

bank by way of loan finds its way into banks by way of deposit, and no sound system can be devised whereby a person who drew a cheque on an overdrawn account was prohibited from paying it in to a credit account.

What proportion of advances finds its way into the bank as deposits?—I could not give those figures.

You know that before that Commission held in London it was given in evidence that of the money transactions recorded by the banks in one year 0·7 of 1 per cent. was represented by currency, the remainder being by credit instruments of various kinds. Would that be something like the proportion here?—I am not in a position to say that.

You say that the proportion of currency—?—Currency to banking transactions?

Notes and coin—?—Notes and coin to banking transactions?

Yes?—Well, it is not possible to say what the proportion is here, but the thing is that the banking transactions by way of cheque is the volume and the velocity. That means that the note can circulate a thousand times and yet it only appears as one note-issue, but a cheque is recorded each time it passes.

We will deal with the question of velocity a little later. The point at issue at the moment is still this same question of deposits. Can you tell me how money comes into existence in the first instance?—That has already been replied to.

In part. Would you mind elaborating a little. So far as metallic money is concerned, we know that comes into existence through the operation of the Royal Mint. When money was entirely metallic, all the money in existence originated at the Royal Mint. Is that right?—Or at some mint. By minting, yes.

So far as Great Britain is concerned it is the Royal Mint?—Yes.

There is only one mint, the Royal Mint?—That is so.

With the development of the monetary system the metallic money has become a very small proportion of our total money?—That is the case.

Our total money, in Professor Walker's definition, the one you have adopted, consists very largely, almost entirely, of credit instruments of one form or another. Is that right?—That is the case.

Those credit instruments we commonly corrupt into the word "credit." We talk of the credit structure and so forth. Now, the amount of credit that is issued by the banks and takes the form of credit instruments of various kinds is based in some way upon the currency, that is the cash reserves of the bank. Can you give me any idea as to the proportion?—Are you referring to banking in New Zealand?

Yes?—I should say in New Zealand it is round about 20 per cent.

In Great Britain they found it quite safe to assume from ten to twelve times of credit to the English reserves they held; do you think it would be more like five or six?—What do I think would be more like five or six?

The amount of credit; the total volume of credit instruments that the bank can issue that has a relationship to their cash reserves. Is that right?—Yes.

Because that may be used to draw on cash. About what proportion?—In New Zealand? I have said I think it is round about 20 per cent. in New Zealand, but the system is not quite the same.

I know that. The banks here can quite safely issue credit beyond the limits of their cash reserves. They do in fact do so?—What do you mean by "the limits of their cash reserves"?

You have a total volume of currency, notes, and coin; you can issue credit beyond the limit of that currency?—You say we have currency, notes, and coins; do you refer to the notes in the tills of the bank as being coin?

No, legal tender?—Legal tender in the banks?

I am using the term "cash" in the same sense that it was used in the Act passed by the British Parliament in 1819 when the Bank of England was authorized to use cash payments; cash in the ordinary accepted sense of the term covering all forms of currency. The banks here operate on a certain volume of currency; that currency is limited by certain other things which I will touch upon presently, but they are able to issue credit over and above the limits of their cash reserves?—Do you include notes that are not in circulation which are held in the banks as cash reserves?

Yes. You consider them as cash reserves?—That is not correct, because notes held in a bank are merely pieces of paper and not entered on the bank's books at all. They are not assets or liabilities; they are only liabilities of the bank while they are in circulation; and when they are in the bank's hands, if they are all destroyed, it would not make any difference beyond the necessity of printing more.

What is the limit of the credit that the banks here may go?—I cannot say anything as being the limit to the credit that the banks may go. It would be in accordance with their views of what may be soundly and safely given on the security which is the basis for that credit and the bank's cash resources or funds.

What is that "cash resources" you are talking about?—The actual metallic money and the reserves.

What reserves?—General banking reserves.

What reserves—coin?—Including coin and securities.

But the securities are not legal tender; you do not call those cash?—There seems to be some confusion here in regard to legal tender, but the banks do not hold legal tender.

You said cash; I am trying to get a definition of cash?—Cash resources are the funds representing amounts deposited by cash depositors.