

*Mr. Lye.*] How would you arrive at any stability?—I am not in a position to say.

I am asking you for your comments on the claim made?—I do not consider it would make for stability if you did base it on production. It is the demand for production that is the deciding factor—the effect of demand for our production.

*Captain Rushworth.*] Can you give us your definition of inflation and deflation?—Not necessarily in technical terms. My own view is that inflation takes place when the volume of money is, in relation to its velocity of circulation, is increased in proportion to the volume of goods and their velocity of circulation. That means that there is more money to do the work than there was before. I would say that that would result, other things being equal, in prices rising, and that it would be entirely a monetary effect, purely from increasing the volume of money. And deflation is just conversely. If we decrease the money in circulation without decreasing the volume in relation to the velocity of circulation of goods, although you can decrease the money in circulation and increase the velocity of circulation and that would enable the same amount of money, by travelling faster, to do the same amount of work, and the tendency would be not to affect prices, and therefore to avoid deflation.

Could you, by increasing velocity of money, pay off debts to the bank?—I do not think that would depend entirely on the velocity of circulation, because the payment of debts to the bank is just one movement.

This question of inflation and deflation, could it be expressed that a state of inflation exists when you have a general rise in the price-level and a state of deflation exists when you have a general fall in the price-level?—Not necessarily.

Then I did not quite understand your definition of the terms inflation and deflation?—In what way do you mean?

What is a state of inflation?—What I mean is this, that if there is an increase in the price-level it might be due to an increased demand in certain directions.

But a general increase in the price-level; an increase in the general price-level—that is, over all commodities?—It is very difficult to make a general statement about it because in New Zealand if prices increased here and at the same time the prices we received for overseas goods increased it would not necessarily be a state of inflation at all.

Then how would you decide whether a country had adopted a policy of inflation or not?—Normally speaking, for a very long time currencies have been related to gold, and an indication of the extent to which a currency has been depreciated, which is the converse of inflation, is the extent to which the currency is depreciated in terms of gold.

Then if we found a mountain of solid gold in this country, that would not result in a state of inflation?—It would not result in a state of inflation, but it would decrease the value of gold in proportion to the demand for it.

In proportion to the goods?—In proportion to the goods.

Involving an increase in the price-level?—Yes.

So that a state of inflation is an increase in the general price-level?—Not necessarily. An increase in the general price-level can be a state of inflation.

Yes. But can you have a state of inflation without a general increase in the price-level?—Yes, you can.

Could you give me an illustration?—If the volume of goods decreases.

Well, if the volume of goods decreased and the volume of money remained constant, surely you would have an increase in the price-level would you not?—Would you say that again.

If the volume of money remains constant and the velocity and the quantum of goods diminishes you would have a state of inflation?—It all depends to what extent the volume of money was in circulation.

We give that in. We will put it this way: If the volume of money in circulation remains constant and the quantum of goods in circulation falls you have a state of inflation. Is that right?—It might be considered so.

Would you consider it so?—That is a question that wants thinking out.

It seems simple enough?—What I mean is, I am looking upon gold as having an intrinsic commodity value, and the way I was approaching inflation and deflation was as regards the paper currency issuing the titles to purchasing-power without increasing the work it was to do.

Yes. You see why it is so necessary to have a clear understanding as to what we mean by the word inflation, because otherwise we shall be stumbling over it later on?—Yes, that is right.

Is it not a fact that the term inflation is applicable to a general rise in the price-level?—No. As I mentioned before I do not consider so. You might consider so.

I want your opinion?—I would not regard it as inflation if the supply of gold increased in relation to the supply of goods, and the currency based on the gold increased to that same amount, because all that it means then is that the volume of money to do the same amount of work is more and the money has an intrinsic value. But what I mean by inflation is that if the quantity of paper money is increased and the work it has to do is not increased, I look upon that as inflation because the reason why that sort of thing is done usually is for some other authority or some one to get the difference—get the margin, and reduce the real burden of debts payable.

May I put it, then, that you personally make no equation between money and goods, but only between various forms of money and gold?—No. As regards inflation, it is a term I understand as referring to depreciation of the paper money in respect of gold and a rise in prices on account of a greater increase of the gold supply available. I would not consider that inflation at all, although it might be considered so.

There has been no increase in the general price-level, I am told, in Egypt and Sweden, but in neither cases are the moneys of those countries related to gold. Would you say that there is a definite state