

I take it that if the Government carried out work, to give unemployed wages, necessary public works, railways, roads, &c., they would have assets, completed, in existence, physical assets, that would still take away the inflation?—What guarantee is there that the physical assets created would have any value. Take the construction of a piece of railway; suppose a piece of railway is constructed that will earn £1,000 a mile; supposing operating expenses to be £900 per mile, and the rate of interest 5 per cent., the net return is £100; capitalize that at 5 per cent. and you are justified in spending £2,000 on that railway and no more, because that is the amount it would earn.

*Captain Rushworth.*] Does the same argument apply to the erection of a museum or art gallery?—The same argument is not applied to the erection of those things in practice, but I am speaking of a business proposition.

*Mr. Munro.*] You are speaking from this standard, I take it, that the Government could, and a lot of people hope they will, do it in this way, and you emphatically think it has dangers and should not be allowed. I wanted to get your reasons?—Suppose interest-rates are 5 per cent. in this country. Those rates are determined again by supply and demand, and they are fixed at 5 per cent. because the community can use money in other propositions that will earn 5 per cent. Therefore, if the community can use all the money that is available in propositions that will earn 5 per cent., it is wasteful for the Government to invest the people's money or even to create money to invest it in anything that will earn less than 5 per cent., and anything that cannot earn 5 per cent. under those conditions is not justified. The interest-rate, in that way, is a method of selecting between the more justifiable and the less justifiable construction schemes.

*Mr. Schramm.*] You said in reply to the question, "Does the fact that banking is often in private hands constitute a weakness in the banking system? Does this lead to chronic deficiency of purchasing-power? My answer to both questions is 'No'." What are your reasons for the answer to the first question?—The obvious alternative to private hands is public hands, and the contrast is between private management and public management. In a matter such as banking it is absolutely essential that the confidence of depositors should be maintained and the business should be so conducted that depositors can always get back what the banks promise to give them. I personally have more faith in a private institution fulfilling those obligations in the long-run and managing its business on sound lines than I have in a public institution.

You will agree that banking and finance is the heart of the present system?—It is a very essential part of it.

It pumps the stream needed to keep economic life going?—Yes.

Notwithstanding that you say that you would have more faith in the private control of that system than you would in the public control of it?—Yes. And on New Zealand records of banking, which I am speaking from, there is no evidence at all that that stream has not been available over the period that I have examined.

That is a question of argument?—No. It is a question of fact.

You would not place the administration of justice in private hands would you?—No.

Do you not think the administration of the banking and financial system is just as important as the administration of the judicial system?—It may be just as important, but it is entirely different in nature.

Why? Because there is a profit in one and no profit in the other?—No.

Why?—Because money can be used to buy things and money is an intricate technical business which is seldom understood by the people who determine politics. Ultimately, the people who determine politics are the voters at the polling-booths, and they do not understand the technical side of banking.

But the rank and file would not administer the banking system. It would be still administered, surely, under any reputable Government, and any Government having any sense of duty, by those who knew something about it?—I should hope so, but the views of the experts might be overruled for political reasons.

Should not the experts carry out the financial policy of the Government in power?—I think the best way to meet that case is that the Government should decide by legislation the general frame-work within which the experts should operate, and leave the experts perfectly free within that framework to decide their technical job in their own way.

Let technicians do the technical job?—Quite.

Would you have any objection to it if the State was the owner of the whole machine?—I would still prefer private ownership.

Will you agree with me in this: that notwithstanding there is private ownership of the banks to-day, that the banks could not function at all and would have been out of business as private banks were it not for the power of the Government behind them?—I do not know quite what your statement means.

If the Government did not come to the assistance of the banks and help them, would they still be in business to-day?—I think five of the banks in New Zealand would be in business. The Bank of New Zealand might have been out of business. Its business might have been taken over by another bank, just as the Bank of New Zealand took over the Colonial Bank.

That is the most important bank of the lot, is it not?—Yes.

You will admit, then, that the most important bank in New Zealand, if it was not for the Government, would be out of business to-day?—The bank which is now the most important would perhaps have gone out of business forty years ago if it had not been for Government assistance at that time.

What do you think was the effect of the Government bringing down legislation to the effect that bank-notes were no longer redeemable in gold?—The immediate effect was to have the gold withdrawn from circulation.

Would not it be the fact that the bank-note itself was really an inconvertible piece of paper?—Yes.