but by causing periodical trade booms and slumps make enormous fortunes by buying and selling ?—That is possible theoretically. I understand your point. That possibility would still be there if your directorate was appointed by the State.

Yes ?—When a man has much power to vary the price of commodities there is always the possibility of his exploiting that power for his private benefit.

There is this difference ; you might have venal officials but they do it with a rope round their necks. A private corporation can get away with it ?—You mean they are not there for the public benefit ?

Yes ?—Personally, my view is that as far as the Bank of England is concerned, I think they have very little regard for their shareholders ; they regard themselves as generally acting in a national capacity, although they are not actually so legally. Such action as exploiting their powers would amount to the venal action you mentioned.

You know that the shareholders do not appoint the directors ; they are appointed, as you know, by the merchant bankers of London City. Those merchant bankers never appear in public ; they figure as agents sometimes ; I believe the agent for the New Zealand Government in negotiating loans is one of these merchant bankers ?—It is an underwriting house.

It has come down through the centuries ?—I do not think the firm with which we deal does any banking at all. Their business is simply underwriting.

It is a euphonious term. These merchant bankers appoint the Court, or the directors, of the Bank of England ; they could take considerable advantage of trade cycles if they knew they were coming beforehand ?—Theoretically, yes.

So that, generally speaking, would it not be a good thing to have the controllers of such a mighty engine as controllers of the monetary system responsible to public opinion ?—Theoretically, yes, although there may be practical dangers in that.

I will not pursue it ; it is not fair to do so. Have you read Hawtrey's "Art of Central Banking " ?—I have glanced through it, but have not read it *in toto*.

He has been advanced as the authority on central banking at the present time ?—His book is not a technical book. It is really just a series of articles.

It is for popular consumption ?—He apparently gave this series of talks at various times, and then put them in the form of a book ; it is not a comprehensive treatise.

He is a very able man ?—Yes.

He has a high position in the British Treasury. In his "Art of Central Banking," he says, "Governments make money out of silver, copper, and paper. Banks create it out of nothing. But other lenders have not this mystical power of creating the means of payment out of nothing. What they lend must be money that they have acquired through their economic activities." That throws a flood-light on some of our misconceptions. Going back to your statement, page 2, paragraph last but one, "Thus, if the psychological factor in the trading community is adverse ": In reading that, it occurred to me that it would be more accurate, perhaps, to change the words "psychological factor " into "selling-ability." That is really the case, is it not ?—Yes, though it may be wider than that. The selling-quality of an article is always a problematical matter. If a man decides to manufacture anything at all, the question as to whether he will be successful is always problematical, but the question of whether he will start or not depends upon his psychological reactions. If he thinks the outlook is pessimistic, as is generally characteristic of a depression at a certain stage, he will not do anything. In other words, traders are not active when the outlook is bad ; when they think the outlook is good, it is a considerable factor in making it good.

If a man's liver is out of order, he will take a pessimistic outlook, but that would not apply to the whole of the trading community ?—It is a question of mass psychology.

If the whole of the trading community were able to sell their goods, there would not have been that pessimistic outlook ?—No. You mean you would not expect to find a pessimistic outlook in a time of boom ?

It is a question of cause and effect. Pessimism is very real but does not that arise from the continued inability to sell ?—Yes, it does ; but industries act and re-act on one another to such an extent that, when from any cause one man shortens sail, he affects the market of the next man.

But only within a certain small area ?—There are many ramifications and the effects go right through the economic system. You take one large manufacturer : If he for any reason at all decides to cut down by 50 per cent. and cuts down his staff, another manufacturer finds his sales affected and it runs right through.

I suggest it is something like a fishing-net. If you hang a fishing-net with a hole in it on the wall ; on the top of that hole is the pessimistic gentleman. He starts shortening sail and it has its effect. Later on, the hole will close of itself. Other people will come in, competitors and so forth. We have the case where the fishing-net is cut off altogether ?—The reverse effect will come when the tide turns and bolder spirits think there is money to be made. They will start, and it is equally cumulative.

Would you raise any objection if I write in here "selling-ability " ? Do you think that would be altering your sentiments ?—I regard the selling-ability as only one part of what I mean by the phrase "psychological factor."

You do not regard them as synonymous ?—No. I think mine is wider.

Yes, I think it might be in certain circumstances. On page 4, the paragraph before the graph—that is an interesting paragraph and meets several points. It deals with the exchange of goods on a barter basis ?—Yes.

"Goods can be purchased more cheaply in Britain and sold more cheaply in New Zealand " ; that depends on Customs tariff ?—Yes.

Generally speaking, that would apply, but the main point is that the subject of debts is left out ?—You mean as far as price is concerned ?