

On the demand side the limiting factor is the requirements of business and these depend upon the estimates which men make of the opportunities for the profitable use of funds. At the present time profit-making opportunities are relatively few, and it is not to be expected that a much stronger demand for available finance will develop until there is greater confidence in the future of prices and until a closer adjustment between costs and prices has been made. Experience has shown that the prevalence of cheap money is not sufficient to promote recovery if confidence in investment possibilities is lacking; but that cheap money is helpful once this confidence emerges. In present conditions I doubt the possibility of forcing much new commercial credit into circulation. There is a growing body of opinion that in such circumstances it is desirable that increased public expenditure should be undertaken. I am inclined to favour the view that a careful investigation should be made of the possibilities of expanding national and local-body expenditure on useful public works.

9. *In New Zealand is there any reason why the Government should pay interest on Treasury bills?*

I cannot see how Treasury bills could function in their present character unless they bear interest.

10. *What limits do you place on the Government's financing construction schemes by non-interest-bearing Treasury bills or notes?*

I think it would be inadvisable to attempt any such policy.

11. *Assuming normal conditions, has New Zealand reached a stage of development such that overseas borrowing will in the future not be necessary?*

I find it impossible to answer this question since it involves a knowledge of (a) what "normal" is, (b) how long it will take us to reach this "normal", (c) what the requirements of the country will then be for new capital, (d) what the resources of the country will then be. If the question is modified somewhat to ask whether we should aim to provide internally as much as possible of the capital required, I would answer, Yes. The growth in the world of economic self-sufficiency has brought about the position that a debtor country is more and more exposed to external policies which may seriously impair its ability to meet external obligations. While it has no control over such policies, it is reluctant (as in our case) to ask for debt concessions, since these involve delicate questions of national credit. Conversely the creditor country has little or no control over the policies of the debtor country and may find (as at present) that these policies endanger the security against which the loans were made. In present conditions, and if the trend to economic nationalism continues, the separation of the ownership of capital and its control is hazardous for both creditor and debtor country. And it is probable that in the future there will be a greater reluctance on the part of creditor countries to lend, particularly if they are successful in finding more opportunities for home investment. In view of recent experience, I think it desirable that lenders and spenders should be as close together as possible, and therefore that we aim at financing from local sources as fully as possible.

12. *Would you favour rigid exchange-rates with sterling?*

This has been answered in my earlier reply to questions concerning the exchange.

13. [Answered above.]

14. *What determines the rate of interest charged and paid by the banks?*

(i) The conditions of supply and demand as outlined in my answer to Question 8b; (ii) the influence of such competing institutions as stock and station agents and Government lending Departments; (iii) the rate at which money is available in other countries.

15. *If deposits and advances rates were lowered would this tend to promote economic recovery?*

The effect of lower deposit-rates would be to encourage the search for investment avenues, and would liberate funds which, at present rates, are "doubtfully" left on deposit. The effect of lower overdraft-rates would be to reduce costs. The combined effect would be to improve the prospects of profit-making.

16. *Do banks in New Zealand lend their deposits? Is there any fixed relationship between deposits and advances in New Zealand? What factors determine an increase in advances?*

(a) Deposits are lent in the sense that banks could not make the advances they do without having deposits in addition to their capital.

(b) No. For short periods there is no constant connection between them; they do not increase or decrease together. On the contrary advances may increase when deposits are increasing and vice versa. Over a long period of years, however, the expansion or contraction of trade will be accompanied by an expansion or contraction of both advances and deposits.

(c) The extent to which bankers are willing to accommodate the increased demands of the business community generally, which in turn is related to the overseas balance of payments, the banks' estimates of the future course of economic activity, and the character or security of the applicants.

17. *The fluctuations in export values of New Zealand products are reflected in changes in economic conditions within New Zealand. What can be done by monetary means to ease the effects of these fluctuations?*

I have answered this in my reply to the questions relating to exchange, particularly in the section concerning the possible use of the exchange as a control device. I would like to make this general statement: that I hope the Committee does not look upon me as an expert in money affairs. I am very interested in them, and I know sufficient about them to recognize that there are large debatable areas upon which I personally do not wish to be in any way dogmatic. I think I have said all that