

Say the Government wants £1,000,000, and issue Treasury bills, you discount the bills; what do you do?—Hand the money to the Government.

Do you not create £1,000,000?—You do not create the money, you create a debt; you have allowed yourself to become a debtor of the Government.

Suppose the banks said, “No, we will not discount your Treasury bills,” that money would not be in existence?—No.

And if the banks say, “Yes,” the money comes into existence?—What they do is turn the non-liquid purchasing-power into liquid purchasing-power.

They monetize the Treasury bills?—They are in a form which is not currency. They do not just create it and make it out of nothing.

You just say, on the taxing of the people and the assets of the country, you are certain the Government can pay it?—The purchasing-power is there.

Directly you give them £1,000,000, that is reflected in further deposits in the banks?—It all depends on where it is spent.

It does not matter how it is spent. How will it not reflect in deposits?—If it is used to buy sterling. If it is spent in New Zealand it might be reflected in the deposits, and might not.

Could it be spent anywhere else?—The banks could give sterling balances.

So you issue the Government £1,000,000 worth of currency on Treasury bills and they pay that £1,000,000?—That does not go into anybody's deposit account.

It cancels out a deposit?—If you gave the Government a deposit of £1,000,000 and they spent it, they cancel out a deposit, but if the money is spent in England, you transfer the money.

It is purely book-keeping?—Yes.

*Mr. Langstone.*] I would like to get on to that point. Leaving the Government out of it, if a Japanese merchant who has sold goods in London and got £10,000 credit in London——?—You went through that last time you questioned me.

What I was trying to get at was this, that that increases the London balance by £10,000. If it is sold to the Bank of New Zealand in London to purchase goods in New Zealand, he gets a letter of credit. There is only a cross-entry debiting the London account by £10,000 and increasing the credit in New Zealand by £12,500?—He pays in £10,000 in London, and, leaving the exchange out of it altogether, he is entitled to £10,000 in New Zealand.

The money is still in London, but evidently some communication comes in and you give him £10,000 here in New Zealand. He takes goods away?—It has enabled him to do so.

You get the reverse action of somebody getting goods from New Zealand to Japan, but both of these transactions are settled in London, and the physical part we see is, possibly, wool going from New Zealand to Japan, and goods coming from Japan to New Zealand?—That is correct.

But the whole thing is settled in London?—London is the money-market of the world.

Is that what gives London dominance over the finance of New Zealand?—You would have to get me to admit, first, that London has the dominance over the finance in New Zealand.

Has it?—No, I do not consider it has.

The mere fact of settling our balances——?—We just do it there.

That does not give them the control of finance in New Zealand?—No, it does not.

I suppose that means money comes into existence by way of a debt anyhow. Originates in a debt?—Did you say currency or money, because there is more currency in use than money, so we will say currency.

I am talking of money in the general form. Anything that will pass for payment?—Cheques. Yes, we will call it money too. We understand that using money as we do now we are including all things that pass for payment, cheques and everything else.

Yes. Now that currency is in existence in the form of a debt?—To a large extent.

Then it just depends largely whether the banks will buy securities?—They do not buy them. The securities are pledged to the banks and the banks do not include those securities in the balance-sheet. They are not purchased.

Then it just depends how they lend against those securities, how much money there is in circulation?—Yes. To the extent that they are requested to, because the banks are willing to lend more than they are lending, but they cannot lend more because the people cannot borrow from them. But you mean that the way the currency comes into existence is that a person who has an asset wants to turn part of that asset into a form that can pass as currency, and the job of the banks is to do that.

But because the great bulk of our people possess no assets they do not come within the sphere of banking at all?—If they have no assets at all—no. I should not say that any person who has no assets would.

So that, although there may be a very dire need for purchasing-power in the pockets of the unemployed relief workers, that is outside the realms of banking. You do not pretend to be able to cure that?—No. The banks do not pretend to be able to give purchasing-power away, because they say themselves they cannot create it out of nothing, and if they gave anything they would be giving what belonged to somebody else.

Could the Government do it?—Do you mean by issuing money?

Yes. They issue Treasury notes we will say?—The Government is physically able to issue Treasury notes. Governments have done so.

Make them legal tender?—Yes.

And they could pay those to the unemployed and the other workers, and that would create a definite demand, an effective demand for goods, and that would reflect itself in the increased business in the ordinary banks and restore confidence?—I do not know that it would go all the way to restoring confidence, because, in the first place, by issuing that money the Government are issuing what cannot