

stage, that if Major Douglas finds that after having met the Committee this morning and given his views in accordance with what he has submitted to us that he can elaborate his proposals still further, the Committee is prepared to meet him at his own convenience and in any other part of New Zealand. However, that is a matter entirely for Major Douglas, if he can see his way to do that. However, we welcome Major Douglas to New Zealand, and are pleased to see him with us this morning, and we sincerely trust that as a visitor to our Dominion he will be able to leave it with pleasant recollections of the people he has met here. Major Douglas has already submitted certain proposals to the Committee, and we would like him to elaborate them.

Major Douglas : I will elaborate my proposals if you would like me to do so. I am very grateful for your kind words, and my one desire is to help you.

The Chairman : I think it would be preferable for you to speak first, and we will then take the opportunity of asking you any questions.

Major Douglas : The proposals that I have had the honour of submitting to this Committee are based on the result of many years' training and experience as an engineer. I have not, purposely, gone further than what I may call the ascertained facts of the position. One feels very strongly in regard to these matters, and it is desirable to say that there is nothing in these proposals which I have for the moment put forward which traverses anything which is generally accepted in the existing financial system. There is not underlying these proposals anything controversial in regard to the existing financial system. I do not myself, of course, agree with the contentions of those who support the existing financial system, but in order that one might proceed from what one might call the accepted state, I have put forward certain proposals and with the permission of the Committee I will read them out. I might mention that these proposals are based on the ascertained facts at the present time.

PROPOSALS REFERRED TO IN MY LETTER OF EVEN DATE.

I. From the enactment of these proposals no bank in New Zealand shall distribute a dividend either in or outside New Zealand in respect of operations carried on within the Dominion of more than 6 per cent. per annum on the subscribed capital.

II. No bank shall increase its capital in such a manner as to affect the gross amount of dividend distributed in respect to business carried on in New Zealand, except with the consent, and through the agency, of a legal enactment of the Dominion Legislature. Within three months from the enactment of these proposals, every bank operating in New Zealand shall make an exact return of its assets, specifying in particular all stocks, shares, and debentures purchased by the bank, the prices paid, and the prices at which such stocks, shares, and debentures are held on the books of the bank for the purpose of the annual balance-sheet.

The same procedure shall be adopted in regard to all real estate, buildings, and all other immovable property, together with furniture, fittings, and appliances in the banks' ownership. Such statement shall include a sworn valuation of the current market value of all such assets at the date of the return, such valuation to be made by an independent surveyor or valuer.

III. Where it is found that the figure at which such assets are held on the books of the bank for balance-sheet purposes is lower than the market value as obtained by the sworn valuation, an amount equal to such difference shall be transferred to an account to be known as "Suspense Account No. 1." Where the bank in question operates in other countries than New Zealand, a complete return shall be rendered and a proportionate allowance for external business shall be made.

IV. All profits earned by the bank from any source over and above the amount necessary to pay a dividend of 6 per cent. shall be transferred to an account to be known as "Suspense Account No. 2."

V. Six months from the enactment of these proposals an amount equal to 50 per cent. of the amount standing to the credit of Suspense Account No. 1 shall be applied to a reduction of the overdrafts debited to the customers of the bank, such appropriations being made *pro rata* on the basis of the average overdraft of the banks' customers for a period of three years preceding the date of the enactment of these proposals, and such appropriation of half the balance of this account shall be made annually thereafter.

VI. One month after the publication of the annual balance-sheet of any bank, an amount equal to 75 per cent. of the amount standing to the credit of Suspense Account No. 2 shall be applied to the reduction or reimbursement of interest paid on overdrafts by the banks' customers, such reduction or reimbursement being made upon the same *pro rata* basis as that laid down in paragraph V.

VII. A similar procedure to that laid down in the preceding paragraphs shall be applied to the accounts and assets of all insurance companies operating in the Dominion, with the exception that the funds required for (Insurance) Suspense Account No. 1 shall be provided by rediscounting the disclosed reserve with the New Zealand Reserve Bank, and that the disposition of the funds so provided shall be as in the following paragraph:—

Fifty per cent. of the amount to the credit of (Insurance) Suspense Account No. 1 shall be applied annually to pay for preference shares or debenture stocks applied for by any natural-born New Zealand subject over twenty-one years of age, to the extent that applications for shares to be paid for by this fund can be met. Such shares shall be allotted *pro rata* to the applicants without charge, and shall be registered as non-transferable and as not good security for loans. On the death of a holder, or his permanent residence outside the Dominion, such shares shall be cancelled.

VIII. (Insurance) Suspense Account No. 2 shall be retained as a Dividend Equalization Fund to ensure that the dividend on all preference and debenture stocks allotted under the preceding clause shall receive a dividend at the agreed rates. Should this fund increase at a rate exceeding 5 per cent. per annum, such excess shall be allotted to a *pro rata* increase in the dividend on such shares as have been subscribed for under clause VII.

IX. These proposals are intended for consideration in the light of the correspondence which precedes and accompanies them.

Major Douglas : That correspondence is, of course, merely an elaboration of the suggestions which I put forward. The idea behind these proposals is this: It is extremely probable, we may say, that there is a remarkably large difference between the disclosed assets of financial institutions and the market value of those assets. I do not want to enter into the grounds of speculation and therefore I will not offer any figures as to what that difference is likely to be. That difference between the disclosed value of such assets and the real value of those assets if they were marketed according to ordinary business principles—that is to say, not all put upon the market at once—represents the physical basis for a creation of credit. That creation of credit cannot, I think, by any process, either of logic or ethics, or what is perhaps even more important still, pragmatically, be regarded as anything but the property of the general public. These proposals are intended to monetize the concealed reserves without traversing the existing financial system. They are not so far-reaching as to deal