

gold-circulation standards to gold-bullion standards, gold was economized, was made to go further and to sustain higher price-levels.

So that any effect was all to the good?—It was in the direction of higher prices and more prosperous conditions.

If England spent £300,000,000 on slum clearance, would that necessarily raise prices in England?—While that money is being spent there will be more money available to buy goods, and it would tend to raise prices, but at the end of the period there might be a consequent slump.

If it tended to raise prices how would that help England to compete in foreign markets?—It would tend to retard her ability to do so.

I understood you to say this morning that this £300,000,000 that was spent had the effect of helping England to compete in foreign markets?—I did not intend to convey that. I have had no means of verifying the figure. I am not in a position to accept it or reject it.

Do you think, to clear up the lack of knowledge in the minds of the people, it would be better if we made it definite that the New Zealand pound is different from the English pound?—It would clarify things certainly.

Certainly from the Government Statistician's point of view?—Quite.

*Mr. Clinkard.*] The question has been raised on several occasions as to the advisability by monetary action of maintaining internal prices on a fixed or price-index basis. Do you think that could be done if we allowed the exchange to swing where it likes?—Theoretically I think it is possible to maintain the level of wholesale prices or the level of retail prices, or of any particular index of prices, at a stable level, at least at a fairly stable level.

How would that occur?—Simply by moving the exchange up and down.

But it has been suggested that by direct monetary action, such, for instance, as increasing or restricting credits or something of that sort, it can be done. Do you think that that is possible?—To a very small extent only.

Then it would not be practicable to maintain prices at a fixed level?—No.

So that the only way you see by which it could be done would be by what you might call extreme exchange action?—Yes.

You refer to the advantages of stabilization. You would not suggest perhaps stabilizing at present prices or best prices, but you suggest trying to stabilize at some fixed advantageous level?—Stabilize what?

The word "stabilization" appeared in your report. I was wondering just exactly what you referred to. That is exactly the words I have "stabilize what." You say, "Under present and prospective conditions . . . stability is highly desirable"; is that stability of exchange?—Yes, the maintenance of stability in world exchange is referred to there.

That would be so, but as we cannot deal with world exchange, how does it apply to our own?—Our share is by keeping our own exchange stable.

Practically to maintain the level at the present time, and maintain it stable at that?—Yes.

The term "destroy money" has come in. When it is said that the bank destroys money, supposing I make a payment in liquidation of an overdraft, it is asserted by some that, when the bank writes that off, they destroy that amount of credit. My contention is that the transaction having been ended, my repayment returns to the quarter where it was originally drawn, and is again available for further issue?—I think that is correct; I think it is again available for fresh issue, and as far as I can see from looking through the New Zealand banking figures, it has always been issued again when needed, as far as the banks could allow it.

We see there is a very close approximation to uniformity over a fairly long period of time in the flow of current advances?—Quite, and in the long period the rate of increases was 4·4 per cent. In the short period movements are governed in our overseas trade balances.

It has been stated repeatedly that there is no increase in money. I think if we were to use the word "credit" it would illustrate my purpose better. The way I see it is this; and I think you yourself refer to the fact of the State issuing Treasury bills to cover that amount, but in actual practice does it not work out this way? Assuming that the exporter has sent £10,000,000 to the foreign market, there is actually paid out in credits here in New Zealand £12,500,000; that is the actual practice?—Yes.

Consequently there is really £2,500,000 in that case more in circulation than there otherwise would have been?—That is so.

Assuming that our sterling credits accumulated to a very large extent at the other end, could that not be utilized, if necessary, in order to reduce our national debt at that end, and transfer the indebtedness to this end by internal borrowing?—That could be done, but that would be deflationary.

In so far as it would withdraw from internal use that amount of currency?—Yes; to pay that debt at the other end. For instance, the Government has to borrow from bank depositors here; you get then a transfer in New Zealand. Supposing you borrowed from bank depositors here, deposits would be reduced by transfer to the Government and the Government would transfer those funds overseas to pay debt. You have reduced total deposits in New Zealand in that way.

Of course, once the central bank is in operation, quite a considerable amount might be taken by the central bank without necessarily depleting the amount of currency in circulation?—I anticipate that when the central bank is established it will buy exchange funds from the Government and treat them exactly as the other banks treat similar funds in London now. They will undertake the liability and give the Government a deposit here for them. The Government transfers that deposit to the other banks in payment for Treasury bills. The banks, instead of earning 5 per cent., will have a deposit at the Reserve Bank earning nothing.

There is quite a lot of discussion as to the cause of the world depression, and as to whether it is purely a monetary difficulty. Some hold it is monetary; others, like myself, believe there are