

I think, in one of my answers the connection between those things and the overseas balance of payments. You will accept that ?

Yes. It would be possible for the banks to carry on making their advances even although they have no deposits at all ?—That means to say, if they have no assets in London ?

No. The banks in New Zealand could still maintain their advances even though they had no deposits ?—Is that not what I say ; no deposits would in practice mean that they hold no exchange funds in London.

Not necessarily. You quite correctly say that the total of the advances create the deposits in certain cases—that is true of the banking system as a whole—but the deposits are not essential to the functioning of the banking system at all, apparently ?—In the sense that I have expressed it, if there were no deposits the magnitude of advances which they now make would not be possible.

Why ?—Because the external relationship between advances and deposits is of considerable importance. It is not possible to exclude the overseas funds when discussing the banking system of New Zealand.

That is not clear at all. The banks gave us in evidence that they could carry on without the deposits ?—With the same external trade ?

Yes, under the present arrangements ?—That surprises me.

They also told us that if the Government came along to them at the present time and offered them securities for £100,000,000, they could provide the money straight away, but if they lent their deposits they would have to look in the deposit pool to see if there were enough there or not ?—Is there not perhaps this point : That it is the difference between the nature of advances which is causing some of the confusion ? The question of advances on ordinary overdraft, say, on trade account, and the question of long-term investments ?

We are not dealing with the long-term ones ; these are all moneys at call—even moneys lent to the Government. The only thing is that when they buy securities those moneys are really at call because they can sell them ?—I am very intrigued with the notion that with the complete absence of deposits advances could be indefinitely extended. That is the proposition.

*The Chairman :* I thought I asked the banks the question whether, if the deposits were all called up, they could carry on their advances, and the reply was, No.

*Captain Rushworth.]* If the Government deposit £100,000,000 of securities with the banks surely on that alone they could meet all their depositors in cash without calling up a single advance. That was the question put to the banks, and they said, Yes. It is so patent. It is not worth arguing about. I only asked Mr. Williams because his wording here was not quite clear. The next point is on Question 10. You were asked a question, “What limits do you place on the Government financing construction schemes by non-interest-bearing Treasury bills or notes ?” Your answer was, “I think it would be inadvisable to attempt any such policy.” Why ?—I think that such a policy would be quite possible in a society of a different sort to the one that we have. In other words, it seems to me to be a perfectly logical part, say, of a thorough-going Socialist State. I think that would be necessary because that would automatically and by inference exclude the question of interest. I think that so long as we have this sort of rough compromise which we call the capitalist system, this compromise between socialism and individualism, that the adequacy of control is wanting. That could be expanded, as you readily understand, into a very extensive answer, but I feel that logically such a development would mean a State bank, which I am not necessarily averse to, but State ownership of all other things too.

Does that necessarily follow ?—It does not necessarily follow, but it is the point of view from which I approach it.

You mean it would be the thin end of a wedge ?—The very thick end I should think. I think it would follow inevitably if there were no other obstacles ; but I have a feeling that in New Zealand there are two impossibilities, one is a return to individualism and the other is a socialism of the order and completeness which such a proposal would, I think, necessarily involve.

You think that national control of the money system would necessarily involve national control of everything else ?—Yes. If I might refer the Committee to a more carefully thought out answer to that question, you will find a published article of mine in the *National Investment Review* of August or September, 1933, in which the central-bank proposal was discussed by me and in which I suggested that national control of money while you still have a profit-making system allied to a representative Parliament of the present sort was too dangerous. That is merely the result of certain private emphases which I put upon certain elements of the system, and I may be quite wrong.

You think that Parliament, as at present constituted, is not fit to control the money system ?—I would be inclined to say, Yes.

Although Parliament is regarded as fit to make peace or war ?—Quite so. I think there are so many deficiencies in the present parliamentary system that it would be inadvisable for me to express myself too emphatically upon the point.

Parliament is entrusted with very considerable powers at the present time ?—Yes. I might sum it up by saying that I think that social evolution has proceeded in a very different direction from parliamentary evolution, and that an institution which was very admirable for its early purposes is not necessarily suited for such a complex economic situation as has arisen, unless, by some democratic accident, it throws up men of sufficiently dominating personality to override the inadequacies of the institution itself.

Do you think it would be a good idea to take the control away from Parliament of the fighting forces and educational services and put them under private enterprise too ?—No.

Well, you advocate the leaving of the monetary system under private control do you not ?—No. I do not. You misunderstand me. My statement was that so long as the bulk of your economic system is, in fact, in the hands of private enterprise. I doubt the wisdom of attempting to place the control of money entirely in the hands of the State.