

Yes ?—That bank has the State as its backer and in addition to that the other banks are required to lodge deposits with that bank. That is a compulsory measure, and the trading banks trade on the voluntary confidence of the people. There is a distinction there. I should say it would be very hard for a trading bank to start operations if it had no share capital.

Of course, the other banks have got the State behind them. In 1894 when the Bank of New Zealand was in financial difficulties the State had to go to its assistance. It was compelled to do so ; it would not do for the country to allow the thing to crash ?—That is the case.

So that they have, in a sense, the State behind them. But that is not the point I am trying to get at. The fundamental principle of banking is this : that the customers to the bank supply the capital of the bank on which the bank operates. For arguments' sake, if I have an asset and a security and it is worth £2,000 or £3,000, and if I go along to a bank and I ask for a loan on that security, I will get it on my security ?—That is so.

All that they do is to monetize my security ?—Yes, that is right.

They make it liquid so that I can use it ?—They enable you to spend part of your property and fully release your property when they have got the money back.

The banks have the power to say, Yes or No, and if they say, No, it does not matter how much I want to trade and how much other people want to trade with me, no trade can take place ?—That is the case, but it is the life-blood of banking to do good business, and to refuse good business is the same as a man refusing food.

What has gone wrong, then ? Let us try and get at the root cause of things. New Zealand as a going concern in the physical sense is better to-day than ever it was ; our roads are better and our farms are better ; cows have gone up in butterfat-production, and our sheep and all of our means are improved ; but there must be something wrong with the financial side of it ?—I would not agree there. It has been said authoritatively that if money is wanted for sound purposes it is obtainable and the banks are anxious to lend for sound business purposes ; it means that something else is wrong.

You will admit that, at the Ottawa and World Monetary Conference in London a while ago, every economist, local and international, attributed the cause to a fall in prices. There has been a fall in prices ?—Yes, but, of course, it would be understood that in referring to a fall in prices there must be some other factor behind that.

What causes a fall in prices ? What is the other factor ?—These other factors are mentioned in the Macmillan report.

I do not think so. On page 93 of the report, it is stated that they could not go into those non-monetary matters according to their order of reference, but they suggested that there were causes other than monetary, although they did not go into them ?—I read out this morning eight points.

What are the eight points ?—Shall I read them again ?

No ; it is not necessary. Let me see if we can arrive at a basis. Let us start with No. 1 : the ability of any firm or individual or company to finance is based upon the possession of assets and securities ?—Yes, that is correct.

But the value of assets and securities is determined by price. Price is the regulating factor of the value of assets and securities ?—I should say the value is expressed in price—that is, the exchange value.

But price is determined by the amount of money in credit, in circulation and use, is it not ?—The money in circulation has a bearing on the question, but the volume of goods has also. For instance, more money would be available now if it were asked for, but that would not necessarily alter prices.

Do you mean to tell me that the unemployed workers—if the Government or some one else came along and said we will increase your wages to £3, £4, or £5 a week, they would refuse to take it ?—I do not suggest that.

If they got it, it would be effective ?—They would be able to spend it at once.

And that would possibly put up prices ?—It might do so, but the money would go straight out of circulation. You would be giving the unemployed a claim on some institution—on a bank or on the Government.

Let us get this claim on the bank : when a bank issues notes, you told us yesterday that when they had notes printed and not issued the notes were worthless paper, and of no value at all ?—Yes.

Can you tell us what accounting takes place when you tear some of these off and issue them in Wellington. Say you issue £1,000 in Wellington this morning ; that it is necessary ; there is a demand for them. I know that a bank will not keep notes back if there is a demand for them ?—The broad accounting basis is that the notes in circulation—the liability of the banks—is increased by £1,000. The bank owes £1,000 more.

To whom ?—To the holders of the notes.

But then, what have they got to pay the holders of the notes ? If I go back to the bank with a note and say, " Give me something for it," they will give me another note ?—That is due to the fact that the note is legal tender.

The note is worthless while it is not issued, but immediately it is issued it is a legal claim on goods and services to the value of the note, and it will buy from Jones, Smith, or Brown an equal amount of value mentioned in that same note ?—And it will transfer from the drawer of the note that claim. That claim still remains on the bank.

If it was nothing in the bank from the start, only a worthless piece of paper until it was issued, it gets its vitality outside the bank instead of in it ?—I would not say that. If I had an I.O.U. in my hand ; I have written it out, it is worthless, but if I hand it to you it represents a claim you have on me.

There is a difference here. With an I.O.U., I have the right to issue, but in regard to a note I have got to accept it in payment or I forfeit my right to claim. If I go into a shop, the shopkeeper can refuse to accept an I.O.U., but he cannot refuse a note ?—You cannot push any analogy too far.