

That is actually a fact?—I may tell you that the fact that you cannot get any other form of purchasing-power of a higher title than a note is due to measures put in force for the benefit of the community, and the community would have been in great hardship if those measures were not put into force.

An Act of Parliament is behind it?—Yes, the note-issuing is governmentally circumscribed.

Take the Act of Parliament away and all your money would be cancelled. If the Government to-morrow said we are going to issue Treasury notes and recall all bank-notes, then those Treasury notes would be a claim on the goods and services of the people in the exchange of goods and services. They would not cost the Treasury Department any more than the printing. It would be a tax. I mean to say, that the State as a State would receive its services in the form of a tax through the issue of money, would they not?—They might do so, certainly.

If the Treasury do it that way, then the banks do it that way?—Not exactly, because the banks have ultimately to keep solvent and to redeem the notes.

What are they going to redeem with? If I have a pound and go to the grocer and buy some bread, he is actually giving me something for it. I cannot buy bread from a bank?—No, but it can enable you to buy the bread.

I can go to the baker and the grocer; he gives me real wealth for it, but the banks do not give me anything?—But the banks enable you to do it. They give you something that the baker will take.

Then the Treasury could do it?—In some countries the Treasury does.

It is a costless creation; the service that the bank people are rendering in keeping accounts and all that is a really valuable thing?—I would not say it was a costless creation, because the bank in giving a person an advance or a note gives a claim on the bank, and that claim is passed on to some one else when he spends it. There is still the claim on the bank.

But what are the banks paying that claim in? The bank is only trading in money, and we do not eat money or wear money. Money is that transferee, that method or medium by which we transfer goods or services from one person to the other. We consume goods but we do not consume money. The bank only handles money or figures?—It accepts the liability on the one hand. It is debtor on the one hand and creditor on the other.

But not in money. If I go along with a note to the bank and say, "Redeem that," what will they redeem it in? Will they give me a suit of clothes for it?—No; but if you had an obliging banker he might say, "You wait here, and I will buy you a suit of clothes with it." But why go to the bank for a suit of clothes when you can go to the tailor?

Yes, and be charged a sales tax on it? If you have not read this Portugal bank case, I would advise you to read it. In December, 1924, a gang of frauds interviewed Sir William Waterlow and Co., the printing firm, who print notes, &c., for the various banks, and who were printing money for the Bank of Portugal at the time. These people evidently got to find out what was going on, so they entered into an arrangement for an issue of notes. They are what are called "escudos." They were going to get 580,000. The first issue of 20,000 was given late in February, and between February and the following December—that would be ten months—about 200,000 (to be correct 209,718) of these notes, in Portugal?—These frauds?

Yes, these illicit notes. The bank did not know anything about it. Here is the most remarkable thing. The trade of Portugal, the internal price-level and the exchanges, were more stable at that time than any other time before or since. In December of 1925 it was discovered that there had been a fraud, and the Bank of Portugal paid out a new issue of notes and called in all the other issue, and then they summoned Waterlow and Co. to make good the loss, and in making good the loss there was judgment given against them, and I do not think it was a good judgment?—Against Waterlow and Co.?

Yes. This bank was called the Bank of Anglo e Metropole. When they wanted to circulate these notes inside Portugal they had to establish a bank to do it. They found it too difficult, so they got a charter and issued them through the bank. Naturally, when the fraud was found out, they confiscated the property of the bank, and this bank within a few months was able to acquire, through the issue of notes, real property and estate to the value of £450,860?—That means it paid out notes?

Yes, illicit notes, which were accepted by the community. It would have gone on?—Those notes would represent a liability of the bank.

No, it did not represent anything. The Bank of Portugal gained not only the amount of fine that was actually paid by Sir William Waterlow, but, in addition to that, they made £450,860?—By issuing those notes?

No, because the other bank had to be confiscated. They sold up the property, it was declared a fraud, and the Bank of Portugal got twelve-thirteenths of the estate, and that was £488,430, in a few months, through the issue of money. If it is possible for money to be issued that way—that money while it was passing was transferring the same goods and services as the licit money—it was just the same; there was no difference?—It had the quality of money; it had acceptability.

No; if they had gone to the authorities and said, "Make our money legal tender," it would have been all right. They made a mistake in that way.

*Hon. Mr. Downie Stewart*: The reason why damages were given against Waterlow was that it was not possible to substitute good notes, but the policy of Portugal was to restrict the note-issue.

*Mr. Langstone* (to *Hon. Mr. Downie Stewart*): Your statement is true. The mere fact that, while the Bank of Portugal was going in for a policy of deflation, these new people were putting in an inflation, kept the price-level, and conferred a benefit on the people of Portugal. That is what happened.

*Hon. Mr. Downie Stewart*: It was not the policy of the Government.

*Mr. Langstone*: What I want to get at is: the bank is complaining of taxation—the heavy taxation that it pays. Does the bank pay heavy taxation? Are there some corresponding benefits that they have that set off any disadvantages they may be imposed upon them, do you think?