
Average number of whites employed..	23,000	32,000
Average number of coloured persons employed........	218,000	273,000
Salaries earned by whites...........	£8,873,000	£12,394,000
Wages earned by coloured persons....	£7,343,000	£9,210,000
Dividends declared.	£8,979,000	£16,391,000

Government revenue (direct taxation and profits from lease mines) amounted to approximately £13,300,000 during the year ended March 31, 1935, whilst for 1932 it was £4,313,000.

This prosperity of the gold mining industry has permeated all sections of the national life, though in varying degrees. Secondary industry has shown marked improvement, and whereas in 1932-33, there were 7,669 establishments employing 87,173 Europeans and 105,310 non-Europeans with a total salary bill of £21,875,000 and a gross value of output of £90,948,000, the corresponding figures for 1933-34 were 8,180 establishments, 80,647 Europeans, 148,855 non-Europeans, £26,399,684 in total salaries and a gross value of output of £111,391,000. Later figures are, unfortunately, not available, but it is certain that the present position reflects an even more favourable situation.

While agriculture is still depressed, as compared with the pre-depression years, there has been a considerable improvement as compared with 1931 and 1932 the increase in commodity prices has favourably affected the position of the farmer though the Union still suffers from the "chronic bucolic complex" which I noted in the previously mentioned article.

The improved position is well-reflected in the registration of new companies since gold was abandoned, the figures for 1932 being inserted for comparison—the following figures being the result of a personal detailed investigation of all the companies' records in the office of the Registrar of Companies, Pretoria:

REGISTRATION OF NEW COMPANIES

	Period	No.	Gold Mining Companies Nom. Cap.	No.	Other Mining Companies Nom. Cap.	No.	General and Commercial Manufacturing Companies Nom. Cap.	No.	Total Companies Nom. Cap.
1932	Jan.-June.........	4	£29,000	13	£355,600	301	£955,247	318	£1,339,847
	July-Dec..........	5	891,500	10	62,860	269	773,986	284	1,728,346
	Total............	9	920,500	23	418,460	570	1,729,233	602	3,068,193
1933	Jan.-June.........	42	3,509,752	16	111,465	329	1,355,250	387	4,976,467
	July-Dec..........	68	4,598,000	20	38,000	375	1,328,000	463	5,964,000
	Total............	110	8,107,752	36	149,465	704	2,683,250	850	10,940,467
1934	Jan.-June.........	53	10,598,000	24	258,000	543	4,870,000	620	15,726,000
	July-Dec..........	76	8,682,000	7	1,059,000	487	1,909,000	570	11,650,000
	Total............	129	19,280,000	31	1,317,000	1030	6,779,000	1190	27,376,000
1935	Jan.-June.........	16	4,881,000	30	388,000	580	3,305,000	626	8,574,000
	July-Dec..........	11	107,000	14	718,000	542	4,201,000	567	5,026,000
	Total............	27	4,988,000	44	1,106,000	1122	7,506,000	1193	13,600,000
1936	Jan.-June.........	16	657,000	23	2,688,000	673	9,338,000	712	12,683,000
	1933-36..........	282	33,032,752	134	5,260,465	3529	26,306,250	3945	64,599,467

It is interesting to note the order in which investment has taken place, first gold mining, then other mining and more recently secondary industries.

To date the increase in prices has been very small. Wholesale prices (base 1000 in January, 1934, stood in January, 1933, at 955; in January, 1934, at 1161, January, 1935, at 1045; January, 1936, at 1089; and the latest April figure is 1091, a rise over the whole period of 14.2 per cent. The retail (cost of living) figure for "all items" (base 1000 in January, 1914), which stood at 1123 in January, 1933, 1160 in January, 1934, 1157 in January, 1935, 1157 in January, 1936, stood at 1164 in June last, a rise over the whole period of 3.6 per cent. The future of prices will be discus-

Sport of Kings will Begin with Eclat

Soon to open its clubhouse and start a season of horse racing, Santa Ana Turf Club announces the purchase of 100 Australian race horses. Y. S. Day, the racing manager, describes these griffins are measuring not under 14 hands 1 inch and not over 15 hands, 3 to 7 years of age inclusive.

Under the auspices of Philippine Racing Club, this new sports group is designed to give racing the popularity it deserves in the Philippines. It intends to provide suitable accommodations for comfort, cleanliness and convenience, so that persons who have always wanted to enjoy the "sport of kings" can do so pleasantly.

Santa Ana Turf Club is a non-stock corporation. Without going into lengthy technicalities, this means briefly that it is not operated for profit; that it has no authorized capital, and issues no shares. It is the simplest legal entity that can be organized, not requiring a more elaborate structure since it will be operated under the auspices of the parent corporation, the Philippine Racing Club.

There will be two grandstands, one for the general public, the other for club members. The latter will include a tastefully-furnished clubhouse with restaurant, bars, ballroom, lounge, and—for race days—very comfortable seating arrangements. Applications for membership are now being submitted, and subscriptions for the griffins accepted.

sed shortly.

The Budgets since the abandonment of gold have shown successive surpluses. Taxation has been reduced, but while revenue has remained at approximately the same figure (£38 millions to £39 millions), expenditure has shown successive increases (£33 millions to £36 millions). Mounting Government expenditure may denote prosperity, but it may equally indicate national extravagance. At the end of 1932 the total public debt of the Union stood at approximately £264 millions. It gradually rose and stood at £274 millions at the end of 1935. Through the conversion of loans and other operations during the first three years after the abandonment of gold, the annual public debt charge was reduced by more than £1,300,000. Similar operations will result in a further reduction of total debt by £23 millions and of interest debt charges by £200,000 per annum through the repayment or conversion (to a rate of 3 per cent) of both London and Cape loans, so that at March 31, 1936, the total Union debt has been reduced to £251 millions and interest charges by £1.5 million per annum.

The figures for imports and exports on *visible* account are as follows:—

	1933	1934	1935	1936 (5 months)
Exports	94,328,000	81,495,000	102,126,000	50,912,000
Imports	49,371,000	66,321,000	71,392,000	33,713,000
Balance	£44,957,000	£15,174,000	£30,734,000	£17,199,000

As a result of the altered banking position, all interest rates have been continuously and drastically reduced, as the following tables show:—

Bank Interest Rates (Payable to Public).
Fixed Deposit—per cent.

Date	3, 4, 5, and 6, months.	7, 8 and 9 months.	10 and 11 months.	12 months.	Short Call
2/ 8/32	4-1/4	4-3/4	5	5	3
10/10/32	3-1/4	3-3/4	4	4-1/4	2-1/2
20/ 1/33	2-1/4	2-3/4	3	3-1/4	1
15/ 2/33	—	1-1/2	2	3	—
23/ 3/33	—	1/2	1	2-1/2	—
8/ 6/33	—	1/2	1/2	2	—
31/ 8/36	—	1/2	1/2	2	—

Interest Rates—Representative Building Society

Date	Fixed Deposit Rates— Twelve months	Savings Account
Prior to 21/ 9/32	5 to 5-1/2 per cent, according to the Society.	Stabilised at 4 per cent for many years.
21/ 9/32	5 to 6 per cent, according to the Society.	Now reduced to 3 per cent on daily balance.
1/ 1/33	4 to 3 per cent, according to the Society.	Varies for different societies but above figures typical.

But the altered position of the Union is best reflected in the banking figures and can be set out as follows:

Commercial Banks:	Dec. '32	Jan. '33	Jan. '34	Jan. '35	Jan. '36	June '36
1. Advances and Discounts in the Union	£38.6m.	£36.9m.	£35.4m.	£46.0m.	£46.3m.	£47.6m.
2. Total Deposits (Time and Demand)	£54.6m.	£59.6m.	£83.8m.	£87.0m.	£88.4m.	£86.4m.
3. Ratio of 1 to 2	70.8	61.9	42.3	52.9	52.5	55.0
4. Ratio of Cash Reserves to Liabilities in the Union	12.7	16.7	38.2	27.4	35.6	29.9
S. A. Reserve Bank:						
5. Bankers' Deposits in Reserve Bank	£3.8m.	£6.7m.	£28.3m.	£21.1m.	£28.5m.	£24.1m.
6. Gold cash reserves and foreign balances	£7.6m.	£8.4m.	£17.7m.	£23.8m.	£26.9m.	£23.0m
7. Ratio of cash to liabilities in the Union	57.2	44.0	40.1	59.3	56.3	51.8
Whole banking system:						
8. Ratio cash to total liabilities to the public	14.7	13.7	19.0	24.6	26.3	22.7*

*May

The banks are choked with funds; building societies and similar institutions are likewise finding it difficult to invest profitably.

What is the significance of the above situation, firstly in relation to the world position and prospects as previously outlined, and secondly in relation to the internal position?

With reference to the first question: it has been shown already that there are reasons for believing that a considerable rise of world prices is possible and perhaps probable—when it will eventuate it is impossible to say, but while the *means* exist and likewise the desire, the *will* to use them is braked by political uncertainty, monetary instability and a whole series of international restrictions, so that it is unlikely to happen *immediately*. But ultimately, the situation in U.S.A. in particular is pregnant with possibilities and unknown factors, e.g., further devaluation and the arbitrary power of the Treasury to do anything considered necessary in America's interests.

Let it be assumed that U.S.A. does not devalue further (that is, the gold price remains at 35 dollars per fine ounce) and that an internal rise of prices takes place in the U.S.A. Under such circumstances, what would probably be the effect on the sterling-dollar exchange rate and on the price of gold?

A rise of prices in the United States would tend to reduce the volume of exports and it is hardly likely therefore, that the Federal Reserve Board would operate through the Exchange stabilisation fund to maintain the exchange value of the dollar, nor is it, either, likely to curb inflation, for example by sterilising gold and/or raising reserve ratios, as it can under the new Banking Act of 1935—political pressure would almost certainly make that impossible. But a weakening dollar would in all probability reduce the volume of British trade so the Treasury and the Bank of England would probably let sterling 'go out" too, resulting in a rise of prices in Great Britain. Gold would probably also rise in price n terms of sterling (for hoarding and holding purposes) which would increase South Africa's export balance on visible account and make the already difficult position more difficult still. But a rise in prices in Great Britain would, since we are linked to sterling, almost certainly ultimately be felt here.

We could, if we wished (indeed we might have to) sever the link with sterling, in which case in the South African pound would stand at a premium over sterling. Such a possibility can, however, after the currency and exchange experiences here in 1931-32, be safely ruled out. So that our price level and our costs would rise and it would be a question of a race between the rise in the price of gold and the rise in the cost level—even if it were to reduce the profitability of gold mining, the present margin between selling prices and working costs is on the whole great enough to preclude the probability of much immediate adverse effect. But a rapidly rising price level is not such a phenomenon as we can gnore or treat with contempt.

But what of the actual present position? One certainly cannot, in view of the present banking position, visualise at the moment higher money rates, but can we go on piling up funds as we are doing? Lower short and long term rates of interest would perhaps stimulate enterprise, but judging by past experience not always of the right kind. What possibilities out of the present impasse are open? They seem to be as follows:—

1. An internal rise in prices—this is in any case possible because of our own internal position, indeed prices are already slowly rising—but it would bring considerable difficulties and in any case raise the costs of production of gold mining and is highly undesirable on other grounds.

2. Investment abroad—this is possible, but investment in what? At the moment it is hardly likely and, in any case, foreign capital is being invested here because of the security offered by our gold mines, and from many points of view this is a welcome sign—the risks of mining are taken by by others and the more foreign investment in this country the less is anything drastic likely to happen to gold in future. It is as well for us to have—ambassadors and friends at court, even if it is a foreign court!

3. We could reduce tariffs and so increase imports, but in so far as a reduction reduces local manufacture it would not be popular and the immediate effect would probably be an increase in unemployment, though it must be remembered that imports (goods and services) could be of a sort different from those we manufacture at present.

4. Housing could be improved and other amenities undertaken, e.g. slum clearing—this is already being done as building plan figures show, and any further increase might involve dangers of a lop-sided development and cause

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THE RICE INDUSTRY

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Prices of luxury rice range from ₱5.45 to ₱6.55 per sack of 56-1/2 kilos with palay of that grade from ₱2.30 to ₱2.40 per cavan of 44 kilos. Macans from ₱4.85 to ₱5.40 per sack with palay of that grade from ₱2.25 to ₱2.30. The latest Saigon quotations for grade No. 2, is ₱7.05 per sack laid down Manila all duties paid, with some stocks of the Saigon imported article still unsold. Strictly speaking there are no Macans on sale in the general market, except in very small quantity.

Threshing reports to date in the Luzon Plain show a very fair to good crop according to locality, but more will be known in next report. A plentiful supply will of course not require any or very little importations for this next year.

So far the price of macans has held quite close to the line suggested by the NARIC (Rice and Corn Corporation) offerings being from ₱2.25 to ₱2.30 but of course can only be maintained so long as the corporation can buy at the price suggested. So far as is known only about 100,000 cavans of palay have been purchased, the impasse being a lack of local warehouses and of ready cash to make purchases from those who are forced to sell. Very naturally the Corporation will have to face the problems that face ordinary business, with certain privileges. If all the capital primarily set apart for this entity were now available it would go far in stabilizing the minimum price in the principal buying regions concentration of course, being in those districts with large quantities of the cereal for sale. It is understood that the spread of ₱0.25 is for the macan grades, the luxury classes not being very desirable for supplying the masses later in the season.

The restricted local amounts proposed to be bought in the smaller producing town will have little or no effect unless these are arranged to buy supplies as offered, in fact, if these are not so purchased it will weaken any effect of what the corporation was established for—the stabilization of supply and price.

MANILA HEMP

By H. P. STRICKLER
Manila Cordage Company

During December, the London market strengthened further as a result of trade demand, and prices advanced steadily on practically all grades. This strength in the London market finally influenced both the American and Japanese markets, where a similar advance in values took place, and the market closed active and stronger on all grades.

All local markets responded to the foreign demand, and during most of the time, local values were considerably higher than the parities of foreign prices. Continued small production throughout the abaca producing districts lent a special incentive to the higher prices asked by producers and dealers.

Prices of Loose Fiber in Manila Per Picul

November 30th		*December 31st*	
CD	₱25.00	CD	₱28.00
E	21.50	E	23.00
F	18.50	F	21.00
I	17.00	I	19.00
J1	15.50	J1	16.50
G	14.50	G	16.75
H	13.50	H	15.50
J2	14.50	J2	16.00
K	13.25	K	15.25
L1	12.75	L1	14.75
L2	10.25	L2	13.00

Prices of Loose Fiber in Davao Per Picul

November 30th		*December 31st*	
F	₱18.75	F	₱22.50
I	18.00	I	21.50
S2	17.00	S2	20.00
J1	17.50	J1	20.50
G	16.00	G	19.00
H	13.50	H	16.00
J2	15.75	J2	19.00
K	14.50	K	16.75

TOBACCO REVIEW

By P. A. MEYER

RAWLEAF: The central and upper parts of Isabela province were visited by an enormous inundation at the beginning of the month. However, as most of the tobacco of the 1936 crop had already been sold, tobacco losses through water damage affected buyers more than farmers. In some districts considerable damage was done to seedbeds, thus probably resulting in reduced tobacco acreage for the 1937 crop. Comparative shipments abroad were as follows:

	Rawleaf, Stripped Tobacco and Scraps Kilos	
	December 1936	*Year 1936*
Australia and New Zealand	.....	13,768
Austria and Czechoslovakia	.....	1,041,582
Belgium and Holland	6,357	128,623
China, Hongkong and Manchoukuo	59,816	379,563
France, option other ports	1,816,090	1,816,090
Gibraltar	14,160	34,966
Japan, Korea and Formosa	121,981	1,416,811
Java and Malaya	2,305	18,652
North Africa	31,067	383,150
Spain	.....	6,286,341
United States	129,928	1,009,781
Various	.....	16,363
	2,183,129	12,545,690
November 1936	156,039	
December 1935	1,751,051	
Year 1935		18,517,176
Year 1934		14,024,614

CIGARS: Business with the United States continues lagging due to insufficient shipping opportunity caused by the maritime strike. Comparative figures of shipments to the United States and abroad are as follows:

	United States	*Other Countries*
December, 1936	10,503,060	836,010
November, 1936	11,151,085	1,697,994
Year 1936	164,905,078	14,637,306
Year 1935	208,676,183	15,771,427
Year 1934	208,268,782	15,352,252

Cheap Money . . . .

(Continued from page 36)

anxiety when the building boom slackened off as it probably will shortly in Great Britain.

5. Even more oversea debt could be paid off, but reasons have already been advanced in para. 2 for believing that it is wise to have certain oversea creditors on Public Debt account.

6. New industries might be started, but our market is at present, small and the pace of industrialisation can, as previous figures show, hardly be accelerated with safety; moreover, the *ultimate* effect of a too rapid industrialisation might be to reduce the relative volume of imports and still further increase oversea balances.

7. There remains one further possibility—a gradual improvement in the economic position of the *lower classes,* unskilled European, the natives and coloured. There are dangers even here. But a solution partly along these lines seems to offer most possibility of permanency and an improvement in distribution and an expansion of the local market is desirable on other grounds. For where an increase in wages increases efficiency, costs of production should ultimately fall.

While therefore I look to a continuance, for some time, of the present favourable position of South Africa, it is obvious that there are dangers. Cheap money looks like continuing for a period—indeed, present banking figures would almost warrant a further fall in money rates, [illegible] when the secular rise of prices does take place, interest rates will also rise, though they may not rise sufficiently in the early stages to offset the rise in prices. It would be idle to prophesy at what price gold will ultimately be stabilised, but we must remember that South Africa is thriving because of the present atmosphere of world distrust, which pushes up the price of our chief product. No country is more vitally concerned than is the Union in a return to stable conditions—some form of the international gold standard—and a reduction of all those artificial barriers which impede trade and restrict exchange. At present we are in a highly favoured position but there are signs that the inevitable pressure of events may produce a secular rise in world prices with unfavourable reactions. While appreciating our favoured position, our policy should be directed (even though it may help little) towards a return to a condition of things which realises the ultimate and final interdependence of all countries throughout the world.

We add that all that relates to South Africa in this gold question relates equally to the Philippines as a considerable producer of gold, making a study of Dr. Richards's whole paper from our December issue and concluded here, germane to our leaders in mining.—*Ed.*