of inflation there ?—No. I cannot see how you would say that they are not related to gold, because of their purchasing-power in comparison with the purchasing-power of gold, there would be a relation there.

So that the meaning you attach to the term "inflation" really is the relationship of money in its various forms to gold. Is that it ?—That is the way I am understanding it in this particular case.

No relationship to the price-level ?—I do not say it has no relation to the price-level. What I am saying is that a change in the price-level could take place without its being inflation.

That is to say, inflation might or might not take place irrespective of the price-level ?—No. I would not say that. What I say is that all increases in price-level are not necessarily inflation.

Then how would you decide that a state of inflation has arisen ?—In gold countries, in countries whose currencies are linked to gold, by the relation of the paper currency to the gold.

And in other countries, countries not linked to gold, how would you arrive at it ?—You mean in countries like Egypt and so forth ?

Never mind ; any country not linked to gold. How would you arrive at the state of inflation ?—Well, considering between two points of time, if, at a certain time, the price-level was at such-and-such an amount and the volume of goods and so forth were such-and-such a quantity, and then there was just the monetary change without the relation of the goods changing, a state of inflation or reflation might exist between them. Why I use "reflation" is that we may be merely returning to a previous basis which was considered as normal.

Of course, the terms "inflation" or "deflation" or "reflation," if there is such a word, are relative ?—Yes. That is why I mentioned gold, because I regard it as being relative to something or some commodity.

So that you personally would be quite satisfied that if there were a general rise in the price-level a state of inflation might not exist ?—It may not exist.

Here in New Zealand ?—For instance, if we return to the price-levels and the incomes and the volume of goods and services that we had before, when both Britain and New Zealand were on the gold standard, we would be very much more prosperous than we are to-day, and we would be paying higher prices than we are to-day, but I would not say that a state of inflation existed then.

So that if we as a Committee here had any proposals put before us which involved a general rise in the price-level, it would be quite wrong for us to suggest that that necessarily meant going into a state of inflation ?—In my view, a sound basis of returning to the price-levels that have existed before would not necessarily be inflation as compared with the parities and standards that existed before the depression.

We are taking the position as it is now ?—Well, you must compare it with something. You must relate it to something.

We are relating it to the present situation. Supposing a proposal were put before us involving a general rise in the price-level as from now, would the Committee be wrong in suggesting that that would necessarily involve a state of inflation from now ?—Yes. I consider there is a distinction between inflation and reflation.

What is the difference ?—I consider that reflation is returning to a basis that was formerly considered as normal, and that inflation would be, as I have described, the depreciation of the currency in respect of its original purchasing-power.

But supposing your previous state was abnormal and that you are back to normal now. If you go from the normal to the abnormal would you call that inflation and not reflation ?—Not necessarily, because "re" means back again, and if you are not returning to anything it would not be inflation.

It would be back to the abnormal in the case suggested ?—Well, that would be re-inflation.

Well, it would be justifiable, would it ?—Not necessarily.

Well, I will let that go for the moment. I am satisfied with the answers so far. Do the banks operating here in New Zealand act as trading concerns for profits ?—They do.

For the benefit of the shareholders ?—It is for the benefit of the shareholders and also for the benefit of the community, because banks are what may be called quasi-public bodies.

Yes. That has been mentioned once or twice this morning, that the banks, on occasion, operate in the interests of the community as a whole. What I want to ask you is, what happens when the interests of the community as a whole and the interests of the shareholders are in conflict ?—I do not consider that they would come into conflict.

No. But what would happen if they did ?—Well, the community interests would have sway. For instance, it would be to the interests of the shareholders at the present time to increase the overdraft rate.

Yes. But that is not my point. My point is, when the interests of the shareholders and the interests of the community as a whole are in conflict ?—I am wanting to understand you, and if you will explain how the interests of the community as a whole can conflict with the interests of a very large body of them drawn from all classes of society and from all grades of wealth, I might be able to do something. But the thing is that I cannot see that they do conflict.

Is there any way in which, in the event of such a conflict, the interests of the community could be made paramount ?—In cases of national emergency the policy of banks is directly concerned with national interests, but still, at the same time, those interests, I affirm, are the shareholders' interests also. The shareholders are a part of the community and not of any section of the community or any party in the community, so I consider that the body of shareholders are a representative body of the community.

Well, surely they are a section of the community. They must of necessity be ?—Yes. But I mean that no party or divided section. For instance, you would not say that their interests were exporting as distinct from importing, or that they had any political colour at all or any religious colour.