5. *In so far as stock and station agents act as banks, should they be classed with the six trading banks for the purposes of better co-ordination and control of banking policy?*

Answer: The question whether the stock and station agents should be regarded as trading banks is a very open one. I think it should be decided in the light of the experience which the Reserve Bank accumulates after its opening. I imagine that our future monetary system will have the Reserve Bank at the centre, an inner ring of the commercial banks closely associated with the Reserve Bank, and an outer ring including the stock and station agents and other financial institutions, associated probably more closely with the inner ring of commercial banks, and to some extent associated also with the centre of the ring—the Reserve Bank. But I am not prepared at present to say whether the outer ring should be more closely associated with members of the inner ring or with the centre, or whether the association should be voluntary or compulsory.

6. *In view of the fact that much capital in New Zealand is wasted by unsupervised investment, would you favour the setting-up of an Investment Board not to guarantee a return on investments, but to give an opinion as to the economic soundness of any project for which the public were asked to subscribe for shares?*

Answer: I do not think the advantage of such an Investment Board would be sufficient to balance the disadvantage. It might, however, be desirable to consider increasing the protection now given, by statute, to the investing public against undesirable practices.

7. *Would you advise the setting-up of some additional institution to facilitate small savings?*

Answer: I know of no good reason for setting up additional institutions to facilitate small savings. There are already many in existence.

8. *What are the limits of economic recovery in New Zealand by internal expansion of (a) Treasury or bank notes, (b) credit?*

Answer: (*a*) I can see no good reason for increasing the internal expansion of cash through Treasury or bank notes. We have already ample freedom of note-issue; (*b*) one of the effects anticipated from high exchange was the expansion of bank credit in New Zealand. Bank deposits have increased considerably. Normally as bank deposits increase and the excess of deposits over advances expands, bank funds overseas expand and the banks can lend more and under easier conditions in New Zealand. Under the Bank Indemnity Act, however, any expansion of overseas funds, which is reflected immediately in an expansion in the excess of deposits over advances in New Zealand, is automatically taken up in Treasury bills. The banks, therefore, have a buyer at a fixed and profitable rate for every additional £1 of resources they have available in New Zealand. I consider this arrangement has restricted advances to the public and has maintained the rate of overdraft at a level higher than would otherwise be the case. If this is so, it has also probably retarded recovery and business expansion. A few minutes ago I was trying to explain how credit could be expanded or contracted by banks' open-market operations—buying and selling of securities. I am rather looking for some one to examine the New Zealand banking figures who does not know the big differences operating in New Zealand, and who will show that for the last two years deposits have expanded £9,000,000 and advances declined £9,000,000, the difference being taken up mainly by Treasury bills. Any one who looked at those figures not knowing our particular conditions would say immediately, "Here is inflation, here is a Government that has probably got an unbalanced Budget and has borrowed £17,000,000 or £18,000,000 to meet extraordinary expenditure, and all this money has come back, some to increase deposits and some to decrease advances, and here you have a violent inflationary process caused by a Government spending more than it has been getting. That is what any observer from outside would say.

Hon. Mr. Downie Stewart: Inflationary or deflationary?

Professor Tocker: Inflationary. Here in New Zealand we know that a curious arrangement was made whereby every extra £1 the banks had available in New Zealand of surplus deposits over advances was taken by the Government at a fixed rate.

Hon. Mr. Downie Stewart: If the advances were contracting to the extent of £9,000,000, would not that be deflationary?

Professor Tocker: That would be a deflationary tendency, but presumably the deposits are being used to contract the advances.

Hon. Mr. Downie Stewart: The net result is deflation?

Professor Tocker: No, inflation. There is an amount of £18,000,000 involved. The balance of payments is responsible for £18,000,000 of inflation, but the banks' customers use half of that amount to repay advances; the other half increases deposits. The net result is inflation of £9,000,000. I am not accusing the New Zealand Government of inflationary action; this is the curious result of our having an excess of deposits over advances, which is the effect of an excess of exports over imports. But all that extra money is being taken up automatically by the Government at a fixed rate, and that means that the increased money is not available for our ordinary business and that money is not available at lower rates.

Mr. Langstone: It is spent by the Government?

Professor Tocker: But not in New Zealand; it is used to buy funds in London; both the loans to the Government in New Zealand funds and the funds in London are immobilized; that is deflationary.

Mr. Langstone: That will be corrected if the Central Bank takes over London funds later on?

Professor Tocker: Yes. I have already explained in my first section the limits and conditions of credit expansion, and I think these limits and conditions should be maintained in any sound monetary system.