When you are borrowing abroad you are borrowing wealth, when you are issuing Treasury bills here you are not necessarily adding to the sum total wealth against which those Treasury bills will be spent ?—No.

Mr. Langstone.] What is the difference ? Suppose you fetch in extra wealth and never use any more of your New Zealand wealth and by note-issue or raising a loan utilize the wealth already in existence it is purely a matter of bringing goods into consumption is it not ?—Yes, but the question as to how far you can deflect the purchase of goods from current consumption or rather the labour of your people into capital works depends on how much you can afford to save.

Dr. Sutch.] Do you think it is advisable, say, to control the importing situation so that imports would have to be rationed over a price fixed ?—Generally, no.

Mr. Langstone.] I suppose that if we want to keep assets and securities stable we must have a stable price ?—More or less, yes.

And yet you do not believe in a stable price ?—But that is not to say that I believe in wide swings in price.

In reply to Dr. Sutch when he asked if you were in favour of a stabilized price you said it was not desirable ?—Not to this extent : That I say the price-level ought to fall with the fall in the cost of production in order that the consumers might get the benefit of the technical improvement.

If we want to have some standard basis of security it seems to me that the price factor is the central determining factor of all of your assets and securities, and you cannot have stability of securities and assets unless you fix your price factor ?—Yes, but you can have a great deal of fluctuation in individual prices which will not disturb your general price-level.

Hon. Mr. Downie Stewart.] I understood that you thought it was desirable, but very difficult ?—Yes.

Mr. Langstone.] In the beginning of your paper you point out that the gold standard does not apply, and you are evidently trying to set out that in an endeavour to keep the external exchange stable ?—No, it was not. The origin of the whole thing is that it is evident from the existing bank laws, apart from the Reserve Bank legislation altogether, that it was the original intention that we should work on a stock of gold in the country. It did not work out that way.

Inherently that is false. It is false for two reasons, if you take gold out of the country to settle exchange you constrict the base of your own currency ?—Yes.

You put up the bank-rate and also there is a fall in prices ?—Yes.

You have the bank-rate rising and the prices falling ?—Yes.

So you get a double disadvantage at the one time ?—Yes, that is inherent in the whole operation.

That assumes, then, that the question of the gold standard is a fallacy ?—No. The gold standard works to that extent automatically. One of the reasons why the gold standard did not work in the post-war time was that it was not allowed to have those effects.

You point out also that in 1914 we had £1,700,000 in notes, but on the gold held, provided there was sufficient Government securities purchased, the notes could have been £16,000,000 ?—Yes.

So really the amount of coin in circulation depends upon the action of the Government ?—No ; because the point you come back to is that the quantity of notes that go into circulation depend upon the habits of the community in relation to the volume of credit.

There seems to be some relationship between the bill money of the nation and the credit money ?—As the system operates in Great Britain that is the position. The controlling factor is the cash resources and they have the credit expanded almost to the limit. Our system really works the other way round.

Do we not in this country—if there are more advances is there not therefore a greater demand for cash ?—Yes.

And even if it is given to the Government and other people and there is an expansion in business there is a bigger payment in wages ?—But then the ratio on which cash goes out depends on the extent payments are made by cash and cheque respectively.

Our habits have not changed entirely. In 1921 there were about £8,000,000 of notes out. To-day with our greater increase in wealth, you have about £6,000,000 of notes out. We have greater wealth to-day, there are better roads and more factories, and everything ?—But those are not factors that directly bear on the quantity of money at all. The note-circulation and the circulation of volume of credit are dependent upon the current supply of goods that are up for sale. Factories and lands generally are not in the market for sale.

People are wanting things, but very few working-people have banking accounts, or for some reason or other they are not able to get them ?—In other words they have not got work, which in the majority of cases means they have not a job.

The basis of income in New Zealand to the working-people is work ?—Yes. It is the basis of income of every one, more or less.

But through something remiss in our monetary system these people are denied the right to work not because they are not willing to work, but because they cannot get work ?—But I do not think you can lay all that at the door of the monetary system. There are a great many other factors such as the question of disorganization.

How is the disorganization brought about ?—As far as New Zealand is concerned it is through the violent fall in sterling prices.

Why did prices fall ?—You mean in Britain ?

Yes ?—Through the interaction of a great many causes.

We have it from Dr. Walter Leaf in his little book on banking that the Government definitely decided on a policy of deflation, and they paid off securities of £500,000,000 ?—No, they funded their Treasury bills.