

*Captain Rushworth*: Very well, I accept your ruling. There is only one other question I have to ask: Now that the Reserve Bank is established, the function of creating, issuing, and cancelling money is transferred from the associated banks to the Reserve Bank?—The function of issuing notes will be transferred from the trading banks to the Reserve Bank in accordance with ordinary reserve-bank practice.

That is, the notes form the basis really of the other non-tangible money that the banks deal with?—You consider that the notes form the basis of the other non-tangible currency that is issued through the banks.

We will not argue that. I did not mean that the notes themselves are the basis. I was quoting Sir Otto Niemeyer. Very well, we will take it that the manufacture and issue of notes is now transferred from the associated banks to the Reserve Bank?—There again I must say what I mean. The manufacture of the notes is not the function of the Reserve Bank. The Reserve Bank issues the notes and they are manufactured elsewhere for issue by the Reserve Bank of New Zealand.

In that respect that function has been transferred now?—That note-issuing function is being transferred to the Reserve Bank.

And the Reserve Bank is a private corporation?—With Government representation on the Board—the three State Directors and the Governor will be appointed in the first instance by the Governor-General in Council and the Deputy Governor and the other representatives will then be appointed. The State, I should say, would have some connection with the establishment of the Reserve Bank.

That opens up another question. I had intended to leave it at that, but the State representation on the Reserve Bank is in the minority is it not?—It is as set down in the Act.

Yes, a minority, whereas before the State had a majority of the Directors on the directorate of the Bank of New Zealand?—That is so.

So that the change in that respect is from the Government having a majority on the directorate to the Government having a minority. I did not wish to pursue that but you opened up the subject by volunteering that information.

*Mr. Ashwin*: The position of the Bank of New Zealand is not affected by the Reserve Bank legislation.

*Captain Rushworth*: I think I can only say now that I compliment the witness on the dogged fight he has put up. I think it is only right to say that the banks have no need to be ashamed of their representatives?—We very much appreciate that remark.

*Hon. Mr. Downie Stewart*.] I have only one or two questions to ask, Mr. Fussell. Captain Rushworth referred to the world-wide, or widespread, belief that the power of sovereignty had passed from the Government to the banks. He asked a question in that connection?—Yes.

Would you consider it consistent with that belief—that is to say, that the power of sovereignty has passed to the banks—if the Government is able repeatedly to pass banking legislation controlling and effecting the banks?—I should consider it quite inconsistent. The banks in this country and in practically all, if not all, countries are circumscribed in their operations by banking statutes and banking laws.

Would it not be contrary to that belief when we know that the Government recently took over the gold from the banks at a price at parity against the wishes of the bank?—That is an indication that the sovereignty does not rest with the banks and the sovereigns do not rest with the banks.

And the fact that the Government put up the exchange-rate against the protest and express wishes of the banks, that would be further evidence that the sovereignty still rests with Parliament and the Government?—That is a further indication.

And the instance quoted by Captain Rushworth of a settler in the Waikato being compelled to subscribe to the war loan, would that also be evidence of Government sovereignty?—That is a further expression of that sovereignty.

If further evidence was wanted, the fact that the Government, without consulting the banks, increased taxation by a note-tax and otherwise would be clear evidence that the sovereignty still rests with Parliament?—That is so.

When you were asked whether the banks would co-operate in a judicial inquiry into the monetary system, it is a fact is it not that whether they agreed to co-operate or not Parliament has the power to enforce the inquiry on them?—Yes, I understand that is the case.

So that there would be no need to ask for their co-operation?—If *suaviter in modo* failed, the Government could be *fortiter in re*.

Broadly speaking, your contention is, as I read your statement, that the New Zealand banks have stood up to the depression as well as any banks in the world?—I should say so, certainly.

You will agree that experience has shown that one of the worst evils the country can suffer from is weak banks or banks that are liable to become insolvent?—That would be a major calamity.

It is a fact, too, that ever since the depression in the early “nineties” the New Zealand banks have realized the absolute necessity of having large reserves to meet any depression?—Yes, they have learnt that.

They have learned the necessity for keeping those reserves. They have got those reserves, and the present position is justification of that policy?—Yes.

A great deal of discussion has taken place as to whether the banks create money or only issue money and so on. Speaking as a practical banker, I understand your view to be that the banks cannot create or issue credit or money without reference to their resources?—That is the case; they cannot soundly do so.

And it is correct to say that they cannot effectively create money unless there is a demand for it?—That also is the case because if there was no demand for it they could not pass it on.